S&P Global
Ratings

RatingsDirect®

Research Update:

Spain-Based Amadeus IT Holding Outlook Revised To Positive On Strong Operating Performance; 'BBB/A-2' Ratings Affirmed

Primary Credit Analyst:
Jessica Goldberg, Madrid (34) 91-788-7224; jessica.goldberg@spglobal.com

Secondary Contact:
Mark J Davidson, London (44) 20-7176-6306; mark.j.davidson@spglobal.com

Table Of Contents

Research Update:

Spain-Based Amadeus IT Holding Outlook Revised To Positive On Strong Operating Performance; 'BBB/A-2' Ratings Affirmed

Overview

- Amadeus IT Holding's metrics for financial year 2015 were stronger than we previously anticipated, and the group has consistently delivered strong operating performances.
- We expect Amadeus will continue generating solid earnings and free cash flow over 2016-2018, facilitating continued improvements of the group's core credit metrics, led by EBITDA and cash flow growth.
- In addition, we believe that the group's recent acquisition of Navitaire should enhance its business risk profile.
- We are therefore revising our outlook on Amadeus to positive from stable, and affirming our 'BBB/A-2' ratings.
- The positive outlook reflects our view of at least a one-in-three likelihood that we could raise the ratings over the next 12-24 months if the company maintains a conservative financial policy regarding debt-financed acquisitions and shareholders' remuneration plans.

Rating Action

On July 21, 2016, S&P Global Ratings revised its outlook on Spain-based Amadeus IT Holding (Amadeus) to positive from stable. At the same time, we affirmed our 'BBB' long-term and 'A-2' short-term corporate credit ratings on Amadeus. We also affirmed our issue ratings on the group's debt.

Rationale

The outlook revision reflects that Amadeus' metrics for financial year 2015 are stronger than we previously anticipated, and that the group has consistently posted healthy operating performances in the past few years. In addition, we believe that Amadeus' recent acquisition of travel technology company Navitaire LLC will strengthen its business risk profile by allowing the group to expand into the low-cost-carrier (LCC) and hybrid markets, under the IT solutions segment. We also anticipate that Navitaire will provide Amadeus integration opportunities for both its Altéa and New Skies customers, as well as further geographically diversify in the Americas. We expect Amadeus to continue generating solid earnings and free cash flow over 2016-2018.

Our assessment of Amadeus' business risk profile as satisfactory takes into account the group's solid market position as an IT service provider to the global travel industry, with leading positions in Europe and several emerging markets. Importantly, Amadeus' operating profitability, measured by EBITDA, demonstrates relatively low volatility, and its margins are notably above that of main peers Sabre Holding and Travelport. In addition, the group benefits from high barriers to entry in global travel distribution systems and IT services, which operate under medium- to long-term contracts. Our business risk profile assessment also incorporates our view of the travel industry's intermediate risk and intermediate country risk, with about 40% of revenues generated in Western Europe, 18% in Asia-Pacific, 17% in North America, 12% in Middle East and Central Europe, and the remaining in Latin America and Southern Europe.

Amadeus' modest financial risk profile, in our view, reflects its ability to consistently generate solid free operating cash flow, tempered by relatively high dividend distribution. Our expectation that Amadeus will maintain its EBITDA margins is based on its sound track record of successfully integrating acquisitions and capitalizing on efficiency gains.

As of Dec. 31, 2015, adjusted debt to EBITDA was 1.6x (excluding Navitaire), funds from operations (FFO) to debt of 45%, and free operating cash flow (FOCF) to debt of 37%. We expect these ratios to deteriorate slightly in 2016, pro forma for the recent Navitaire acquisition, but they should rebound in 2017 to the aforementioned 2015 levels. We remain cautious, however, because the group could use its financial flexibility to pursue additional acquisitions or make additional returns to shareholders versus what we assume in our base case, which could result in somewhat weaker debt metrics.

We anticipate that strong profitability, a relative flexible operating structure, and favorable working capital traits will enable Amadeus to continue generating solid cash flows over 2016-2018.

In our base-case operating scenario for Amadeus, we assume:
- Revenue growth of about 7%-9% in 2016 and 5%-7% in 2017, pro-forma for Navitaire, supported by continued volume growth and market-share gains in the group's GDS segment and strong double-digit growth in its IT solutions segment.
- Annual capital expenditures (capex) of about 12%-14% of revenues.
- A dividend payout of about 50% of net income, at the higher end of the group's public guidance.
- Bolt-on acquisitions of about €150 million annually.

