Latin American Airports' Performance Has Taken Off Since 2006, And Will Likely Continue Flying High

September 12, 2017

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Between 2006 and 2016, air traffic has surged across Latin American nations given that the average growth rate was triple the region's GDP growth, a trend we continue to see in the first six months of 2017. This outpaced S&P Global Ratings' initial base-case projections as well as most of the independent studies, resulting in the airports' stronger cash flow generation and credit metrics than originally estimated, which in turn mostly lifted the ratings on these infrastructure assets.

We believe the following factors were responsible for the explosive growth in air traffic:

- A significant expansion of the middle class, as seen in the rising GDP per capita—at a compound annual growth rate (CAGR) of approximately 7% within the above mentioned period—and greater access to financing.
- The start of operations of several low-cost carriers, lower oil prices, and the strategy to increase routes and frequencies that resulted in a sharp reduction in flying ticket costs.
- The expansions of most of the region's airports (mainly between 2007 and 2012) that not only enlarged capacity to handle a higher number of passengers but also boosted non-aeronautical revenue through the incorporation of new rental spaces.
- The use of larger aircraft, mostly in international airports.
- The lack of competition due to the region's still insufficient transportation infrastructure, for example, the absence of connecting railways.
- A narrowing gap between flying costs and those of alternative transportation methods that, together with security concerns, shifted traffic from road transportation to air travel.

These trends caused several airports in the region to reach maximum levels of capacity sooner than originally projected, which required expansions or upgrades of the facilities to handle the larger volume and maintain the quality of services. For example, the Mexican government is constructing a new Mexico City airport adjacent to the existing one, which will boost the current capacity by four times (For more details please refer to "Mexico City Airport Trust's Proposed Notes Rated 'BBB+', 'BBB+' Issue-Level Rating Affirmed; Outlook Stable" published Sept. 1, 2017). In addition, the Arturo Merino Benitez International Airport in Santiago started the construction of a new terminal and has been expanding the existing one since 2016, aiming to double its size. Also, the international airports—Jorge Chavez in Lima, Ezeiza in Buenos Aires, Guarulhos in São Paulo, Galeão in Rio de Janeiro, and Tocumen in Panama—have either already completed, or will do so in the short to medium term, new terminals.

Given that airports have long track records in terms of traffic, a fairly long asset live, a natural hedge against currency depreciation because most of the revenues are dollar denominated or dollar linked, experienced international or local operators, and our expectations of passenger traffic growth of about twice the regional GDP growth rate in the upcoming years, we believe issuances in the market will remain as an attractive alternative to fund these expansion investments.

Overview

– Between 2006 and 2016, Latin America's airports have outperformed our expectations. The air passenger traffic growth rates were roughly the triple the real GDP growth, which averaged 2.7% in this period, resulting in the airports' significantly stronger-than-expected cash flow generation.

– We believe this trend will continue in the upcoming years owing to the rising middle class in the region, lower ticketing costs, comfort, time savings, and security factors. The intermediate- to long-term passenger growth will be, in our view, about twice the GDP growth estimates.

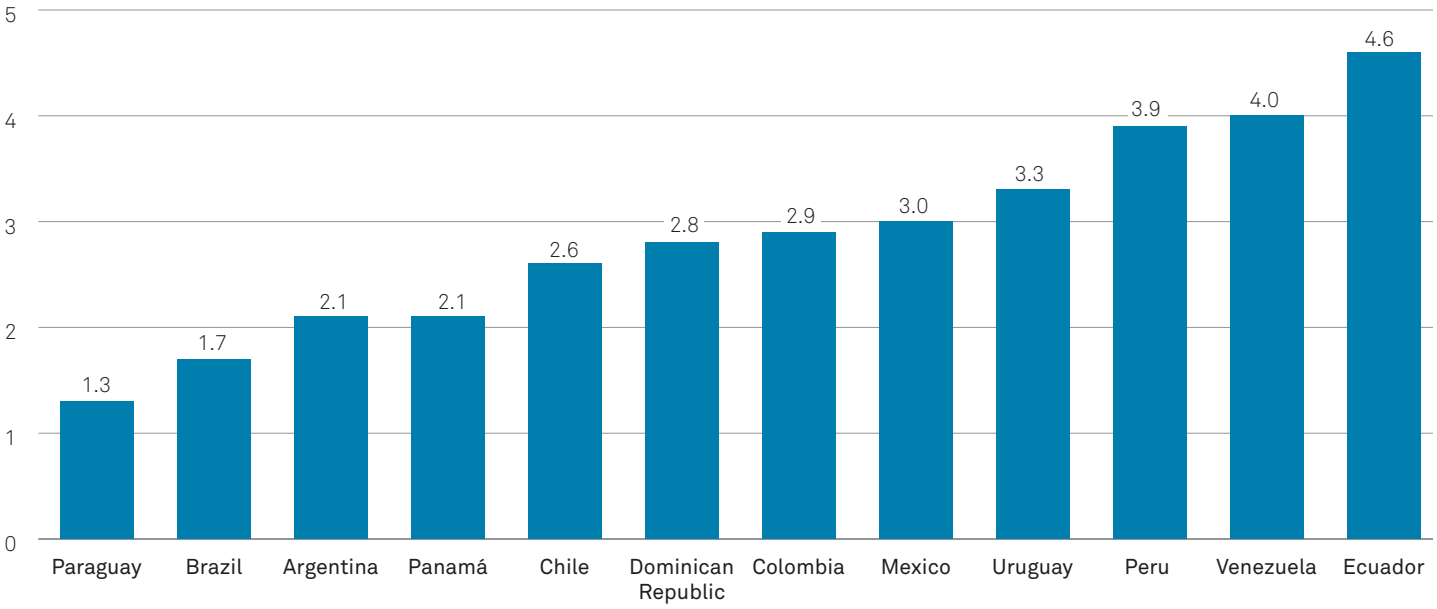
– We expect significant investments to total more than $25 billion at most of the airports in Latin America in the next five years to accommodate this increasing traffic volume. Capital markets will remain, in our view, as one of the most attractive funding sources, as most of the investments are brownfield that present high predictability of cash flows.

Performance Has Remained Significantly Above Expectations

Typically, passenger traffic in developed countries grew broadly in line with increased economic activity, which is commonly measured through GDP. However, in emerging markets, the performance of most of the transportation assets, including airports, has sharply outpaced the GDP growth rate. Latin America wasn't the exception to this phenomenon, as seen in the booming performance of its airports in the past 10 years.

We conducted a study of passenger traffic performance in Latin America between 2006 and 2016, including all countries in the region that handle on aggregate at least 2.5 million passengers per year. This study showed that traffic averaged a triple growth rate than the real GDP growth in the region. The elasticity between both variables varied from 1.3x for Paraguay to a peak of more than 4x for Ecuador, with the bulk in the 2.5x-3.5x range (see chart 1). For Brazil, we're excluding from the calculation the 2009

Chart 1 - Elasticity Between GDP Growth And Traffic Performance 2006-2016



Source – S&P Global Ratings.

