

Auckland Airport

1H21 Preview – COVID Casualty

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NEUTRAL

We expect Auckland Airport (AIA) to report a challenged 1H21 result on 18 February 2021, with its first underlying NPAT loss since listing in 1998, though this result is unlikely to mean much when considering the forward earnings profile of the company. The monumental decline in international passengers (pax), to which AIA is more leveraged than domestic pax, will result in a significant decline in airport business revenue and EBITDAFI. In contrast, we expect AIA's property business to exhibit more defensive performance with assistance from the first time inclusion of the new Foodstuffs facility. The pax recovery outlook remains highly uncertain, with NZ border restrictions likely to be enforced at least for another 12 months.

NZX Code	AIA	Financials: Jun/	20A	21E	22E	23E	Valuation (x)	20A	21E	22E	23E
Share price	NZ\$7.10	NPAT* (NZ\$m)	203.5	0.0	188.4	238.5	PE	44.6	n/a	55.5	43.8
Target price	NZ\$6.90	EPS* (NZc)	15.9	0.0	12.8	16.2	EV/EBIT	44.0	n/a	38.6	32.4
Risk rating	Low	EPS growth* (%)	-30.2	n/a	n/a	26.6	EV/EBITDA	31.2	70.8	27.7	23.8
Issued shares	1472.0m	DPS (NZc)	0.0	0.0	5.1	13.0	Price / NTA	1.4	1.6	1.6	1.5
Market cap	NZ\$10,451m	Imputation (%)	100	100	100	100	Cash div yld (%)	0.0	0.0	0.7	1.8
Avg daily turnover	2,389k (NZ\$15,692k)	*Based on normalised profits					Gross div yld (%)	0.0	0.0	1.0	2.5

Key issues

- **EBITDAFI run rate:** At its ASM in October 2020 the company suggested that EBITDAFI had averaged ~NZ\$10m per month through July-September, despite the impact on domestic pax through the second Auckland lockdown during August and September. We expect the EBITDAFI run-rate to have strengthened further into the holiday season.
- **Opex:** Following cost-cutting in March/April 2020 annualised opex should now be NZ\$120m–NZ\$130m while borders remain closed. This will likely increase as the pax recovery takes hold but may not peak at the pre COVID-19 opex level.
- **Property revenue:** Revenue derived from the new Foodstuffs facility will begin in 1H21 and increase through 2H21.
- **Border controls insight:** Scope for two-way travel bubbles continues to exist with Pacific Islands and Australia, though the risk averse nature of the New Zealand Government may delay implementation, or limit scope, of the latter until domestic vaccinations are well advanced.
- **Capex outlook:** We expect AIA to provide general commentary on its revised capex path with delays to key projects likely until a clearer picture evolves for border reopenings and the pax recovery.

Conference call details

Management will host an investor conference call at 10am on 18 February 2021. Investors need to register for the call via the following link: <http://apac.directeventreg.com/registration/event/1358088>

Figure 1. Summary of 1H21 forecasts (NZ\$m)

	1H20	1H21E	Change
Sales revenue	374.7	134.0	-64.2%
EBITDAFI	279.2	70.6	-74.7%
Depreciation	(55.4)	(58.9)	6.3%
Underlying NPAT	139.9	(13.2)	-109.4%
Underlying EPS (cents)	11.5	(0.9)	-107.8%
Final DPS (cents)	0.00	0.0	n/a

Source: Forsyth Barr analysis

Figure 2. Segmental revenue forecasts (NZ\$m)

	1H20	1H21E	Change
Aeronautical	167.3	54.4	-67.5%
Retail	113.6	3.6	-96.8%
Property	50.2	53.2	6.0%
Car Park	34.3	17.7	-48.5%
Other	9.3	5.2	-44.4%
Revenue	374.7	134.0	-64.2%

Source: Forsyth Barr analysis

Auckland International Airport Ltd (AIA)

Priced as at 11 Feb 2021 (NZ\$)

7.10

12-month target price (NZ\$)*

6.90

Expected share price return

-2.8%

Net dividend yield

0.5%

Estimated 12-month return

-2.3%

Spot valuations (NZ\$)

