

# Auckland Airport

## 1H20 Preview — Bunkering Down

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### UNDERPERFORM

We expect Auckland Airport (AIA) will report a flattish 1H20 result on 20 February 2020, characterised by a slowdown in revenue growth given weaker international passenger growth and lower aeronautical charges. In response we expect evidence of operating expense control. In light of the coronavirus outbreak, passenger (pax) growth will be impacted in 2H20; therefore we see downside risk to the company's NPAT guidance band (NZ\$265m-NZ\$275m), which is already pressured by softer than anticipated pax growth through 1H20.

NZX Code	AIA	Financials: Jun/	19A	20E	21E	22E	Valuation (x)	19A	20E	21E	22E
Share price	NZ\$8.55	NPAT* (NZ\$m)	274.7	271.2	269.1	272.1	EV/EBITDA	22.1	22.4	22.0	20.9
Target price	NZ\$7.90	EPS* (NZc)	22.8	22.3	22.0	22.1	EV/EBIT	27.1	28.0	28.3	27.8
Risk rating	Low	EPS growth* (%)	3.6	-2.0	-1.4	0.5	PE	37.5	38.3	38.9	38.7
Issued shares	1207.0m	DPS (NZc)	22.2	22.2	22.2	22.2	Price / NTA	1.7	1.7	1.7	1.7
Market cap	NZ\$10,320m	Imputation (%)	100	100	100	100	Cash div yld (%)	2.6	2.6	2.6	2.6
Avg daily turnover	1,101k (NZ\$9,635k)	*Based on normalised profits					Gross div yld (%)	3.6	3.6	3.6	3.6

### Key issues to consider at AIA's FY20 result

- **Pax growth outlook:** AIA experienced a -0.5% decline in international pax excluding transits for the five months to November. It reports December traffic statistics on 19 February, which we expect will show a mild improvement in light of robust Air New Zealand international performance. However, the outlook for 2H20 will be depressed. A reduction in Chinese capacity will bite — each month that capacity is cut to all Chinese airports impacts the half yearly total international seat capacity for AIA by ~1.3%.
- **Opex control:** In light of slower earnings growth, we expect management has applied greater cost control across its opex buckets. In particular marketing, promotions and professional costs. Staff cost pressure should also ease given the share price hiatus.
- **Capex:** AIA is due to update investors on its capex development pipeline in light of a more subdued pax growth backdrop and the withdrawal of Jetstar from the regional market. The 1H20 result may be too early for this and we may need to wait until the investor day, which was deferred from November last year.

### Conference call details

Management will host a 1H20 result conference call at 11.00am on 20 February 2020. Dial in: New Zealand: 0800 667 009, Australia: 1 800 149 568, Passcode: 4682676

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

	1H19	1H20E	Change
Sales revenue	370.6	375.1	1.2%
EBITDAFI	277.1	279.3	0.8%
Depreciation	(50.0)	(55.0)	10.0%
Net interest	(40.1)	(40.0)	-0.2%
<b>Underlying NPAT</b>	<b>136.9</b>	<b>135.9</b>	<b>-0.8%</b>
Underlying EPS (cents)	11.4	11.2	-1.6%
Final DPS (cents)	11.0	11.0	0.0%

Source: AIA, Forsyth Barr analysis

**Figure 2. EBITDAFI forecasts (NZ\$m)**

	1H19	1H20E	Change
Airfield income	64.3	62.6	-2.7%
Passenger Service Charge	93.3	90.5	-3.0%
Retail income	110.8	115.2	4.0%
Property income	47.1	50.9	8.0%
Car Park income	32.9	32.9	0.0%
Other income	(71.3)	(72.9)	2.2%
<b>EBITDAFI</b>	<b>277.1</b>	<b>279.3</b>	<b>0.8%</b>

Source: AIA, Forsyth Barr analysis

## Auckland International Airport Ltd (AIA)

Priced as at 13 Feb 2020 (NZ\$)