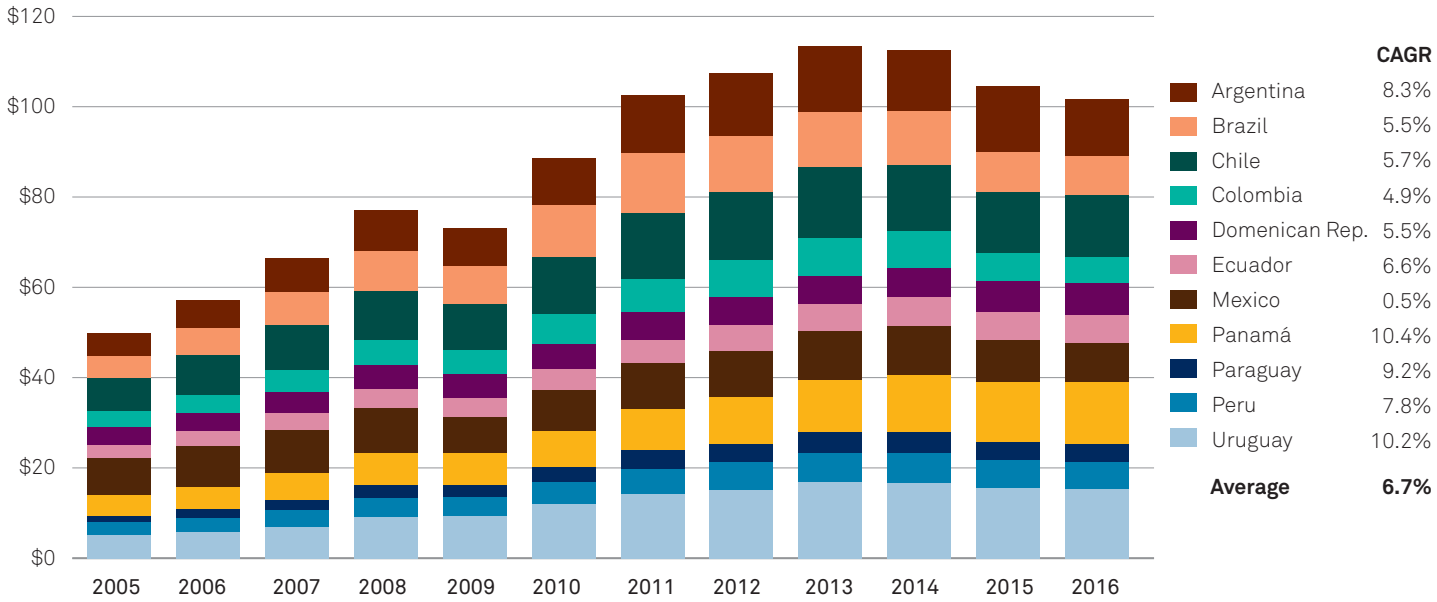
and 2014 figures that have been deemed as outliers, because elasticity for the two years was above 60x and triggered some distortions in the ratio through the cycle. Even though Brazil's GDP contracted in those two years, traffic grew above 7%. Particularly, in 2014, air traffic in the country rose by more than 10% at major airports due to the World Cup, which we consider as a one-time event. We're also excluding from the calculation those years under which major airlines ceased operations, causing a disruption in traffic levels, given that we consider those events as exceptions as well.

Overall, we view the elasticity factor for Latin America as relatively high, because for instance, in more mature regions such as Europe the correlation for the same asset class remains in the 2x range.

One of the patterns we have identified is that the traffic performance for the period was initially driven by international (and mainly origin and destination) passengers, but the growth shifted to domestic passengers between 2009 and 2016. The latter stemmed from the average GDP per capita growth of 7% (see chart 2) in the past few years, which fostered the rising middle class and the greater access to financing, as seen in the rising volume of consumer loans. In addition, the arrival of low-cost carriers such as Volaris, Interjet, Viva Aerobus, JetBlue, Sky, Viva Peru, Viva Colombia, Wingo, and Easy Fly, and lower oil prices reduced average flying tickets by approximately 40%. Moreover, the aggressive expansion strategy of most of the regional airlines through the incorporation of new routes and additional frequencies, and the use of larger aircraft contributed to lower ticket prices and greater traffic volume. Finally, the growth of tourism, security issues in the region's roadways, particularly in countries such as Mexico, and the lack of extensive competition from railways (a common feature across the region) also contributed to this positive dynamic.

Another pattern we have identified is that air traffic grew in some Latin American countries despite global economic uncertainties. For example, during the global financial crisis in 2008-2009—deemed as an external shock for the region—traffic continued growing at high-

Chart 2 - GDP Per Capita Between 2005-2016 (USD 000)



Source – S&P Global Ratings.

single or double-digit rates in Argentina, Brazil, Colombia, Panama, Peru, and Uruguay, which we attribute to the commodities boom in 2002-2014 that bolstered local consumption. Even in countries that experienced a retraction in passenger traffic in 2009, such as Mexico, we noted that the rebound was relatively rapid, because by 2010 most of the country's airports posted positive traffic growth. On the contrary, when the economic/financial crisis was of domestic nature resulting in higher levels of unemployment, a deceleration of consumption, or a retraction of income per capita, which occurred in Brazil, causing air traffic to fall 7% in 2015 and 2016. Growth recovery has demonstrated to be slow, and in Brazil it has yet to return.

Finally, during the period, the following air carriers went into bankruptcy in the region and subsequently ceased operations:

- Pluna Lineas Aereas Uruguayas S.A. (Pluna), Uruguay's national air carrier with about a 45% market share, in July 2012;
- Compania Mexicana de Aviacion S.A.B. de C.V., which was one of Mexico's biggest and flagship airlines, in August 2010; and
- Varig - Viação Aérea Rio-Grandense, one of the largest airlines in Brazil for over 50 years, in 2006.

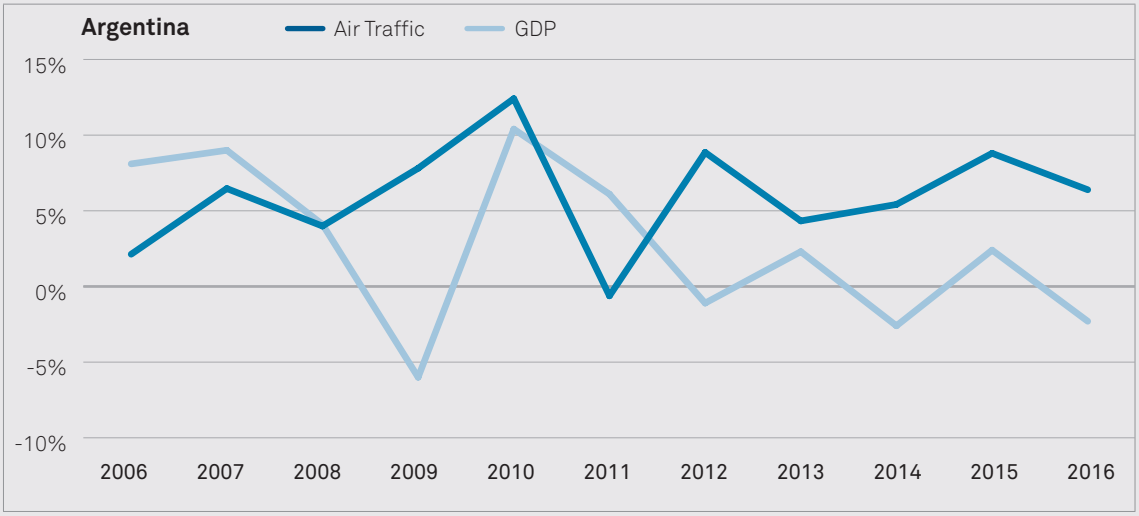
The closing down of these airlines caused an immediate sharp drop in air traffic, but the airports' performance recovered within about a 12-month period on average, demonstrating their resilience to the downside scenarios and the limited exposure to airline risk. Competitors rapidly took over the bankrupt airlines' routes, demonstrating that as long as demand remains strong, supply always accommodates.

