RATING ACTION COMMENTARY

Fitch Revises Philadelphia Airport's Outlook to Positive; Affirms GARBs at 'A'

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Fitch Ratings - New York - 01 Sep 2023: Fitch Ratings has affirmed the 'A' rating on Philadelphia International Airport's (PHL) approximately $1.45 billion of general airport revenue and revenue refunding bonds (GARBs). The Rating Outlook has been revised to Positive from Stable. PHL has an additional $110.2 million of outstanding parity debt, which is a direct loan and is unrated by Fitch.

RATING ACTIONS

ENTITY / DEBT	RATING			PRIOR
Philadelphia International Airport (PA)				
Philadelphia (PA) /Airport Revenues/1 LT	LT	A Rating Outlook Positive	Affirmed	A Rating Outlook Stable

VIEW ADDITIONAL RATING DETAILS

RATING RATIONALE

The Positive Outlook reflects PHL's recently signed three-year residual airline use agreement (AUA). The agreement incorporates enhanced cash reserving mechanisms supportive of the airport's upcoming large capital plan (CDP), and demonstrates airline carriers' ongoing commitment to serving the airport and its service area.

While the airport expects to issue additional debt in support of its $1.8 billion capital plan over the next 10 years, leverage inclusive of near-term new borrowings remains low for an airport in the 'A' rating category. Should new borrowings cause leverage to increase materially above 9.0x on a sustained basis, or should future airline agreements indicate a shift in carrier support for the CDP, a return to a Stable Outlook may result. However, should traffic continue to recover, with carriers supportive of the CDP and leverage remaining below 9.0x as borrowings move forward, upward rating action may be warranted.

The 'A' rating reflects PHL's role as the main air service provider to a large and stable service area that generates a solid base of origination and destination (O&D) traffic, offset by a high degree of concentration in American Airlines (B+/Stable) and some connecting traffic exposure. The rating further reflects PHL's strong residual airline agreement which provides for full recovery of operating expenses and debt service costs but also results in narrow coverage and adequate liquidity levels. Overall, the strong AUA in conjunction with the importance of American Airlines' market share supports the current rating level.

KEY RATING DRIVERS

Revenue Risk - Volume - Stronger

PHL's service area is the large and stable Philadelphia MSA, which has typically provided approximately 10-11 million O&D enplanements annually prior to the coronavirus pandemic, though the airport has connecting traffic exposure of around 34% of total enplanements. PHL is also a leading connecting hub for American Airlines, which lends to sizable carrier concentration of around 65%. Service reduction risk is partially mitigated by American's long-standing presence at the airport. Traffic has been steadily increasing throughout fiscal 2022 and into 2023, reaching 83% of pre-pandemic levels, but recovery lags behind the national average due to airport's reliance on international traffic.

Revenue Risk - Price - Stronger

The airport's recently signed AUA runs through 2026 and features two one-year renewal options. While substantially similar to the prior AUA, the new agreement provides pre-approval for new capital funding in support of operations at PHL, allows for the establishment of more robust cash reserves, and provides for the set aside of additional reserve funding, which Fitch views positively given the airport's sizable capital program. PHL's cost per enplaned passenger (CPE) level has typically been maintained in the $14-$16 range and is expected to settle into the $18 range in Fitch's conservative rating case. The

rising costs over the next few years are mitigated in part by the airport's franchise strength and airline support for the capital program.

Infrastructure Dev. & Renewal - Midrange

The airport's most recent multi-year CDP is approximately $1.8 billion and focuses primarily on state of good repair projects on the airfield, terminal, taxiways, security and technology. The majority of the current CDP will be funded with proceeds from existing bonds and expected issuance of additional long-term debt starting in fiscal 2025 through 2032, with the remainder from PFC's and grants as well as a small amount of operating cash. The CDP projects and funding sources are subject to change based on the operational needs of the airport, and any deferred projects may commence after the projection period.

Debt Structure - 1 - Stronger

PHL benefits from all senior, fully amortizing debt issued as fixed-rate and synthetically fixed-rate, in addition to a $350 million commercial paper (CP) program. Structural features are viewed as adequate and protective to bondholders, with fully cash-funded debt reserves at maximum annual debt service (MADS) balanced with permissive rate covenants. Debt service obligations are expected to be elevated over historical levels over the intermediate term, and may increase as additional borrowings for the CPE come online.

Financial Profile

The airport has historically managed to narrow debt service coverage levels of around 1x (excluding fund balances) and has managed an improved liquidity position of around 400-500 days range in recent years. DSCR metrics are considered narrow relative to large hub peers yet adequate for airports with residual agreements, as the agreements limit bottom-line cash flow volatility. These narrow levels also limit PHL's ability to fund its capital plan without affecting the airline rate base. Fitch's conservative rating case expects leverage to decline slightly from the current levels of approximately 8.2x to approximately 7.5x by fiscal 2027.

PEER GROUP

Peer airports for PHL include Miami (A+/Stable) and Charlotte (AA-/Stable), both of which serve as hubs for American Airlines and exhibit carrier concentration and connecting traffic exposure. Charlotte's higher rating reflects significantly lower CPE and leverage, and stronger liquidity and debt service coverage, despite higher exposure to American Airlines'

hubbing operations. Miami has a stronger traffic base as a leading international gateway hub despite slightly higher leverage and CPE.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

--A material reduction in, or elimination of, American's hubbing activity, which reduces financial flexibility;

--Borrowings for the new capital plan that result in leverage metrics rising to and remaining at or above 12x on a sustained basis;

--Inability to maintain a minimum of 1x net revenue debt service coverage.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

Longer term, continued favorable trends in operational and financial performance resulting in leverage below 9x, inclusive of additional borrowings for the capital plan.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Sovereigns, Public Finance and Infrastructure issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579.

