Research

Spain-Based Amadeus IT Holding 'BBB/A-2' Ratings Affirmed On Navitaire Acquisition; Outlook Stable

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- Spanish IT service provider Amadeus IT Holding S.A. has agreed to acquire Navitaire LLC, a U.S.-based airline IT provider, for $830 million.
- The acquisition will be 100% debt financed and will moderately increase Amadeus' debt-to-EBITDA ratio in 2015.
- We are affirming our 'BBB/A-2' ratings on Amadeus.
- The stable outlook reflects our expectation that the effect of the acquisition on Amadeus will be temporary, and that its leverage metrics will recover in 2016 on the back of its likely strong free operating cash flow generation.

LONDON (Standard & Poor's) July 7, 2015--Standard & Poor's Ratings Services today affirmed its 'BBB' long-term and 'A-2' short-term corporate credit ratings on Spain-based information technology (IT) service provider Amadeus IT Holding S.A. (Amadeus). The outlook is stable.

The affirmation follows Amadeus' 100% debt-financed acquisition of Navitaire LLC, a U.S.-based airline IT company, for $830 million, and reflects our opinion that the deal will be broadly neutral to Amadeus' credit quality over the next few years. The additional €830 million of debt will weaken the group's leverage (debt to EBITDA) in 2015, but we anticipate a recovery in 2016 as Amadeus continues to generate strong positive free operating cash flow (FOCF). We forecast that our adjusted debt-to-EBITDA ratio for the group will increase to about 2.2x in 2015, from 1.6x in 2014, and then decline below 2x in 2016.

In our base case, we assume:

- The Navitaire acquisition financed with $830 million of new debt. Navitaire contributes about $60 million of EBITDA annually to the enlarged group.
- Revenue growth of 6% in 2015 and 3% in 2016, supported by continued volume growth and market-share gains in the group's global distribution systems (GDS) segment and strong growth in its IT solutions segment.
- A dividend payout of 40%-50% of net income, in line with the group's public guidance.
- Bolt-on acquisitions of €200 million in 2016 and €150 million annually thereafter.

Based on these assumptions, we arrive at the following credit measures for Amadeus:

- EBITDA margin remaining stable at about 30%-32% in 2015 and 2016.
- Adjusted debt to EBITDA of 2.2x in 2015 and 1.9x in 2016.
- Adjusted funds from operations (FFO) to debt of 31% in 2015 and 35% in 2016.
- Adjusted FOCF to debt of 25% in 2015 and 28% in 2016.

The stable outlook on Amadeus reflects our expectation that the effect of the acquisition on the group will be temporary. We think that its leverage metrics will recover in 2016 on the back of its likely strong FOCF generation, supported by arevenue increase of about 6% in 2015, stemming from continued strong growth in its IT solutions segment and further market share gains in the GDS segment. We also anticipate that Amadeus will maintain an adjusted EBITDA margin of at least 30%, adjusted debt to EBITDA of less than 2.5x, and adjusted FOCF to debt of more than 20%.

We could lower the ratings on Amadeus if weaker-than-expected operating performance, or larger-than-anticipated acquisitions or shareholder returns, resulted in adjusted EBITDA margins far thinner than 30%, adjusted debt to EBITDA of more than about 2.5x, or adjusted FOCF to debt of less than 20% for a sustained period.

We consider an upgrade of Amadeus as unlikely at this stage, given the group's "satisfactory" business risk profile and the growth in revenues and earnings that we have already factored into our ratings. We might, however, consider raising the ratings if EBITDA and FOCF materially strengthened, and our credit ratios for Amadeus substantially exceeded those in our base case.

RELATED CRITERIA AND RESEARCH

- Corporate Methodology, Nov. 19, 2013
- Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012

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