What Drove Performance In The Countries In Which We Rate Airports Or Airlines

Argentina

Despite wide fluctuations in economic performance—economic growth between 2006 and 2008, sharp GDP retractions followed by sharp depreciation of the Argentine peso and more recent policies to fostering local consumption, air traffic grew at a CAGR of 6% in 2006-2016. Such performance was the result of the inauguration of the additional passenger terminal at Ezeiza International Airport in 2011 and renovation of Aeroparque Jorge Newbery, which allowed the accommodation of a larger number of passengers and raised non-aeronautical income through the incorporation of additional commercial spaces. These investments were required under the concession contract that Aeropuertos Argentina 2000 S.A. (B+/Stable/--) holds. Finally, the expropriation of the local carrier, Aerolineas Argentinas S.A. (not rated), in 2008 and the subsequent implementation of a strategy focused on increasing air connectivity along the vast territory through national and regional frequencies contributed to the rise in traffic levels.

In the short term, the main variable to monitor will be the entrance of low-cost carriers in the market, that in our view, will cause competition to rise, mainly because Aerolineas Argentinas accounts for about 60% of total flights in the country. Flybondi, the first low-cost airline in Argentina that received approval this year from the local authority will operate 85 routes during a 15-year period (43 domestic and 42 international routes), while other airlines expected to operate include Norwegian Airlines, Level (owned by Iberia and British Airways), and Alas del Sur. We expect a stronger passenger growth amid increased competition and lower prices, but more importantly,



a rising need for infrastructure development to handle growth in the aeronautical capacity in the longer term. For instance, Aeroparque—the Buenos Aires airport that handles domestic flights—is currently operating at peak capacity, so the authorities plan for low-cost airlines to operate through alternative airports in the city or the country. This would reduce the need to fly to Buenos Aires. As a short-term measure to accommodate the expected low-cost carriers, and given the lack of infrastructure to handle commercial flights from other Buenos Aires city airports excluding Aeroparque and Ezeiza, the government decided that 50% of current regional flights operating through Aeroparque will have to be shifted to Ezeiza starting in April 2018, and the remainder by March 2019. The intention of this measure is not only to handle the higher low-cost passenger demand at Aeroparque terminal, but also to provide space to the airlines in terms of aircraft landing.

In the meantime, new investments are occurring at airports throughout the country such as new runways at Tucuman, Cordoba, and Mendoza airports, and new terminals at Mendoza and Comodoro Rivadavia.

Brazil

Air traffic in Brazil surged to 196 million passengers in 2016 from 102 million in 2006. However, since late 2014, passenger volumes shrunk amid severe recession at a greater pace that GDP contraction. We expect traffic performance to move in tandem with GDP growth rate and resume growth by 2018.

Until 2011, the government-related entity, the air traffic controller Empresa Brasileira de Infraestrutura Aeroportuária – INFRAERO, owned all commercial airports in the country. In that year, the government enacted the law that established a framework to construct and renovate airports through concession agreements. This was done to confront insufficient airport capacity nationwide, accommodate a large numbers of air passengers for Brazil's hosting of the 2014 World Cup and 2016 Summer Olympics, meet the robust growth in air travel demand, and improve the quality of service.

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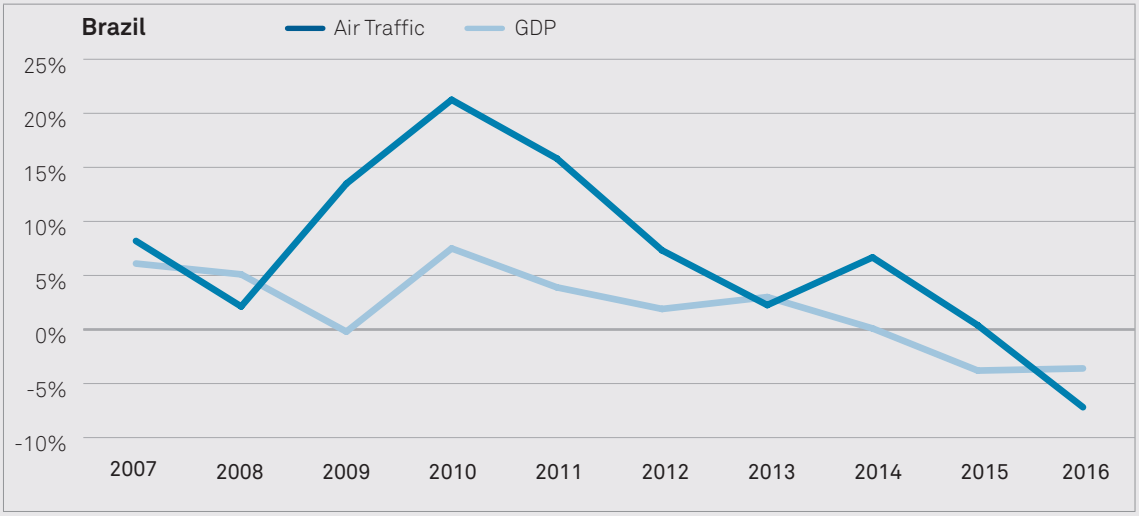

In the first wave of concessions, the government adopted the public-private partnership (PPP) model, under which the state, usually through INFRAERO partners with private-sector special purpose vehicles (SPVs). The latter included alliances between local players and international players, such as Argentina-based Corporación América S.A, South Africa-based ACSA – Airports Company South Africa, France-based Egis Airport Operation, the Singapore-based operator Changi, and the operators of the Munich and Zurich airports. In this first round, INFRAERO remained as a 49% owner of all major international airports concessions (Brasilia, Guarulhos, Galeão, Confins and Viracopos), except for the one in the city of Natal.

In March 2017, INFRAERO auctioned a second wave of concessions, composed of four existing regional airports—Florianópolis, Salvador, Fortaleza, and Porto Alegre—to the European developers, Flughafer Zurich AG, VINCI Airports, and Fraport AG, which demonstrates the sector's attractiveness to global investors. These concessions were fully granted to the private concessionaires, without INFRAERO's participation, and incorporate mandatory expansion capex plans.