CREDIT UPDATE

The airport has experienced continued recovery from the coronavirus pandemic in fiscal 2022 and 2023, with enplanements increasing to 11.7 million in FY 2022, and a further increase of 14.5% in fiscal 2023 to 13.4 million (83% of 2019 levels), reflecting the restoration of capacity airlines to accommodate growing demand. The airport continues to serve as a major hub for American Airlines, which accounted for approximately 63% of the market share in fiscal 2023 and is the principal airline serving PHL. While enplanements

remain below pre-pandemic levels of approximately 16 million, management expects full volume recovery to 2019 levels by FY2025-2026 as international enplanements return. International enplanements for FY2024 are forecasted at 98% of FY2019 with close to full recovery in FY2025.

Overall, total airline revenues for FY 2022 declined by approximately 10.1%, while total non-airline revenues increased by 76.8% over FY2021 resulting in total operating revenues increasing by 11.4% to $321.2 million, with rental car, TNC's and parking significantly increasing over prior year due to the defeasance of PPA debt and an increased oversight of garages, as well as concessions tenants returning to minimum annual guarantees as of April 2023.

Total expenses rose by 5.5% in FY2022, reflecting higher personnel, contractual services and materials and supplies, as the airport continued to backfill retired staff and faced challenges leading to more use of outside vendors and increasing costs due to inflation and supply chain pressures. Debt service coverage as calculated by Fitch (including interdepartmental charges, excluding fund balance) remained relatively narrow at around 1.1x in FY2022. Leverage in FY 2022 was 8.2x, consistent with pre-pandemic levels.

The airport and signatory airlines have agreed to a three -year AUA agreement through June 2026, which includes two one-year extension options. The new AUA provides pre-approval of $935 million in new capital funding to support airport operations over the term of the agreement, and funding will be used for state of good repair work, upgrades throughout PHL's terminals, cargo program projects, and initial funding to support aviation-related development within the closed section of the PHL Economy Lot. The AUA also provides for the establishment of more robust cash reserves, increasing O&M reserves by up to $10 million annually, and allowing the airport to increase the balance in its O&M Account from 7% to 25% of annual operating expenses over the term of the agreement.

The most recent updated multi-year capital program covered in the airport's new Airline Use and Lease agreement will total $1.8 billion, including $935 million in new projects and $878 million carried over from the previous program, as $385 million has been completed to date. The airport anticipates the need for up to $566 million in additional debt over the 2024-2027 timeframe to fund the capital plan, which Fitch has incorporated into its cases.

FINANCIAL ANALYSIS

Fitch's cases incorporate new debt issuances totaling approximately $566 million phased in over the next five years for the capital plan, and planned uses of federal relief funds in

FY2023 and FY2024. Fitch's base case assumes enplanements are expected to reach 93% of 2019 levels in fiscal 2024, fully recover to 2019 levels by FY2025. CPE remains moderate averaging $15.35 throughout the forecast period (2023-2027). Non-airline revenues move broadly in relation to passenger traffic trends and airline revenues are adjusted to comply with the rate covenant and to provide for a minimum Fitch calculated coverage of 1.0x.

Operating expenses in the Fitch Base Case increase at a CAGR of 6.6%, with a particularly large increase in FY2024 due to higher personnel and contractual services costs. Including the expected future issuances, Fitch-calculated debt service coverage (excluding fund balances) averages 1.1x through 2027and leverage hovers in the 6-7x range, coming in at 7.1x in 2027.

Fitch's rating case contemplates a slower traffic recovery, such that 2019 enplanement levels are not achieved until fiscal 2027. As in the base case, airline revenues are adjusted to meet 1.0x coverage and non-airline revenues move in line with enplanements. Operating expenses grow at 100 bps more than the base case. Coverage and leverage are similar to the base case levels with DSCR averaging 1.0x and leverage remaining in 6-7x range, while CPE is expected to average $16.63 throughout the forecast period.

While the airport's enplanement recovery lags behind the national average, leverage metrics remain strong for the rating level. Fitch expects that a continuation of the current recovery trajectory, together with the PHL's residual airline lease and prudent expense management throughout the pandemic, will provide sound financial performance in the near term.

SECURITY

The bonds are secured by the net revenues generated through the operations of the airport. In addition, the airport may pledge certain passenger facility charge (PFC) revenues for eligible projects.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed

by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

FITCH RATINGS ANALYSTS

Victoria Babcock
Associate Director
Primary Rating Analyst
+1 646 582 4608
victoria.babcock@fitchratings.com
Fitch Ratings, Inc.
Hearst Tower 300 W. 57th Street New York, NY 10019

Seth Lehman
Senior Director
Secondary Rating Analyst
+1 212 908 0755
seth.lehman@fitchratings.com

Emma Griffith
Senior Director
Committee Chairperson
+1 212 908 9124
emma.griffith@fitchratings.com

MEDIA CONTACTS

Sandro Scenga
New York
+1 212 908 0278
sandro.scenga@thefitchgroup.com

Additional information is available on www.fitchratings.com

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APPLICABLE CRITERIA

Transportation Infrastructure Rating Criteria (pub. 16 May 2022) (including rating assumption sensitivity)

Infrastructure & Project Finance Rating Criteria (pub. 17 May 2023) (including rating assumption sensitivity)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

GIG AST Model, v1.3.1 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

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