Based on these assumptions, we arrive at the following credit measures, as adjusted by S&P Global Ratings:
- EBITDA margins remaining at about 30% in both 2016 and 2017, absent any unforeseen foreign exchange impact.
- Debt to EBITDA of 1.9x in 2016 and 1.6x in 2017.
- FFO to debt of 38% in 2016 and 43% in 2017.
- FOCF to debt of 30% in 2016 and 35% in 2017.

We apply a one-notch negative financial policy modifier. This reflects our belief that the group's debt-financed acquisitions and returns to shareholders could increase the current leverage profile from the stated 1.0x-1.5x target, excluding our adjustments.

We assess Amadeus' management and governance as strong. This mainly reflects our view of the group's sound track record in planning, strategy, and execution, as well as the experience of its broad management team.

Liquidity

The short-term rating on Amadeus is 'A-2'. We assess the group's liquidity as adequate, based on our estimate that Amadeus' sources to uses will remain above 1.2x over the 12 months started March 31, 2016. We anticipate that net liquidity will be positive even if EBITDA declines by 15%. Furthermore, we believe that Amadeus has a sound standing in both equity and debt capital markets and sound relationships with its banks.

We estimate the following principal liquidity sources over the 12 months started March 31, 2016:

- Cash and equivalents of about €469 million, as of Mar. 31, 2016;
- Available revolving credit facilities of €1 billion maturing in 2020 and 2021 as of March 31, 2016. We expect about €360 million to be drawn in July to repay outstanding bonds maturing; and
- Our expectation of about €1.2 billion of FFO.

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

- Reported short-term financial liabilities of about €785 million and short-term commercial paper of about €310 million;
- Capex of about €565 million;
- Our estimate of about €150 million in acquisitions; and
- Our estimate of €350 million in dividends.

In addition, Amadeus has ample headroom under the two financial covenants (maximum leverage of 3.0x and minimum interest coverage of 3.0x), which offer material leeway for operating underperformance or acquisition activity.

Outlook

The positive outlook reflects our view of at least a one-in-three likelihood that we could raise the ratings over the next 12-24 months if the company maintains low debt alongside a conservative financial policy in terms of shareholders' remunerations and leveraged acquisitions.

Upside scenario

An upgrade would hinge on Amadeus' ability to achieve FFO to debt above 45%, with debt to EBITDA remaining below 2.0x and FOCF to debt above 25%, while maintaining favorable acquisitions appetite and shareholders' remuneration. We would also look for continued organic growth, stable or slightly improving profitability, and the smooth integration of newly acquired companies.

Downside scenario

We could revise the outlook to stable or lower the ratings on Amadeus if weaker-than-anticipated operating performance or larger-than-expected acquisitions or shareholder returns resulted in adjusted debt to EBITDA of more than 3x, or adjusted FOCF to debt of less than 15% for a sustained period.

Ratings Score Snapshot

Corporate Credit Rating: BBB/Positive/A-2

Business risk: Satisfactory
- Country risk: Intermediate
- Industry risk: Intermediate
- Competitive position: Satisfactory

Financial risk: Modest
- Cash flow/Leverage: Modest

Anchor: bbb+

Modifiers
- Diversification/Portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Liquidity: Adequate (no impact)
- Financial policy: Negative (-1 notch)
- Management and governance: Strong (no impact)
- Comparable rating analysis: Neutral (no impact)

Related Criteria And Research

- General Criteria: Methodology For Linking Short-Term And Long-Term Ratings For Corporate, Insurance, And Sovereign Issuers - May 07, 2013
- General Criteria: Use Of CreditWatch And Outlooks - September 14, 2009
- Criteria - Corporates - Industrials: Key Credit Factors For The Technology Software And Services Industry - November 19, 2013
- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers - December 16, 2014
- Criteria - Corporates - Industrials: Key Credit Factors For The Leisure

And Sports Industry - March 05, 2014
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments - November 19, 2013
- Criteria - Corporates - General: Corporate Methodology - November 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers - November 13, 2012

Ratings List

Outlook Action; Ratings Affirmed

	To	From
Amadeus IT Holding S.A.		
Corporate Credit Rating	BBB/Positive/A-2	BBB/Stable/A-2

Ratings Affirmed

Amadeus Capital Markets S.A .Sociedad Unipersonal	
Senior Unsecured*	BBB
Amadeus Finance B.V.	
Senior Unsecured*	BBB
Commercial Paper*	A-2

*Guaranteed by Amadeus IT Holding S.A.

Additional Contact:
Industrial Ratings Europe; Corporate_Admin_London@standardandpoors.com