Chile

Between 2006 and 2016, traffic rose at Chile's airports at a CAGR of about 10%, reaching 19.2 million passengers last year. Higher traffic was due to robust economic growth that allowed an increasing share of the population with the disposable income to travel by air, strong growth of the mining sector due to high mineral prices (between 2006 and 2013), which has boosted domestic traffic to airports serving the mining areas, and LATAM Airlines Group S.A.'s (BB-/Stable/--, formerly LAN) expansion of its network. Despite the airline's control of important regional connecting hubs in Lima and more recently in São Paulo, the Santiago airport remains critical to LATAM's network given that some specific airplanes will enable direct service from Santiago for destinations outside the region. Finally, the open skies policies that the government implemented in the past few years also contributed to the growth of international air traffic.

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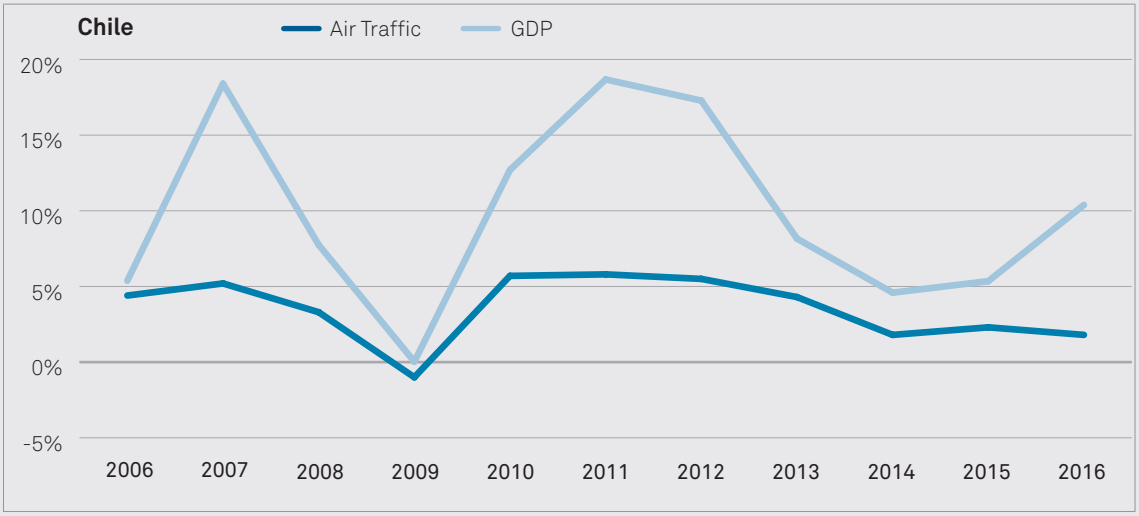


In February 2015, the Nuevo Pudahuel consortium, made up of VINCI Airports (not rated), Aéroports de Paris (A+/Stable/--), and Astaldi SpA (B-/Stable/--), won the 20-year concession contract for the Santiago airport. The concession consists of:

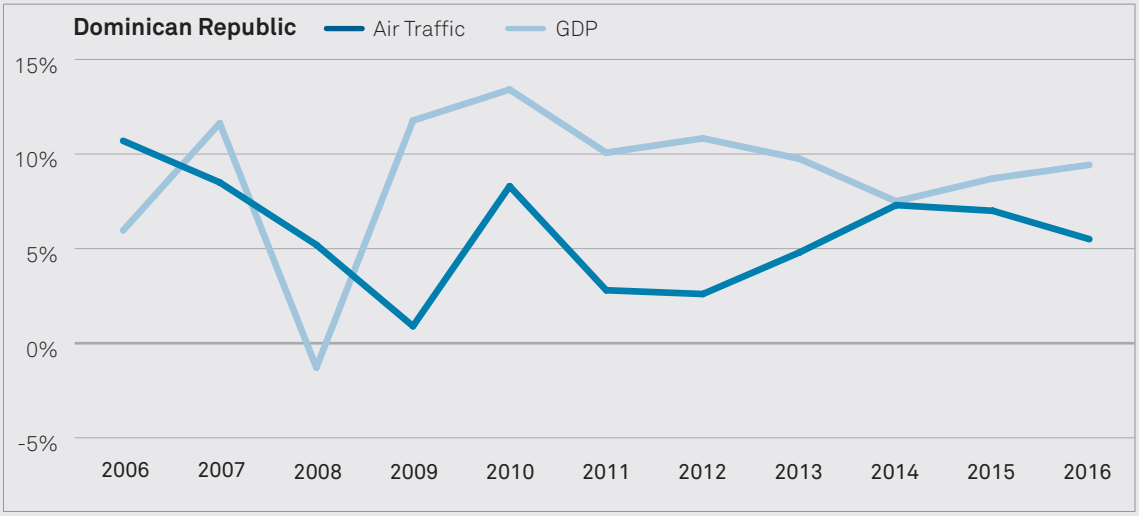
– Remodeling and expanding the existing passenger terminal, which will later serve as domestic passenger terminal;
– Construction of a new international passenger terminal;
– Maintenance of the existing and new infrastructure; and
– Operating the airport and the areas included within the concession.

Total investments were projected at approximately $900 million and were funded with a combination of debt and equity contributions from the sponsors. Construction is currently underway under a design-build contract by a joint venture made up of VINCI Construction Grands Projects (50%) and Astaldi (50%), and COD is scheduled for 2020. The airport will double the current capacity to 30 million passengers per year, which should help accommodate the medium- and long-term traffic increase.

The Dominican Republic

Traffic at major Dominican Republic airports grew at a CAGR of 9% from 2006 to 2016. The biggest beneficiary was the airport in Punta Cana, a major tourism destination.

On April 8, 2016, VINCI S.A. (A-/Stable/A-2) completed the acquisition of 100% of Aeropuertos Domincianos Siglo XXI S.A.'s (Aerodom; BB-/Stable/--) shares from Latin American Airports Holding (LAAH). Aerodom owns the concession for 30 years, which the government awarded in April 2000, for the operation and administration of five international airports and one domestic airport in the Dominican Republic. This includes the Las Americas Airport located in Santo Domingo, the second most active airport in the country after Punta Cana in terms of passenger traffic. The acquisition was aligned with VINCI's diversification strategy that intends to transform the group into a global player in the airport industry. We view the entrance of VINCI into the



Dominican Republican airport industry as a positive factor, potentially benefitting the company's business strategy in the medium to long term and enhancing its financial flexibility, which was essential in order to determine a refinancing strategy for its existing debt that was restructured in early 2017.

