

Airport Industry - Key Success Factors

BUSINESS RISK ASSESSMENT

Economy of Service Area

The analysis covers evaluations of economic activities and potential in the areas served by the airports to understand the demand potential and revenue sustainability in the long term. Strategic areas with high economic activities and tourism destination are highly related with passenger and aircraft traffic. These two activities are often the major contribution to an airport's revenue. The analysis also covers the supporting infrastructures near the airport area, such as road access, toll road to the airport, and other public facilities (example: train, bus, etc.), are considered as a competitive advantage. The assessment also considers the regulatory framework that can influence both the airport's operating environment and financial aspects. One example is the rate-setting mechanism which is the key component during the assessment. Future development rights, obligations or constraints under license and permits, operating restrictions such as curfew hours and environmental responsibilities, are also assessed.

Aeronautical Activity

The analysis covers main activities of the airport operator, in terms of passenger traffic, aircraft traffic and also cargo traffic. It is also important to analyze the quality of service of the airport operator, in terms of delivery time, pricing, safety, availability of complete and modern facilities, equipment, and related infrastructure, including the updated information technology (IT) system to support all airport activities. The company's efforts to upgrade and expand its airport infrastructure including its human resource capacity, are also reviewed during the rating assessments.

Diversification

The analysis covers detailed reviews on the company's airport portfolio and service offerings. We view that a company that serves a variety of routes from various airline companies has a better business profile than those that have limited capacity of serving routes and also airlines. Aeronautical services includes landing services, placement, and aircraft parking services (PJP4U), passenger services (PJP2U), use of aviobridge services, and counter services. It is also very important for airport companies to increase its non-aeronautical services such as retail concession services, vehicle parking services, land, building or space rental, and cargo services, etc. However, airport with higher non-aeronautical revenue contribution does not necessarily have a stronger business profile due to the fact that non-aeronautical revenues are closely related to air passenger traffic itself. A company that has a portfolio of larger airport and offers a variety of services is considered to have a more stable income stream than those who rely only on a single airport or offering limited services. A company with airports located in many areas is expected to minimize the impact of business setbacks due to the economic slowdown or security issues in a particular city or region.

Operating Management

The analysis covers assessments on the company's operating management to achieve the most efficient costs as the tariff of airport services, aeronautical in particular, is determined by the government based on negotiations between the airport operator and the related associations, while tariff for non-aeronautical services is set by the company itself. The company's investment costs, including construction and financing costs is also reviewed, as it will affect the magnitude of depreciation cost as well as the overall costs borne by the company for the operation of the airport. Comparing revenue per employee and production per employee are some ways to measure the efficiency. The analysis on operating margins (EBIT and EBITDA) is also assessed by comparing the company's ratios with other players in the same industry or other industry with similar characteristic, which is important in analyzing the company's competitiveness. The analysis is helpful to measure operating efficiency. Receivables collection is also an important factor to be considered in rating determination.

FINANCIAL RISK ASSESSMENT

Financial Policy

The analysis includes a review of management's philosophy, strategy and policies toward financial risk (historical, current and future). It also includes examination of management's financial targets (growth, leverage, debt structure and dividend policy), hedging and other policies in an effort to reduce the company's overall financial risk (historical vs. future). The company's track record on fulfilling its previous financial obligations is also examined to determine the degree of its commitments and willingness and consistency to pay obligations on a timely basis.

Capital Structure

The analysis covers careful examination of the company's historical, current and projected leverage (total and net debt in relation to equity and EBITDA), debt structures and composition (rupiah vs. foreign currencies, short-term debt vs. long-term debt, fixed rate vs. floating rate). Management of its liabilities is also thoroughly reviewed.

Cash Flow Protection and Liquidity

The analysis covers thorough reviews of the company's cash flow generation and capability to meet its short-term and long-term financial obligations. The degree of its debt-servicing capability level is measured by the company's interest and debt coverage ratio. The degree of its liquidity in fulfilling its short-term liabilities relative to its sources of cash is also thoroughly assessed. The sources of cash are assessed, which include cash balance, estimated cash from operations, unused credit facilities, and other sources of cash. The uses of cash other than short-term liabilities, such as capital expenditure, are also assessed.

Financial Flexibility

The analysis covers combined evaluations of all the financial measures above to arrive at an overall view of the company's financial health. Analysis of other related factors or figures that are not specifically examined above, such as insurance coverage, restrictive covenants in loan/bond agreements or parental linkage and support, are also covered. Other analytical tasks covered are the evaluation of the company's options under stress, including contingency plans and other capabilities and flexibility to deal with various adverse scenarios. Shareholder support and commitment are also greatly considered.

DISCLAIMER

PT Pemeringkat Efek Indonesia (PEFINDO) does not guarantee the accuracy, completeness, timeliness or availability of the contents of this report or publication. PEFINDO cannot be held liable for its use, its partial use, or its lack of use, in combination with other products or used solely, nor can it be held responsible for the result of its use or lack of its use in any investment or other kind of financial decision making on which this report or publication is based. In no event shall PEFINDO be held liable for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses including but not limited to lost profits and opportunity costs in connection with any use of the contents of this report or publication. Credit analyses, including ratings, and statements in this report or publication are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold or sell any securities or to make any investment decision. The contents cannot be a substitute for the skill, judgment and experience of its users, its management employees and/or clients in making investment or other business decisions. PEFINDO also assumes no obligation to update the content following publication in any form. PEFINDO does not act as fiduciary or an investment advisor. While PEFINDO has obtained information from sources it believes to be reliable, PEFINDO does not perform an audit and does not undertake due diligence or independent verification of any information used as the basis of and presented in this report or publication. PEFINDO keeps the activities of its analytical units separate from its business units to preserve independence and objectivity of its analytical processes and products. As a result, certain units of PEFINDO may have information that is not available to other units. PEFINDO has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process. PEFINDO may receive compensation for its ratings and other analytical work, normally from issuers of securities. PEFINDO reserves the right to disseminate its opinions and analyses. PEFINDO's public ratings and analyses are made available on its website, <http://www.pefindo.com> (free of charge) and through other subscription-based services, and may be distributed through other means, including via PEFINDO publications and third party redistributors. Information in PEFINDO's website and its use fall under the restrictions and disclaimer stated above. Reproduction of the content of this report, in full or in part, is subject to written approval from PEFINDO.