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 include 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.
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