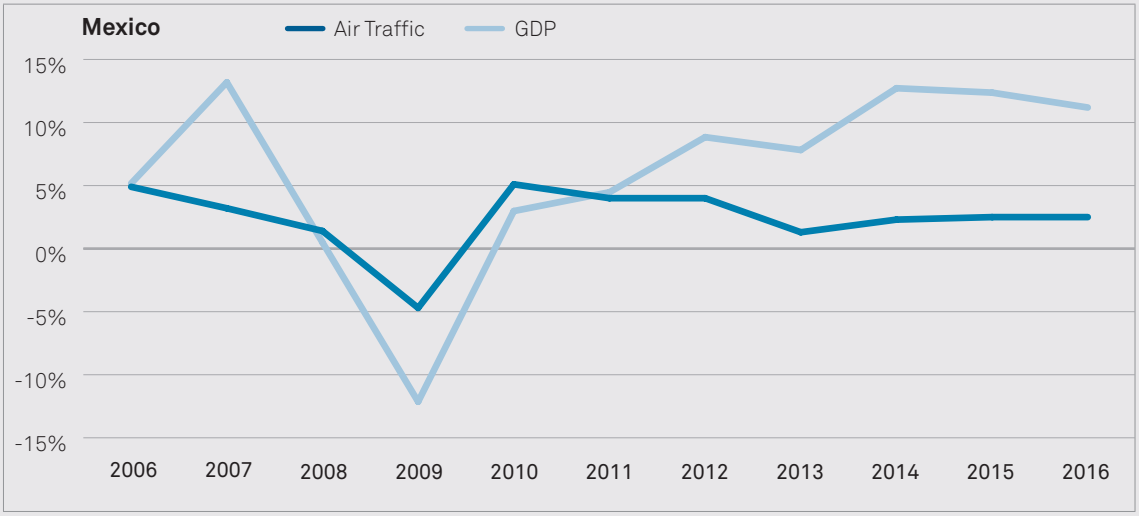
We don't currently expect significant expansions in the country's airports, given that they can handle the expected traffic growth while the concessionaires already performed mandatory investments under existing contracts.

Mexico

Traffic performance has been sound and strongly correlated to GDP growth rate. Passenger volume at major airports (including the government owned and operated Mexico City airport and those that private-sector operates under concession contracts) grew at a CAGR of between 4.5% and 6.0% in the past 10 years, which was at a more pronounced rate in 2012-2016. More specifically, in 2016, the aggregate traffic at 12 airports operated by Grupo Aeroportuario del Pacifico S.A.B de C.V. (mainly those located in the Pacific coast and central regions of the country) was 17%, and that for those operated by Grupo Aeroportuario del Centro Norte S.A.B de C.V. (central and northern regions, consisting of 13 assets) was 12%.

Investments have occurred in the past 10 years, mainly through the so called Master Development Plans (MDP) that requires works to be conducted within five-year cycles. Works included terminal expansions and improvements, major maintenance, and other expenditures committed to expand, modernize, and maintain the airport infrastructure in accordance with the highest standards of efficiency, operations, and international and domestic security and safety, and taking into account expected growth in traffic.

Currently, the government is undertaking the most significant infrastructure project of the past few years: the construction of a new Mexico City airport to replace the existing one. Once completed, the new facilities will comprise one terminal and three runways, with a total capacity



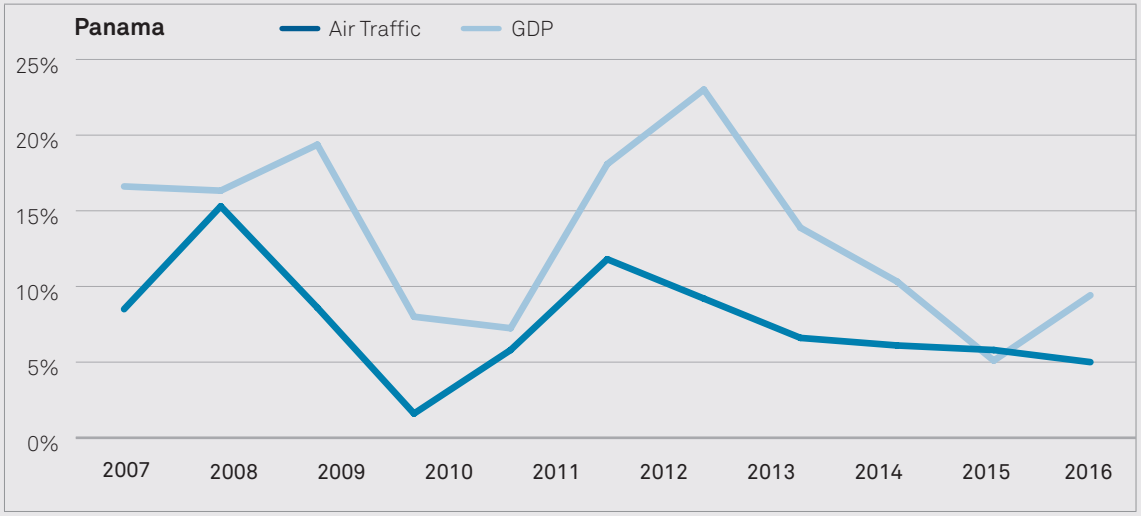
of 57 million passengers annually. Over the long term, the new airport could reach a capacity of up to 120 million passengers. This will be considerably higher than the existing airport's capacity of about 45 million passengers and its limited ability to expand to meet future demand. We expect the existing airport would be operating at full capacity by October 2020.

Construction of the first phase will cost approximately $13 billion, which the trust will fund through $6 billion debt issuances. The remainder of the first phase cost will be covered by the government, the airport's sponsor and concession holder. The passenger charges (Tarifa de Uso de Aeropuertos) will support repayment of debt, ahead of any operating costs of the airport.

Panama

Total passenger traffic at Tocumen international airport, which accounts for about 98% of total passenger traffic, has been growing for the past decade at a CAGR of more than 12%, above the average of other Latin American and Caribbean countries. The growth was fueled by both the robust tourism growth as a result of a significant economic and infrastructure development in the country and its increasing importance as Copa Airlines' regional hub. The airport has a strong historical relationship with this airline, developing facilities to support not only the origin and destination market (consisting of about 56% of total passengers), but also the transfer facilities. Copa's strategy has been to develop the Latin American – Caribbean regional hub using Panama, giving its central location to connect cities within this region.

Tocumen is implementing one of the most significant capital expenditure programs since its inception: the construction of a second terminal that will increase the airport's capacity to more than 20 million passengers per year. Construction started in mid-2013, which Odebrecht Engenharia e Construcao S.A. (CCC+/Negative/--) is conducting under an engineering, procurement, and construction (EPC) contract. Based on the most recent information that the project management provided, the new terminal is likely to start operations in late 2018. The new facilities will be devoted partly to Copa's operations.

