Recovery for domestic airport industry

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PEFINDO is of the view that the outlook of domestic airport industry over the near to medium term is negative due to the impact of the Coronavirus Disease (Covid-19) pandemic. We forecast it will take more than 24 months for the revenue to recover to the 2019 level since the first outbreak in the beginning of 2020. We expect domestic leisure travel to lead the industry recovery, while we project business and international travels to take a longer time. The recovery of airport industry is highly dependent on the complexity of travel restrictions and effectiveness of vaccination program. Lower-than expected GDP growth post the pandemic will also lead to a slower recovery compared to previous shocks, such as SARS. To anticipate the high level of uncertainty, PEFINDO had revised the outlook of the rated companies, namely PT Angkasa Pura I (Persero) (APAI) and PT Angkasa Pura II (Persero) (APIA) to negative from stable in May 2020.

Rated companies' performances

As of September 30, 2020, revenues slumped by 36%-55% year-on-year (YoY) due to the sudden drop in passenger and aircraft traffic volumes. On a quarterly basis, the performance in the third quarter of 2020 (3Q2020) slightly improved compared to 2Q2020. We project revenues to improve gradually following the relaxation of travel restrictions. Before the pandemic, both APAI and APIA managed to book revenues of around IDR2.0 trillion per quarter, whereas during the pandemic, it dropped to less than 50% compared to that in 2019, thereby exerting pressures on their operating cash flows as their operating expenses (opex) are mostly fixed cost. We view the airport industry's room to adjust its opex is limited since they should comply with safety and security standards, and keep up with technology advancement. While we appreciate their efforts to enhance cost efficiencies, we notice that the contraction in their cash inflows are not fully compensated for by their cost survival strategy.

Figure 1. Quarterly Performance

	QUARTERLY PERFORMANCE (IN IDR BILLION)					
REVENUE	1Q2020	2Q2020	3Q2020	1Q2019	2Q2019	3Q2019
APAI	1,812.8	400.9	536.7	1,954.6	2,031.7	2,176.7
APIA	2,423.1	796.2	1,158.3	2,236.3	2,194.2	2,415.9
OPEX	1Q2020	2Q2020	3Q2020	1Q2019	2Q2019	3Q2019
APAI	1,463.4	1,274.9	1,013.9	1,293.6	1,436.3	1,542.0
APIA	2,161.7	1,428.5	1,563.3	1,662.9	2,023.6	1,727.6
EBIT	1Q2020	2Q2020	3Q2020	1Q2019	2Q2019	3Q2019
APAI	349.3	(874.0)	(477.1)	661.0	595.4	634.6
APIA	261.5	(632.3)	(405.0)	573.3	170.6	688.3
OPERATING CASH FLOWS	1Q2020	2Q2020	3Q2020	1Q2019	2Q2019	3Q2019
APAI	(235.2)	(1,162.6)	(897.5)	361.1	112.3	246.1
APIA	143.8	(346.1)	(612.1)	497.4	359.4	701.0

Source: Financial statements, processed by PEFINDO

Credit metrics and financial policy

PEFINDO expects the credit metrics of rated entities will be aggressive over the near to medium term on the rationale of the extremely weak EBITDA generation amidst large debt to finance most of their capital expenditures (capex). As the figures will not recover immediately, the rated entities have obtained approval from creditors to waive financial covenants of bonds such as current ratio, debt to equity ratio, and interest coverage ratios for 2020-2021. We do not see any refinancing risk in the near term as most of the debt maturity are in long-term profile. There are approximately IDR2.0 trillion maturing bonds in the second semester of 2021 that we expect to be refinanced internally. However, we express concern on their operating cash flows in the near term due mainly to the longer receivable collection from airline companies, which may further exacerbate the pressures on their cash flow generations. Eventually, we expect that they request some creditors to convert the undisbursed loan initially intended for investment into working capital, or to approve a new credit line for working capital.

PEFINDO is of the view that the rated entities will focus more on managing financial stability in response to the pandemic. We expect the massive expansion program will be postponed in anticipation of the weak cash flow protections. We also project no dividend payment will be made in 2020-2021. The rated entities have adjusted their capex in 2021-2022 to approximately IDR11.5 trillion, yet we anticipate this figure is subject to change depending on the government's effectiveness in containing the pandemic. Aside from the pandemic, the industry faces challenges to accelerate the capacity, as many airports are being over-utilized. Previously, the rated entities have allocated sizable capex to build new terminals and runway, and to revitalize their existing airports. The government had also assigned them to participate as investors and operate new green field airports such as Kertajati Airport (APIA) and New Yogyakarta International Airport (APAI), and to take over existing airports managed by the government.

Government support

PEFINDO views both APAI and APIA as pivotal for the government, given their strategic role in providing and operating airport infrastructure. Aviation plays a vital role in the domestic economy, especially to facilitate the movement of people and goods across the Indonesian archipelago's over 17,000 islands. The government also maintains full stake and frequently injects capital to those rated entities. Based on those rationales, we expect the government to provide sufficient and timely supports in the event of financial distress most notably during the pandemic. Although APAI and APIA are not the recipient of financial assistance under the national economic recovery program, this does not by itself mean that they are of secondary importance to the government compared to other state-owned enterprises (SOEs), in our view. Despite the current financial constraints, we see the rated entities maintain strong financial flexibility to borrow new loans given their track record as a legal entity, good industry prospects, and privilege of being SOEs. As the pandemic hits every sector without exception, we expect the government will be prioritizing on the survival of SOEs that are in critical mode. During the pandemic, the government provides various supports in the forms of relaxations, including investment obligations, taxes, dividends, tariff adjustments, and allocation of unused capital injection. We expect these will help the rated entities overcome the unprecedented challenges. We also view the government has shown unwavering support for the recovery the aviation ecosystem, including to the SOE airline and contractors.