Research Update:

Avolta AG 'BB+' Ratings Affirmed On Solid Operating Performance; Outlook Stable

April 29, 2025

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Rating Action Overview

- Avolta AG reported solid operating performance in 2024, with its top line and EBITDA aligned with our expectations, however it posted higher-than-expected free operating cash flow after leases.
- We therefore affirmed our 'BB+' long-term issuer credit and issue ratings on Avolta and on its existing rated instruments.
- The stable outlook reflects our expectation that Avolta will continue to adhere to its prudent financial policy targets and reduce and maintain S&P Global Ratings–adjusted debt to EBITDA below 4.0x over the next 12 months, while continuing to generate significant free operating cash flow (FOCF) after leases.

Rating Action Rationale

Avolta reported solid operating performance in 2024 on the back of strong leisure demand and robust performance across all regions and channels. The company's revenue reached CHF13.7 billion in 2024 compared with CHF12.8 billion in 2023, with core turnover (which excludes fuel sales) of CHF13.5 billion, representing growth of 8.9% at constant exchange rates. This growth was primarily driven by a 6.3% organic growth rate, reflecting strong leisure demand and robust performance across Avolta's main regions and channels. Our adjusted EBITDA metric shows an increase to CHF2.8 billion from CHF2.5 billion in 2023, delivering a margin improvement of 90 basis points (bps), driven by disciplined cost control, active portfolio management, and synergies from the Autogrill acquisition. Core EBITDA reached CHF1.3 billion in 2024 versus about CHF1.1 billion in 2023, reflecting a 40-bp margin improvement. These results marginally surpassed our base-case expectations and demonstrate the group's ability to robustly execute its strategy while continuing to deliver on its business plan.

We also acknowledge the group's ongoing efforts with initiatives like Club Avolta, a global loyalty program with over 10 million members and contributing more than 5% of 2024 revenue. In addition, we note the increased focus on Avolta's hybrid and smart store concepts, for enhanced customer insights.

Avolta generated stronger than anticipated FOCF after leases, resulting in some reduced financial leverage in 2024, even after considering CHF200 million of treasury share repurchases. FOCF after concession payments rose to CHF505 million in 2024, up 27.5% from CHF396 million in 2023. This is higher than our previous expectation of CHF448 million, and the improvement stems from sound core EBITDA and containment of capital expenditure (capex), which was lower than the 4% historical levels (3.5% revenue in 2024). Net financial leverage (management definition based on core EBITDA and net financial debt) improved to 2.1x (or 1.9x excluding the share repurchases) in 2024 versus 2.6x in 2023.

That said, a pronounced increase in lease liabilities, following an already significant increase in 2023, led to weaker-than-anticipated S&P Global Ratings-adjusted credit metrics for 2024. Adjusted funds from operations (FFO) to debt reached 17.2% and adjusted debt to EBITDA was 4.1x, in 2024, versus 17.3% and 4.2x, respectively, in 2023. In 2023, we accounted for the 12-year extension of Aena contracts with fixed payment terms materially weighing on our ratios. In 2024, although we anticipated broadly stable lease obligations, we saw an increase of about €667 million of adjusted debt related to lease liabilities versus 2023. This primarily stems from the announced Free Duty acquisition in Hong Kong, which--although is expected to strengthen Avolta's positioning in the Asia-Pacific region--adds notable existing lease obligations to the group. Absent merger and acquisition activity, which we don't currently forecast in our base case, we expect lease liabilities should remain at least stable in the medium term, since we understand that no sizable contracts are due for renewal in the next few years. We note, however, that fluctuations in lease liabilities are inherent to the business model and will likely drive volatility in our adjusted credit metrics around the expected range. These include modifications to existing contracts and currency translation adjustments, among others.

We expect management to maintain a prudent financial policy, resulting in credit metrics remaining sound over the coming 12-18 months, despite the recently announced share buyback program. In January, Avolta initiated a share buyback program to repurchase up to CHF200 million shares for subsequent cancellation. This initiative follows the December 2024 cancellation of 6.1 million shares, representing 4% of the issued share capital. The company's financial policy is unchanged; it aims to maintain net financial leverage at 1.5x-2.0x with flexibility of up to 2.5x, while distributing one-third of its equity free cash flow to shareholders, and the remaining two-thirds for deleveraging its balance sheet and strategic business development.

We also note Avolta recently extended the RCF by two years to 2029, obtaining a margin reduction that will result in interest savings of CHF10 million per year. At the same time, we acknowledge that the group is exploring alternatives to refinance the upcoming CHF500 million convertible notes due March 2026 and CHF300 million senior notes due in April 2026. We note that although we are within 12 months of maturity, the group has significant liquidity to address both maturities if needed.