1. DCF

6.54

2. n/a

n/a

3. n/a

n/a

Key WACC assumptions

Risk free rate

1.30%

Equity beta

0.86

WACC

5.1%

Terminal growth

1.5%

DCF valuation summary (NZ\$m)

Total firm value

11,046

(Net debt)/cash

(1,423)

Less: Capitalised operating leases

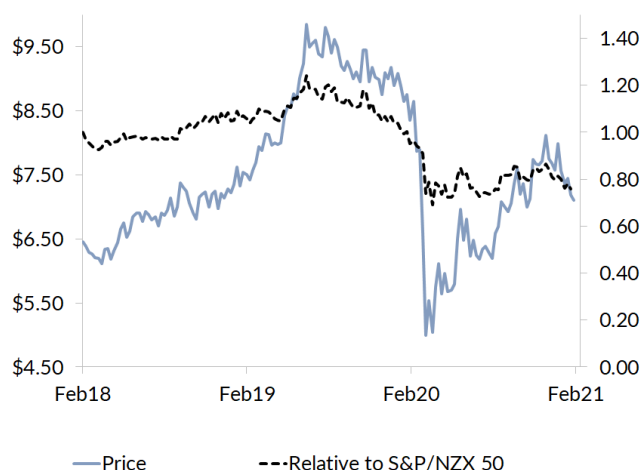
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Value of equity