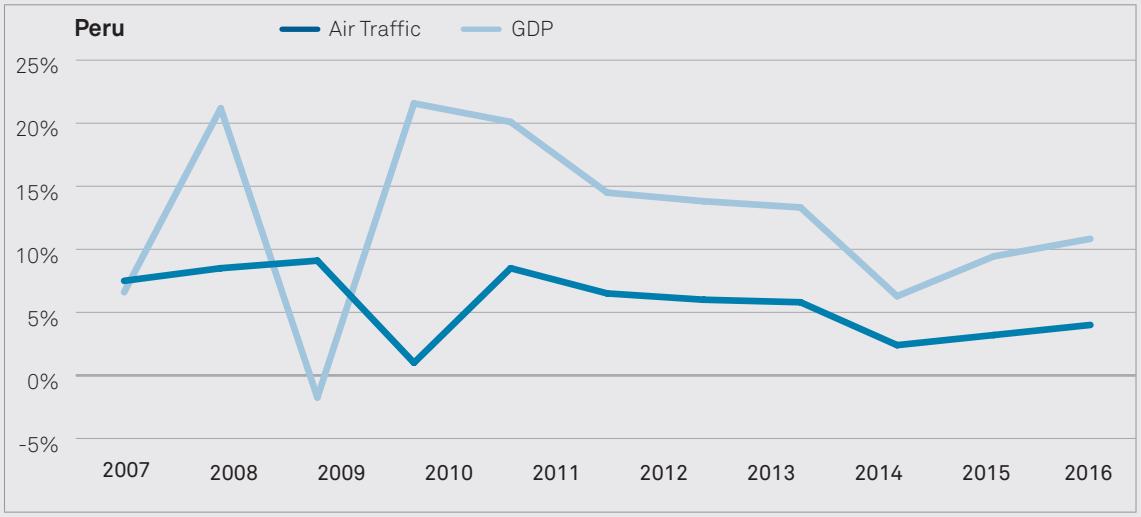


Peru

Air traffic grew in Peru at a CAGR of 12% during the last decade, one of the sharpest increases in the region. This was due to the robust economic growth, a significant improvement in GDP per capita, and because Lima's status as a hub for LATAM Airlines flights, connecting North and South America.

We expect in the short to medium term the expansion of the Lima airport. According to the concession contract, the concessionaire (Lima Airport Partners; BBB/Stable/--) will have to conduct the construction of a second runway and will also undertake the construction of a new passenger terminal to accommodate the increasing traffic level. These works have been postponed on a consistent basis due to the government's delay in providing the airport the required areas to perform the expansion works.

Although the original concession contract stated that by February 2013 Lima Airport would have received 100% of the lands to build the second runway, the Ministry of Transport and

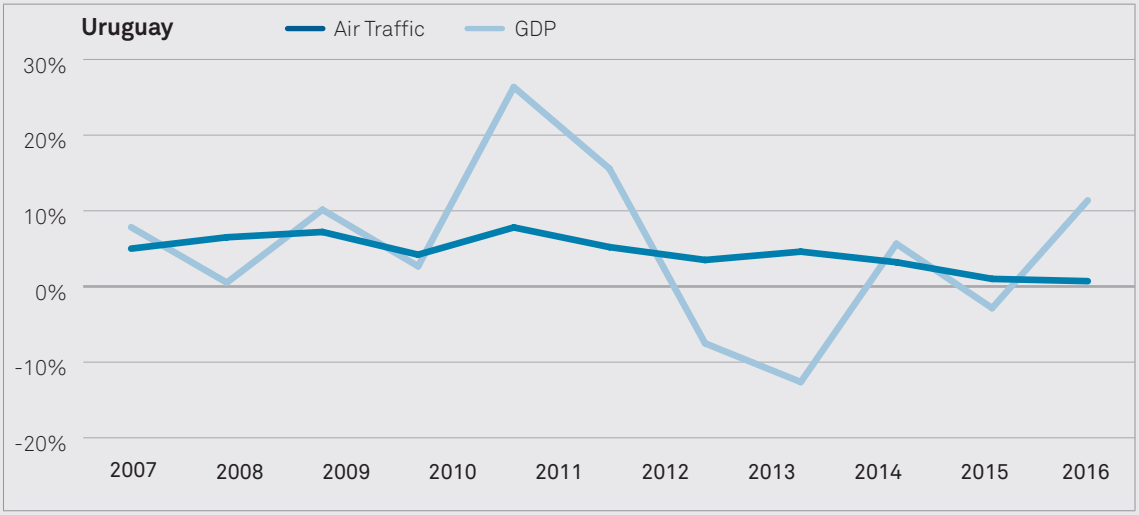


Communications (MTC) has failed to comply with its obligations, resulting in further addendums to the concession contract and compensations to the concessionaire, for example a 10-year concession extension until 2041. The last addendum to the concession contract was signed in August 2017, in which the MTC commits to deliver 100% of the lands without interferences before Jan. 1, 2018, and in which the LAP committed to build the second runway within four years after receiving the lands. Estimated capital expenditures for the second runway and terminal remain at around $1.2 billion, and we consider the capital markets would be a probable option to finance part of these works.

Uruguay

Passenger traffic has grown significantly at above the triple rate than GDP growth in the past decade. Puerta del Sur (PdS), which holds the concession for the operation of the Carrasco Internacional Airport in Montevideo (Uruguay's capital city and main gateway to the country) inaugurated the new passenger terminal in 2009, which allowed air traffic level to rise.

Until 2011, Uruguay airport faced high customer concentration risk. This was because Pluna controlled about 47% of PdS's air traffic. Following Pluna's bankruptcy in July 2012, total traffic at PdS decreased more than 8%. Still, the airport's aeronautical revenue increased around 25% year over year in 2012. This is because Pluna's attractive routes were rapidly replaced by its competitors. More specifically, competitors took over 11 of Pluna's 18 original routes by June 2013, while they didn't benefit from airport fee discounts that were originally granted to Pluna. Furthermore, unlike other airlines, Pluna didn't pay aircraft parking fees. Consequently, landing and aircraft parking revenue fees for PdS also increased. Even though transit passengers declined, but because Pluna's regional hub routes were rerouted to other hubs, traffic recovered completely by the end of 2013.



*Sources for all of the above charts: GDP figures from S&P Global Ratings; traffic levels from Organismo Regulador del Sistema Nacional de Aeropuertos, The World Bank, INFRAERO, Junta Aeronáutica Civil de Chile, Secretaria de Transporte y Comunicaciones de Mexico, Junta de Aviación Civil de Republica Dominicana, Dirección Nacional de Aviación Civil e Infraestructura Aeronáutica de Uruguay, and Instituto Nacional de Estadísticas de Uruguay.

Ratings Rose Following The Airports' Improving Performance

Due to the strong performance during 2006-2016, we've upgraded most of the rated airports in the region or changed their stand-alone credit profiles (SACPs) upward. In most cases, the rating actions reflected a better-than-expected financial performance, given a combination of fairly stable debt levels and rising cash flow generation that bolstered credit metrics. Moreover, most of the sovereign ratings have risen in the same time frame, allowing a wider range of ratings for the airports.