In our view, travel will remain one of the top priorities for consumers' discretionary spending, but uncertainties related to the U.S. tariffs, labor constraints, and the pace of central bank monetary easing could weigh on consumer confidence. That said, the group's naturally diverse operations should enable it to offset some global traffic uncertainties and achieve solid ongoing positive momentum that should support continued earnings growth. This prompts us to forecast S&P Global Ratings-adjusted debt to EBITDA improving to 3.9x (net financial leverage to 2.0x) and FFO to debt to 18.4%, while we expect FOCF after full concession payments to remain strong at about CHF485 million in 2025.

Outlook

The stable outlook reflects our expectations that Avolta will deliver strong credit metrics on the back of continued sound operating performance thanks to air traffic recovery and solid execution of its group strategy. We also assume Avolta, while adhering to its prudent financial policy targets, will reduce and maintain S&P Global Ratings–adjusted debt to EBITDA below 4.0x. In particular, we forecast Avolta's return to its target reported net financial leverage of 1.5x-2.0x (equivalent to adjusted leverage of 3.3x-3.9x) in the next 12 months, and the ratio should remain within that range absent material acquisitions.

Downside scenario

We could take a negative rating action if S&P Global Ratings-adjusted debt to EBITDA remains above 4.0x (in conjunction with reported net financial leverage exceeding 2.0x), while cash flow is weaker than in our forecast. Over the next 12-24 months, we could downgrade Avolta if it posts adjusted debt to EBITDA persistently above 4.0x, or if discretionary cash flow after all concession payments and dividends turns negative for a prolonged period. This could occur if the company deviates from its financial policy or if its operating performance sharply deteriorates because of a general slowdown in air traffic or prolonged changes in consumer preferences that result in reduced spending on travel retail.

Upside scenario

We could raise our ratings if Avolta's credit metrics strengthen sustainably with adjusted debt to EBITDA staying well below 3.0x and the company generates strong FOCF after all concession payments sufficient to fully cover dividends and preserve its net reported leverage within the target range, even in case of material acquisitions or operating setbacks. This would also hinge on the company maintaining a track record of strict adherence to its stated financial policy--once regular dividend payments resume--and maintaining a robust competitive position and profitability.

Company Description

Avolta is a leading travel retailer and operator of food and beverages space with over 5,100 outlets in airports, motorways, seaports, railway stations, downtown areas, border crossings, cruise liners and ferries, and hotels, spanning 70 countries.

In 2024, Avolta reported total turnover of CHF13.7 billion and S&P Global Ratings-adjusted EBITDA of CHF2.8 billion. Europe contributed 52% of sales; North America, 32%: Latin America, 11%; and Asia-Pacific generated the remaining 4%. In terms of market sectors, duty free represented 36% of revenue, duty paid 31%, and food and beverage the remaining 33%.

Our Base-Case Scenario

Assumptions

- We expect GDP growth of 2.0% in the U.S. and 1.8% in Europe in fiscal 2025. For fiscal 2026, we expect GDP will rise by 2.0% in the U.S. and 1.9% in Europe.
- Revenue growth of about 5% in 2025 and 2026 from CHF13.7 billion in 2024, driven by organic growth on continued air travel recovery and sustained sound passenger spend.
- EBITDA margins to decrease marginally and remain around 20.0%, mainly driven by higher lease expenses.
- Capex of about CHF540 million in 2025 and CHF567 million in 2026, up from CHF483 million in 2024, assuming capex of 3.75% of revenue.
- Lease liabilities, that account for about CHF8.5 billion of our adjusted debt calculation, remaining broadly stable in our forecast horizon.
- No material acquisition expected for the forecast period.
- Annual dividend of about CHF272 million in 2025 and CHF255 million in 2026, in line with the company's plan to pay one-third of equity free cash flow to shareholders.
- We expect share buyback of CHF200 million for 2025, in line with management guidance, and maintain that assumption in future years.

Period ending	Dec-31-2023	Dec-31-2024	Dec-31-2025	Dec-31-2026
(Mil. CHF)	2023a	2024a	2025e	2026f
Revenue	12,790	13,725	14,411	15,132
EBITDA	2,513	2,809	2,874	3,046
EBITDA margin (%)	19.6	20.5	19.9	20.1
Free operating cash flow (FOCF) after full concession payments	396	505	486	534
Debt	10,664	11,471	11,326	11,247
Adjusted ratios				
Debt/EBITDA (x)	4.2	4.1	3.9	3.7
FFO/debt (%)	17.3	17.2	18.4	19.9
FOCF/debt (%)	13.5	13.1	13.3	14.5

CHF--Swiss franc. FFO--funds from operations. a--actual. e--estimate. f--forecast.