9,623

Profit and Loss Account (NZ\$m)	2019A	2020A	2021E	2022E	2023E	Valuation Ratios	2019A	2020A	2021E	2022E	2023E
Sales revenue	743.4	567.0	303.0	588.2	680.4	EV/EBITDA (x)	22.3	31.2	70.8	27.7	23.8
Normalised EBITDA	554.8	388.0	166.5	429.0	499.5	EV/EBIT (x)	27.4	44.0	>100x	38.6	32.4
Depreciation and amortisation	(102.2)	(112.7)	(117.7)	(121.9)	(132.8)	PE (x)	31.2	44.6	n/a	55.5	43.8
Normalised EBIT	452.6	275.3	48.8	307.2	366.8	Price/NTA (x)	1.4	1.4	1.6	1.6	1.5
Net interest	(78.5)	(71.8)	(55.3)	(53.0)	(44.0)	Free cash flow yield (%)	0.5	-1.9	-1.4	-0.5	-1.3
Associate income	8.2	8.4	6.5	7.5	8.5	Net dividend yield (%)	3.1	0.0	0.0	0.7	1.8
Tax	(109.2)	2.2	0.0	(73.3)	(92.8)	Gross dividend yield (%)	4.4	0.0	0.0	1.0	2.5
Minority interests	0	0	0	0	0						
Normalised NPAT	274.7	203.5	(0.0)	188.4	238.5	Capital Structure	2019A	2020A	2021E	2022E	2023E
Abnormals/other	(248.8)	9.6	0	0	0	Interest cover EBIT (x)	5.8	3.8	0.9	5.8	8.3
Reported NPAT	523.5	193.9	(0.0)	188.4	238.5	Interest cover EBITDA (x)	7.1	5.4	3.0	8.1	11.4
Normalised EPS (cps)	22.8	15.9	(0.0)	12.8	16.2	Net debt/ND+E (%)	26.3	17.2	18.8	19.5	21.4
DPS (cps)	22.3	0	0	5.1	13.0	Net debt/EBITDA (x)	3.9	3.6	9.2	3.8	3.7
Growth Rates	2019A	2020A	2021A	2022A	2023A	Key Ratios	2019A	2020A	2021E	2022E	2023E
Revenue (%)	8.7	-23.7	-46.6	94.1	15.7	Return on assets (%)	5.2	3.0	0.5	3.3	3.9
EBITDA (%)	9.6	-30.1	-57.1	>100	16.4	Return on equity (%)	4.6	3.1	0.0	2.8	3.5
EBIT (%)	8.4	-39.2	-82.3	>100	19.4	Return on funds employed (%)	11.0	7.4	0.9	5.6	6.3
Normalised NPAT (%)	4.4	-25.9	n/a	n/a	26.6	EBITDA margin (%)	74.6	68.4	54.9	72.9	73.4
Normalised EPS (%)	3.6	-30.2	n/a	n/a	26.6	EBIT margin (%)	60.9	48.6	16.1	52.2	53.9
Ordinary DPS (%)	2.3	-100.0	n/a	n/a	>100	Capex to sales (%)	43.1	66.4	85.8	59.5	73.5
						Capex to depreciation (%)	313	334	221	287	377
Cash Flow (NZ\$m)	2019A	2020A	2021E	2022E	2023E	Imputation (%)	100	100	100	100	100
EBITDA	554.8	388.0	166.5	429.0	499.5	Pay-out ratio (%)	98	0	0	40	80
Working capital change	(48.6)	18.0	(6.5)	(7.5)	(8.5)						
Interest & tax paid	(187.7)	(69.6)	(55.3)	(126.3)	(136.7)	Operating Performance	2019A	2020A	2021E	2022E	2023E
Other	57.4	(160.6)	6.5	7.5	8.5	Aeronautical	342.2	262.3	120.3	261.4	306.4
Operating cash flow	375.9	175.8	111.2	302.7	362.8	Consumer	301.3	201.9	69.7	208.2	249.8
Capital expenditure	(320.1)	(376.6)	(260.0)	(350.0)	(500.0)	Property	94.7	97.0	107.2	112.6	118.1
(Acquisitions)/divestments	(0.8)	(23.1)	0	0	0	Other	5.2	5.8	5.9	6.0	6.2
Other	(7.0)	(11.8)	(13.9)	(12.0)	(15.0)	Sales revenue	743.4	567.0	303.0	588.2	680.4
Funding available/(required)	48.0	(235.7)	(162.7)	(59.2)	(152.2)	Aeronautical	252.1	167.2	55.3	189.4	226.4
Dividends paid	(192.4)	(89.4)	6.5	(30.2)	(86.9)	Consumer	269.0	173.1	44.7	181.2	219.8
Equity raised/(returned)	0	1,178.1	0	0	0	Property	72.2	75.0	83.6	86.7	89.7
(Increase)/decrease in net debt	(144.4)	853.0	(156.2)	(89.4)	(239.1)	Other	(38.5)	(27.3)	(17.1)	(28.2)	(36.4)
						EBITDAFI	554.8	388.0	166.5	429.0	499.5
Balance Sheet (NZ\$m)	2019A	2020A	2021E	2022E	2023E	International pax growth (%)	3.0	-26.3	-72.8	250.0	14.3
Working capital	(33.4)	(38.5)	(48.2)	(93.5)	(108.2)	Transits (%)	-1.2	-1.2	-93.5	n/a	14.3
Fixed assets	6,577.1	6,060.8	6,083.1	6,211.2	6,478.4	Domestic pax growth (%)	3.6	-26.5	-31.9	50.0	20.0
Intangibles	0	0	0	0	0						
Right of use asset	0	0	0	0	0	Aero income per pax change	1.3	4.8	6.3	5.7	8.7
Other assets	2,013.7	2,403.3	2,529.8	2,637.3	2,745.8	Retail sales per int'l pax change	15.5	-14.9	0.0	0.0	0.0
Total funds employed	8,557.4	8,425.6	8,564.7	8,754.9	9,116.0	Car park income per pax change	1.7	6.6	0.0	24.0	0.4
Net debt/(cash)	2,153.1	1,379.9	1,536.1	1,625.5	1,864.6	Yield on property BV (%)	6.8	5.7	5.5	5.5	5.5
Lease liability	0	0	0	0	0						
Other liabilities	371.4	408.6	408.6	408.6	408.6	Int'l aircraft numbers ('000)	57.1	45.0	14.3	44.8	48.5
Shareholder's funds	6,032.9	6,637.1	6,620.0	6,720.9	6,842.8	Domestic aircraft numbers ('000)	121.7	94.2	64.0	92.2	109.3
Minority interests	0	0	0	0	0						
Total funding sources	8,557.4	8,425.6	8,564.7	8,754.9	9,116.0						

* Forsyth Barr target prices reflect valuation rolled forward at cost of equity less the next 12-months dividend

Figure 3. Price performance


Source: Forsyth Barr analysis

Figure 4. Substantial shareholders

Shareholder	Latest Holding
Auckland City Council	18.1%
BlackRock Investment Management	5.0%