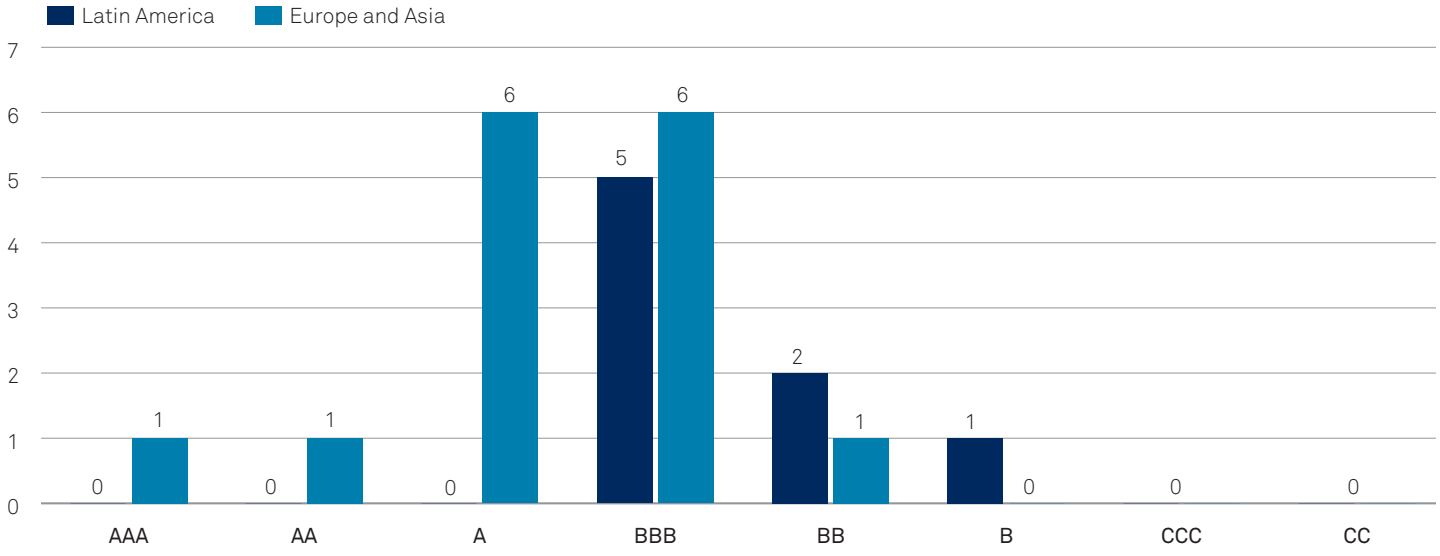
The vast majority of the rated airports in Latin America has investment-grade ratings and is concentrated in the 'BBB' category (see table 1). Aeropuertos Argentina 2000 - AA2000 has the lowest rating among its regional peers, because our transfer and convertibility assessment on Argentina acts as a rating cap. However, AA2000's SACP improved significantly in the past five years from the low 'b' area categories to the upper band of 'bb'.

Table 1 – Ratings Evolutions

	Initial Rating		Current Rating
Airport	**Year**	**Rating**	**Rating**
ACI Airports Sudamerica S.A.R.L.	2015	BB+/Stable/--	BB+/Stable/--
Aeropuerto Internacional de Tocumen S.A.	2013	BBB/Stable/--	BBB/Stable/--
Aeropuertos Argentina 2000 S.A.	2010	B/Stable/--	B+/Stable/--
Aeropuertos Dominicanos Siglo XXI S.A.	2013	BB-/Stable/--	BB-/Stable/--
Lima Airport Partners S.R.L.	2007	BBB-/Stable/--	BBB/Stable/--
Grupo Aeroportuario Centro Norte S.A.B. de C.V.	2011	mxAA/Stable/--	mxAAA/Negative/--
Grupo Aeroportuario del Pacifico S.A.B. de C.V.	2014	mxAAA/Stable /--	mxAAA/Stable/--
Mexico City Airport Trust	2016	BBB+/Negative/--	BBB+/Stable/--

Source – S&P Global Ratings.

Chart 3 - Global Airports Rating Distributions (# Outstanding As Of June 2017)



Source – S&P Global Ratings.

The airports in the rest of the world (excluding those that we analyze under the umbrella of the international public finance practice such as those in the U.S.) mostly have 'BBB' or 'A' category ratings (see chart 3). Main rating differences between these airports and their Latin American peers are less risky jurisdictions, more favorable regulatory regimes, and the greater scale of operations, as seen in the aggregate passenger levels handled, which result in stronger competitive positions.

Latin American Airports To Get Larger In The Next Two To Three Years

The booming performance caused several airports in the region to reach the maximum nominal capacity sooner than originally expected. As a result, governments, regulators, and concessionaires started working on measures to accommodate the current traffic levels to prevent bottlenecks or interruptions in daily operations (see table 2).

Investment for expansion varies in terms of nominal amounts in the region (from $200 million up to $13 billion) and also range from low-complexity expansions of existing facilities to the construction of new airports that include not only the development of new passenger terminals but also runways and ground transportation systems. Moreover, the financial structures under which investments were granted vary widely, from PPPs to new concessions (as the case of the Santiago airport project rebidded in early 2015), to the government-related entities, such as the cases for the Panama and Mexico City international airports.

A common feature is that all these expansion investments will require substantial financing, which we expect will continue to attract the capital markets, because these assets have a considerable track record in terms of traffic, relatively long asset lives, marginal exposure to currency mismatch given that international passenger fees are dollar denominated and all—or majority of—the commercial revenues are linked to dollar, and our expectations of resilient passenger traffic growth. As such, we expect both local and international capital markets to play a critical role in this industry, particularly amid the still fairly low interest rates.

Table 2 - Airport Expansions To Be Conducted In The Region

Airport	Country	Type of project	Brief description	Expected COD	Estimated investment	Owner/ Concessionaire
New Mexico City Airport	Mexico	Greenfield	Given the constraints at the existing airport that would restrict continued development to absorb expected passenger growth, the Mexican government launched a major project to build a brand new airport that will eventually replace the Benito Juarez airport. At the end of the first stage of the new development, it is expected that the new airport will have a capacity of 50 million passengers per year, with 3 runways and 118 boarding gates.	2020	$13 billion	Wholly owned by the Mexican Government
New São Paulo Airport	Brazil	Greenfield	Currently under engineering design with approvals still pending. Consists of two runways, one passenger terminal and a load terminal.	TBD. Approvals still pending.	$2.5 billion	CCR S.A.
Campos Gerais International Airport	Brazil	Greenfield	New airport in the Parana State. Early stage of planning to built an airport hub in the city of Ponta Grossa, focused on Cargo.	TBD. Approvals still pending.	$1.4 billion	TBD

Table 2 - Airport Expansions to be conducted in the Region (continued)

