

Rating Action: Moody's downgrades Dufry's ratings to B1; outlook negative

19 Jun 2020

London, 19 June 2020 -- Moody's Investors Service, (Moody's) has today downgraded Dufry AG's (Dufry or the company) Corporate Family Rating (CFR) to B1 from Ba3 and its Probability of Default Rating (PDR) to B1-PD from Ba3-PD. Concurrently, Moody's has downgraded the backed senior unsecured ratings of Dufry One B.V. to B1 from Ba3. The outlook has been changed to negative from ratings under review.

The rating action concludes the review for downgrade initiated on 25 March 2020.

RATINGS RATIONALE

Moody's expects the coronavirus to continue to severely constrain air travel in the months and years ahead. The rating agency anticipates flight activity -- and therefore Dufry's revenues -- will gradually increase in the second half of 2020, starting first with domestic routes ahead of a slower return for international long haul flights and to recover further in 2021. The timing and profile of a recovery beyond 2021 remains highly uncertain but ultimately Moody's believes air passenger volumes will remain below 2019 levels until 2023 at the earliest.

Moody's base case is that global passenger numbers will be 65% down on 2019 levels in 2020 and still 35% lower than 2019 in 2021. Dufry's global footprint means that the rating agency expects its overall revenues to be closely correlated with global passenger numbers, as in the past. Moody's believes the slower return to long haul international travel will be negative for the company as these passengers traditionally spend well in duty free, although longer dwell times for short haul travelers should at least partially offset this.

In its base case analysis Moody's anticipates Dufry will: continue to receive support from key suppliers to help drive sales conversion; actively manage working capital and capital spending; use a number of government support schemes in respect of furloughed staff; and, importantly, will be able to agree amendments and/or waivers of Minimum Annual Guarantees (MAGs) in the concession agreements it has with airports for such period as passenger footfall numbers remain materially lower than normal.

Moody's expects that credit metrics will deteriorate materially this year, with Moody's-adjusted EBITDA falling around 75% to about CHF 550 million, before the company's profitability and credit metrics gradually improve over the course of 2021 and 2022. Under the rating agency's base case the company's Moody's-adjusted leverage, measured as debt to EBITDA, is expected to reach more than 15x in 2020 before improving to less than 7x in 2021, and ultimately to around 5x in 2022, by which stage Moody's-adjusted EBITDA would approach CHF 2 billion.

However, the high levels of uncertainty of the trajectory of the pandemic means there are a wide range of possible outcomes in respect of the pace of recovery. As such, in addition to its base case Moody's credit assessment also considers deeper downside scenarios incorporating the risks of a slower recovery towards pre-crisis conditions.

Furthermore, even in its base case Moody's expects Dufry's free cash flow to be negative to the tune of CHF1.1 billion in 2020, and for material cash burn to continue through the first half of 2021. Moody's recognises the negative cash flow this year will be largely covered by the CHF 0.9 billion the company successfully raised in late April via a combination of fresh equity, a convertible bond, and new committed bank facilities. Nevertheless, Moody's thinks the company may need to return to the capital markets to boost liquidity again within the next six months. In that time frame the March 2022 maturities of the term loans will also become pertinent, and we would expect the company to look to address this refinancing need in a timely manner.

STRUCTURAL CONSIDERATIONS

Dufry's capital structure consists of a mixture of bonds and bank debt. All of the facilities are unsecured, with guarantees from the material holding companies within the group.

Pre coronavirus the bank debt comprised term loans of EUR 500 million and USD 700 million, each with March

2022 maturities, a €1.3 billion revolving credit facility (RCF) with a March 2024 maturity, and uncommitted facilities totaling CHF 490 million as of December 2019. Dufry One B.V. is the issuer of the EUR 800 million and EUR 750 million bonds due October 2024 and February 2027 respectively.

In April 2020 Dufry International AG raised approximately CHF 400 million additional bank debt, split between loan and revolving credit tranches, which have an initial one year term, with two six month extension options. In addition, CHF 350 million convertible notes were issued by Dufry One BV, with a May 2023 maturity.

LIQUIDITY

The infusion of fresh equity and credit facilities in April and the financial covenants holiday agreed by lenders under the syndicated facilities until September 2021 means that Moody's considers Dufry's liquidity will be adequate in the months ahead. However, the rating agency believes that liquidity would become weak by the middle of 2021 in the absence of a return to the debt or equity markets.

In the meantime, Moody's notes that during the time the financial covenants are waived the lenders require Dufry to maintain minimum liquidity of CHF 300 million, and the rating agency considers that as the months pass the company will increasingly need careful management of working capital to adhere to this test.

RATIONALE FOR NEGATIVE OUTLOOK

The negative outlook factors in the risk that the company's performance or liquidity may be weaker than Moody's current expectations, driven by slower than anticipated return towards pre crisis air travel volumes.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

The ratings are unlikely to be upgraded in the short term. In due course, the outlook could be stabilised in the event that there is clear evidence of an improving trend in the company's profitability and cash generation driven by a sustained improvement in air passenger volumes towards historic levels.

Conversely, Moody's could downgrade Dufry if the company's liquidity is adversely affected by deeper and longer weakness in airport passenger volumes not matched by it obtaining additional funding from the capital markets.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE CONSIDERATIONS

Moody's regards the coronavirus outbreak as a social risk under its ESG framework, given the substantial implications for public health and safety, and as detailed above the impact of the crisis on the company's credit quality has been the key driver of the downgrade. The rating agency considers Dufry's governance practices have been and remain appropriate and typical of a publicly listed company.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was published in Retail Industry published in May 2018 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1120379. Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

COMPANY PROFILE

Headquartered in Basel, Switzerland, Dufry is the leading global travel retailer, covering 65 countries across over 400 locations, operating over 2,400 shops in airports (90% of sales), as well cruise liners, seaports, railway stations and downtown tourist areas. The company reported sales of CHF 8.8 billion in 2019 when its Moody's-adjusted EBITDA was CHF 2.2 billion.

The company is listed on the SIX Swiss Exchange with a free float of approximately 60% and a market capitalisation of around CHF1.8 billion currently, compared to around CHF5 billion this time last year and in the period immediately before the escalation of the Coronavirus crisis.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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At least one ESG consideration was material to the credit rating action(s) announced and described above.

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