MOODY'S
INVESTORS SERVICE

Rating Action: Moody's affirms Dufry's B1 CFR, assigns B1 ratings to new notes; outlook stable

13 Apr 2021

London, 13 April 2021 -- Moody's Investors Service (Moody's) has today affirmed Dufry AG's (Dufry or the company) B1 Corporate Family Rating (CFR) and its B1-PD Probability of Default Rating (PDR). Concurrently, Moody's has affirmed the B1 backed senior unsecured ratings of Dufry One B.V. existing senior unsecured notes due in October 2024 and February 2027, and assigned B1 ratings to the proposed new backed senior unsecured notes expected to total an equivalent of approximately CHF 919 million, with maturities in 2026 and 2028. The outlook has been changed to stable from negative.

RATINGS RATIONALE

Today's rating action follows several credit positive developments in respect of the company's liquidity profile, which Moody's considers important in the context of the rating agency's expectation that the coronavirus pandemic will continue to severely constrain air travel in the months and years ahead. The severe hit to the company's credit metrics due to the pandemic means that Dufry is weakly positioned in the B1 rating category and as Moody's base case is that Dufry's revenues and profitability will remain below pre-pandemic levels until at least 2024 the rating agency expects the company's credit metrics will remain stretched for the B1 rating category during 2022, even factoring in a gradual recovery in air travel from the second half of 2021.

However, since publishing its 2020 results on 9 March Dufry has boosted its liquidity by completing the offering of CHF 500 million new convertible bonds due 2026. The resultant increase in the company's debt was largely offset by the 99.3% take up of an offer of voluntary incentivised conversion of CHF 350 million convertible notes issued last year. Furthermore, the company has received commitment letters, subject to final documentation, from over 66.6% by value of the lenders in respect of its term loans of EUR 500 million and USD 700 million to extend maturities by two years from November 2022 to November 2024. This would coincide with maturity of the EUR 1.3 billion revolving credit facility (RCF) that forms part of the same facility agreement, under which majority lenders (in respect of term loan and RCF commitments) have agreed to extend waivers to financial covenants until September 2022. The proceeds of the proposed new senior notes will facilitate a partial prepayment of the Euro and Dollar term loans.

These latest actions to bolster liquidity follow pro-active steps taken by the company during 2020 which - in addition to the CHF 350 million convertible bond issue - included gross equity proceeds of more than CHF 1 billion, as well as obtaining a CHF 397 million Liquidity Facility from certain of its lenders in April 2020.

The capital raising actions of last year meant that, despite total operational cash burn of CHF 1 billion in 2020 (which was itself limited thanks to various initiatives to cut operating expenses and capital spending), Dufry's reported net debt (excluding leases) at the year end was only around CHF 200 million higher than December 2019 at CHF 3.3 billion. Moody's notes however that while the company successfully negotiated amendments and/or waivers of Minimum Annual Guarantees (MAGs) in the concession agreements it has with airports, the company's lease liabilities increased by about CHF 1 billion to CHF 5.4 billion, and as such the company's gross debt increased to CHF 9.2 billion at the year end.

Notwithstanding still depressed air travel, the company's market capitalisation has recovered from the low point of about CHF 1 billion in March last year to more than CHF 5 billion, which is broadly in line with the pre-pandemic level. Moody's considers this recovery has been supported by development of coronavirus vaccines and clear pent up demand for a return to international travel by leisure travelers in particular. The rating agency also notes the significant commitments made by Advent International and Alibaba Group in the October equity raise, which points to a strong belief on the part of these investors in the long term viability of Dufry.

While there is still much uncertainty about the pace and shape of recovery for air travel Moody's base case is currently that Dufry's revenues in 2021 will be around 55% lower than in 2019, compared to the 70% shortfall in 2020. In its base case the rating agency expects the revenue shortfall against 2019 to only gradually reduce during 2022 and 2023 at minus 25% and 15% respectively. Cost control measures, a relatively flexible cost structure, and operational gearing would result in Moody's-adjusted EBITDA of about CHF 1.4 billion in 2022 in this scenario, more than double the agency's forecast for 2021.