Airport	Country	Type of project	Brief description	Expected COD	Estimated investment	Owner/ Concessionaire
Jorge Chavez International Airport	Peru	Brownfield	Expected to start in 2018, consisting on the construction of a second runway and a new passenger terminal.	2022	$1.2 billion	Lima Airport Partners (Fraport AG 70%, International Finance Corporation 20%, Fondo de Inversión en Infraestructura, Servicios Publicos y Recursos Naturales 10%)
El Dorado II Airport	Colombia	Greenfield	Construction expected to commence in 2018 and to end by 2021. El Dorado II will be the second international airport in Bogota and will initially count with a single passenger terminal and a runway. Will be developed through a Public-Private Participation.	2021	$1 billion	TBD
Arturo Merino Benitez International Airport	Chile	Brownfield	The project includes the construction of a new terminal that will increase the capacity from 15 to 30 million passengers and improvement of the existing one that will be used to accommodate national flights.	2020	$900 million	Sociedad Concesionaria Nuevo Pudahuel (Aéroports de Paris (45%), VINCI Airports (40%) and Astaldi (15%))
Tocumen International Airport	Panama	Brownfield	The project involves the construction of a second passenger terminal that will increase the existing capacity of the airport to more than 20 million passengers per year.	2018	$800 million	Wholly owned by the Panamanian Government
Aeroporto Internacional de Porto Alegre	Brazil	Brownfield	Will undertake the expansion of the existing passenger terminal, expansion of the aircraft courtyard, runway extension and expansion of the parking lot.	untill 2021	$ 600 million	Fraport AG Frankfurt Airport Services
El Dorado I Airport	Colombia	Brownfield	Expansion and modernization of the terminal and runway, new control tower, cargo infrastructure and administrative buildings.	2017	$550 million	OPAIN S.A. - Concesionario Aeropuerto Internacional Eldorado
Aeroporto Internacional de Fortaleza	Brazil	Brownfield	Expansion of the existing passenger terminal, expansion of the aircraft courtyard, and parking lot. Extension of runway.	untill 2021	$ 460 million	Fraport AG Frankfurt Airport Services
Santiago Mariño International Airport	Venezuela	Brownfield	The project includes the construction of six tunnels to improve mobility of passengers, and the development of a cargo terminal.	TBD	$400 million	Wholly owned by Venezuela's Goverment
Salvador Airport	Brazil	Brownfield	Will undertake the expansion of the existing passenger terminal, expansion of the aircraft courtyard, and expansion of the parking lot. Construction of new runway.	2021	$ 740 million	Vinci Airports
Aeroporto Internacional de Florianópolis	Brazil	Brownfield	Construct a new passenger terminal, extend the aircraft courtyard, and expansion of the parking lot. Extension of runway	2021	$ 320 million	Zurich Airport International AG
Ezeiza, Aeroparque and other airport under concessions	Argentina	Brownfield	Project to expand terminal B in Ezeiza, particularly with a new check-in sector. Improvements in Aeroparque, Tucuman and other airports concessioned by Aeropuertos Argentina 2000 S.A.	2020	$200 million	Corporación America S.A.

Source – S&P Global Ratings.

How Do We View Construction Risk From A Credit Standpoint?

We view the construction difficulty of airports as relatively low. We consider building a new terminal as a simple civil engineering task, comparable to the construction of commercial spaces or stadiums, and less complex than that of power plants or pipelines. Typically, main risks in the airport construction phase are environmental licensing and land availability given that it requires in some cases expropriation of land. These risks could significantly delay the construction phase, which typically lasts three to four years.

Overall, we don't view construction as the primary risk for airports' credit quality. Main credit aspects, in our view, are traffic growth and tariff increases that are commonly approved by regulators. The processes that determine tariff approvals also vary throughout the region and include tariff settings as part of concession contracts defined for specific periods (in the five-year range) to discretionary tariff approvals. We typically include in our base-case projections tariff revision that are set under the terms of the concession agreements or defined by regulators, and we exclude from our projections potential discretionary tariff adjustments, unless they're contractually committed or there is a robust track record of application.

Prospects For Traffic In The Region Are Still Robust

We classified all airports in the region in three different groups to explain expected performance and differentiate short- from medium-term expectations in order to incorporate the ongoing expansions:

- Airports in growing economies with ongoing expansions and/or short-term constraints. The subgroup includes airports in Argentina, Chile, Colombia, Mexico, Panama, and Peru. Airports in these countries are undertaking expansions that are expected to be completed in the upcoming two to three years, which should boost traffic growth ahead of GDP projections. Given some capacity limitations at specific airports which include the Mexico City airport, LAP, or Santiago airport, we envision a still healthy growth for the subgroup, although lower than in 2016. More precisely, we expect traffic levels to increase at around 1.5x GDP growth in the short term but reach the 2.5x area in the intermediate term, once new terminals and runways are fully operational.
- Airports in stable economies without significant investments in the short to intermediate term. Uruguay, the Dominican Republic, and Ecuador are included in this subgroup. We envision more mature assets, only maintenance capital expenditures, and a traffic increase of 1.5x - 2.0x GDP growth.
- Airports in economies with volatile macroeconomic conditions, such as Brazil. We expect marginal growth in traffic volume in 2017 due to a feeble GDP growth rate, about 0.5%, and a turbulent political scene, and 2.0% economic expansion in 2018.

Appendix – Peer Table

Table 3 – Peer Comparison

	Corporates Credits			
	Aeropuertos Dominicanos Siglo XXI S.A.	**Grupo Aeroportuario del Centro Norte S.A.B de C.V.**	**Grupo Aeroportuario del Pacifico S.A.B. de C.V.**	**Aeropuertos Argentinos 2000 S.A.**
Country of Location	Dominican Republic	Mexico	Mexico	Argentina
Rating	BB-/Stable/--	mxAAA/Negative/--	mxAAA/Stable/--	B+/Stable/--
Business Risk Profile	Fair	Satisfactory	Strong	Fair
Financial Risk Profile	Aggresive	Modest	Modest	Intermediate
Construction Ongoing	No	No	No	No
2016 Passengers (Million)	4.7	18.8	32.2	31.5
Aeronautical Revenues	70%	74%	63%	52%
Commercial Revenues	30%	26%	37%	46%
EBITDA (USD Million)	94.3	158.8	320.5	275.5
EBITDA Margin	69%	63%	70%	42%
EBITDA Interest Coverage (x)	2	8.9	16.8	9.3
Debt/EBITDA (x)	4.9	0.5	0.7	0.7

	Project Finance Credits			
	ACI Airports Sudamerica S.A.	**Lima Airport Partners S.R.L.**	**Mexico City Airport Trust**	**Aeropuerto Internacional de Tocumen S.A.**
Country of Location	Uruguay	Peru	Mexico	Panamá
Rating	BB+/Stable/--	BBB/Stable/--	BBB+/Stable /--	BBB/Stable/--
Type of Debt	Subordinated Debt	Senior Secured	Senior Secured	Senior Secured
Construction Risk	No	No	No	Yes
Operations Phase Business Assessment	4	4	4	4
Competitive Position	Satisfactory	Satisfactory	Strong	Satisfactory
Minimum DSCR (x)	1.3	1.4	1.3	1.2
Average DSCR (x)	2.2	2.5	-	2.0
Structural Protection	Weak (-2 notches)	Neutral	Neutral	Neutral
2016 Passengers (Million)	1.9	19.0	41.7	14.7
Aeronautical Revenues	54%	74%	-	55%
Commercial Revenues	46%	24%	-	45%

Source – S&P Global Ratings.

spglobal.com/ratings