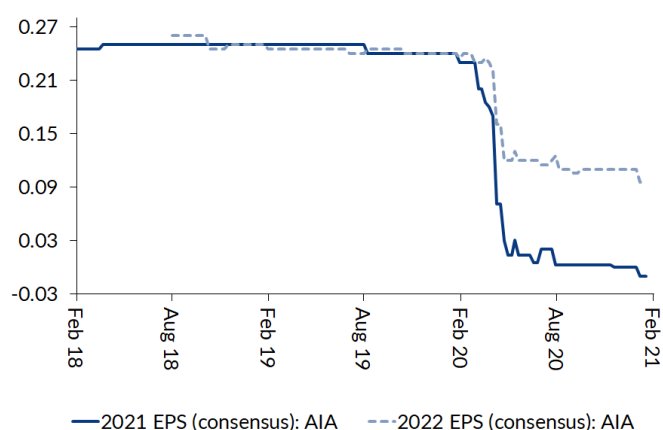
Source: NZX, Forsyth Barr analysis, NOTE: based on SPH notices only

Figure 5. International valuation comparisons

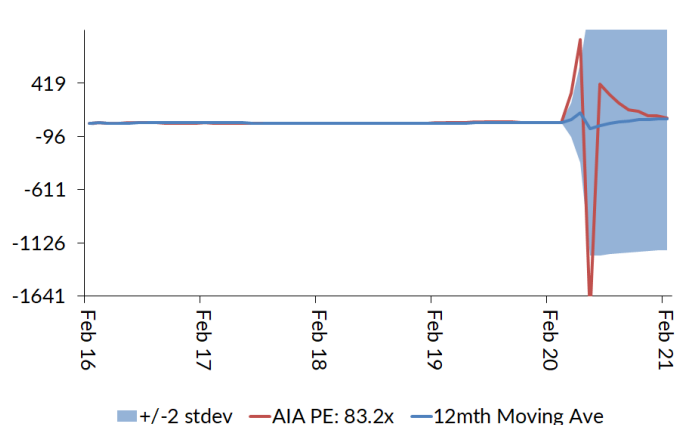
Company	Code	Price	Mkt Cap (m)	PE 2021E	PE 2022E	EV/EBITDA 2021E	EV/EBITDA 2022E	EV/EBIT 2021E	EV/EBIT 2022E	Cash Yld 2022E
(metrics re-weighted to reflect AIA's balance date - June)										
Auckland Airport	AIA NZ	NZ\$7.10	NZ\$10,451	<0x	>50x	71.1x	27.6x	>75x	38.5x	0.7%
SYDNEY AIRPORT	SYD AT	A\$5.74	A\$15,491	<0x	<0x	51.8x	32.8x	<0x	>75x	2.8%
MALAYSIA AIRPORTS HLDGS BHD	MAHB MK	RM5.47	RM9,076	<0x	<0x	26.3x	9.1x	<0x	23.9x	1.2%
FLUGHAFEN WIEN AG	FLU AV	€28.90	€2,428	<0x	<0x	34.0x	14.6x	>75x	>75x	0.9%
FLUGHAFEN ZURICH AG-REG	FHZN SW	CHF152.10	CHF4,670	30.0x	>50x	26.2x	13.6x	<0x	40.5x	2.0%
FRAPORT AG FRANKFURT AIRPORT	FRA GY	€46.80	€4,328	<0x	<0x	<0x	14.8x	>75x	>75x	1.5%
AIRPORTS OF THAILAND PCL	AOT TB	THB63.75	THB910,713	<0x	7.1x	<0x	<0x	<0x	7.5x	0.6%
BEIJING CAPITAL INTL AIRPO-H	694 HK	CN¥5.46	CN¥25,002	8.3x	35.6x	33.0x	10.0x	4.0x	23.9x	2.0%
Compco Average:				19.2x	21.4x	34.3x	15.8x	4.0x	24.0x	1.6%
AIA Relative:				n/a	n/a	107%	74%	n/a	61%	-54%

EV = Current Market Cap + Actual Net Debt

Source: *Forsyth Barr analysis, Bloomberg Consensus, Compco metrics re-weighted to reflect headline (AIA) companies fiscal year end

Figure 6. Consensus EPS momentum (NZ\$)


Source: Forsyth Barr analysis

Figure 7. One year forward PE (x)


Source: Forsyth Barr analysis

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