In its base case Moody's calculates trailing twelve month gross leverage, measured as Moody's-adjusted Debt to EBITDA, will remain above 10x in 2021 before improving to around 6.5x by the end of 2022. The agency's latest forecasts are more pessimistic than those it produced last summer, when it had modeled a base case leverage of less than 7x in 2021, and around 5x in 2022, on the basis of Moody's-adjusted EBITDA approaching CHF 2 billion by then.

LIQUIDITY

Notwithstanding the slower recovery in profits than it previously anticipated Moody's expects Dufry's liquidity will remain adequate in the years ahead. The company has repeatedly demonstrated good access to the capital markets and finished 2020 with a cash balance of CHF 360 million as well as availability of CHF 985 million under its RCF, full availability of the CHF 397 million Liquidity Facility, and uncommitted facilities of CHF 104 million. While Moody's expects the Liquidity Facility will be cancelled in the months ahead the adverse impact of this on liquidity is more than offset by the proceeds of the new CHF 500 million convertible bonds and more than CHF 400 million of the proceeds of the new notes not earmarked to partially prepay the term loans.

In the company's scenario analysis for 2021 performance, published with its annual results, it estimated that average monthly cash burn would be about CHF 40 million if revenues were 55% behind 2019 levels (i.e. in line with Moody's Base Case). In a more optimistic minus 40% revenue scenario the company estimated free cash flow for 2021 would be broadly neutral. In Moody's modelling of a downside scenario with no improvement in revenues, the rating agency estimates monthly cash burn would be in the region of CHF 60 million, which means that it would take more than 18 months to deplete current available liquidity.

STRUCTURAL CONSIDERATIONS

Dufry's capital structure consists of a mixture of bonds and bank debt. All of the facilities, including the new senior notes and convertible notes issued by Dufry One B.V. are unsecured, with guarantees from the material holding companies within the group.

RATIONALE FOR STABLE OUTLOOK

The stable outlook factors in the company's adequate liquidity profile, strong access to capital markets, evidenced by a market capitalisation in line with the pre pandemic level, and its prospects to achieve gradually recovery in revenues and return to run rate credit metrics in 2022 that would be more typical for the B1 rating category.

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, positive rating pressure could build in the event that there is clear evidence of a sustainably improving trend in the company's profitability and cash generation driven by a sustained improvement in air passenger volumes towards historic levels. Quantitively, upward rating pressure would likely require expectations of Moody's-adjusted leverage of around 5x.

Conversely, Moody's could downgrade Dufry if Moody's expects the recovery towards pre pandemic airport passenger volumes will take longer than in its current base case or in the event that the company's liquidity is adversely affected by deeper and longer weakness in revenues 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 the pandemic continues to weigh on the company's credit quality. 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 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 64 countries across over 400 locations, operating about 2,400 shops in airports (90% of sales), as well cruise liners, seaports, railway stations and downtown tourist areas. The company reported revenues of CHF2.6 billion in 2020, down from CHF 8.8 billion in 2019.

Dufry is listed on the SIX Swiss Exchange with a free float of approximately 60% and a market capitalisation of around CHF5 billion, which is broadly similar to the level immediately before the escalation of the Coronavirus crisis in 2020.

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.

For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

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Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1243406 .

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

The Global Scale Credit Rating on this Credit Rating Announcement was issued by one of Moody's affiliates outside the EU and is endorsed by Moody's Deutschland GmbH, An der Welle 5, Frankfurt am Main 60322, Germany, in accordance with Art.4 paragraph 3 of the Regulation (EC) No 1060/2009 on Credit Rating Agencies. Further information on the EU endorsement status and on the Moody's office that issued the credit rating is available on www.moodys.com.

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