Liquidity

We assess Avolta's liquidity as adequate. We forecast that, over the coming 12 months, Avolta's liquidity sources should exceed uses by more than 1.5x. Although we consider that Avolta has well-established and solid relationships with banks, we see limited likelihood that it would be able to withstand high-impact, low-probability events without refinancing.

We anticipate the following principal liquidity sources over 2025:

- Cash and liquid investments of CHF756 million;

- Undrawn bank lines of CHF1,635 million; and
- Forecast cash FFO after leases of about CHF1,000 million-CHF1,100 million.

We anticipate the following principal liquidity uses over the same period:

- Debt maturities of about €785 million;
- Working capital outflows including seasonal working capital swing of about CHF150 million;
- Capex of about CHF500 million-CHF550 million;
- Dividends of about CHF285 million; and
- Share repurchases of CHF200 million.

Covenants

Avolta's RCF and bank loans require the company to maintain maximum reported net debt to EBITDA of 4.5x and minimum interest coverage of 3.0x. We expect the group will maintain healthy covenant headroom above 15% over the next 12 months.

Issue Ratings--Recovery Analysis

Key analytical factors

- We rate Avolta's senior unsecured notes, issued by Dufry One B.V., 'BB+' with a '3' recovery rating, indicating our expectation of meaningful recovery (50%-70%; rounded estimate: 65%) in a default scenario.
- Although the recovery outcome exceeds 65%, our criteria cap the recovery rating on the debt at '3' due to their unsecured nature. This accounts for the risk that additional prior- or equally ranking debt could be raised on the path to default.
- The issue rating is in line with the issuer credit rating on Avolta and the issue rating on its existing senior unsecured notes.
- The notes are guaranteed by the parent, Avolta AG, and its selected subsidiaries.
- Debt in the waterfall scenario includes CHF500 million 0.75% convertible notes due in March 2026, CHF300 million 3.625% notes due April 2026, €750 million 2.0% notes due in February 2027, €725 million 3.375% notes due in April 2028, and €500 million 4.75% notes due 2031.
- In our hypothetical default scenario, we assume negative regulatory changes and reduced airport travel following a natural disaster or terrorist event, combined with a recession in Europe and the U.S.
- We value the business as a going concern, given Avolta's leading market position in the duty-free travel retail market and its diverse global footprint.

Simulated default assumptions

- Year of default: 2030
- Jurisdiction: Switzerland

Simplified waterfall

- EBITDA at emergence: CHF618 million
- Implied enterprise value multiple: 6.0x
- Gross enterprise value (EV) at default: CHF3.7 billion
- Net EV after admin. costs (5%): CHF3.5 billion
- Priority claims: CHF145 million
- Estimated senior unsecured claim: CHF4.7 billion*
- Value available for senior secured claims: CHF3.4 billion
- Recovery rating: '3' (50%-70%; rounded estimate: 65%)

*All debt amounts include six months of prepetition interest. Includes CHF2.25 billion RCF assumed to be drawn at 85%.

Rating Component Scores

Rating Component Scores

Component	
Foreign currency issuer credit rating	BB+/STABLE/--
Local currency issuer credit rating	BB+/STABLE/--
Business risk	Satisfactory
Country risk	Intermediate Risk
Industry risk	Intermediate Risk
Competitive position	Satisfactory
Financial risk	Significant
Cash flow/leverage	Significant
Anchor	bbb-
Diversification/portfolio effect	Neutral/Undiversified
Capital structure	Neutral
Financial policy	Neutral
Liquidity	Adequate
Management and governance	Neutral
Comparable rating analysis	Negative
Stand-alone credit profile	bb+

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, Feb. 10, 2025
- Criteria | Corporates | General: Recovery Rating Criteria For Speculative-Grade Corporate Issuers, Dec. 7, 2016

- Criteria | Corporates | Recovery: Methodology: Jurisdiction Ranking Assessments, Jan. 20, 2016
- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024
- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Avolta AG Upgraded To 'BB+' On Strong Operating Performance And Integration of Autogrill; Outlook Stable, April 3, 2024

Ratings List

Ratings list	
Ratings Affirmed	
Avolta AG	
Issuer Credit Rating	BB+/Stable/--
Dufry One B.V.	
Senior Unsecured	BB+
Recovery Rating	3(65%)