8.55

### 12-month target price (NZ\$)\*

7.90

Expected share price return

-7.6%

Net dividend yield

2.6%

Estimated 12-month return

-5.0%

### Spot valuations (NZ\$)

1. DCF

6.40

2. Sum of the parts

8.87

3. n/a

n/a

### Key WACC assumptions

Risk free rate

2.00%

Equity beta

0.80

WACC

6.4%

Terminal growth

2.0%

### DCF valuation summary (NZ\$m)

Total firm value

9,967

(Net debt)/cash

(2,238)

Less: Capitalised operating leases

Value of equity

7,729

Profit and Loss Account (NZ\$m)	2018A	2019A	2020E	2021E	2022E	Valuation Ratios	2018A	2019A	2020E	2021E	2022E
Sales revenue	683.9	743.4	751.7	781.7	820.0	EV/EBITDA (x)	24.0	22.1	22.4	22.0	20.9
<b>Normalised EBITDA</b>	<b>506.4</b>	<b>554.8</b>	<b>557.9</b>	<b>576.3</b>	<b>605.2</b>	EV/EBIT (x)	29.1	27.1	28.0	28.3	27.8
Depreciation and amortisation	(88.9)	(102.2)	(110.7)	(128.2)	(149.9)	PE (x)	38.9	37.5	38.3	38.9	38.7
<b>Normalised EBIT</b>	<b>417.5</b>	<b>452.6</b>	<b>447.2</b>	<b>448.0</b>	<b>455.3</b>	Price/NTA (x)	1.8	1.7	1.7	1.7	1.7
Net interest	(77.2)	(78.5)	(79.2)	(83.4)	(87.1)	Free cash flow yield (%)	-0.6	0.5	-1.1	-2.4	-2.2
Associate income	8.5	8.2	8.7	9.2	9.8	Net dividend yield (%)	2.5	2.6	2.6	2.6	2.6
Tax	(217.7)	(109.2)	(105.5)	(104.7)	(105.8)	Gross dividend yield (%)	3.5	3.6	3.6	3.6	3.6
Minority interests	-	-	-	-	-						
<b>Normalised NPAT</b>	<b>263.1</b>	<b>274.7</b>	<b>271.2</b>	<b>269.1</b>	<b>272.1</b>	<b>Capital Structure</b>	<b>2018A</b>	<b>2019A</b>	<b>2020E</b>	<b>2021E</b>	<b>2022E</b>
Abnormals/other	(387.0)	(248.8)	-	-	-	Interest cover EBIT (x)	5.4	5.8	5.6	5.4	5.2
<b>Reported NPAT</b>	<b>650.1</b>	<b>523.5</b>	<b>271.2</b>	<b>269.1</b>	<b>272.1</b>	Interest cover EBITDA (x)	6.6	7.1	7.0	6.9	6.9
Normalised EPS (cps)	22.0	22.8	22.3	22.0	22.1	Net debt/ND+E (%)	25.6	26.3	28.9	32.4	33.0
DPS (cps)	21.8	22.3	22.3	22.3	22.3	Net debt/EBITDA (x)	3.9	3.9	4.4	5.1	5.2
Growth Rates	2018A	2019A	2020A	2021A	2022A	Key Ratios	2018A	2019A	2020E	2021E	2022E
Revenue (%)	8.7	8.7	1.1	4.0	4.9	Return on assets (%)	5.1	5.2	4.9	4.7	4.5
EBITDA (%)	7.0	9.6	0.6	3.3	5.0	Return on equity (%)	4.6	4.6	4.5	4.4	4.3
EBIT (%)	5.6	8.4	-1.2	0.2	1.6	Return on funds employed (%)	12.3	11.0	9.6	8.6	7.7
Normalised NPAT (%)	6.2	4.4	-1.3	-0.8	1.1	EBITDA margin (%)	74.0	74.6	74.2	73.7	73.8
Normalised EPS (%)	5.6	3.6	-2.0	-1.4	0.5	EBIT margin (%)	61.0	60.9	59.5	57.3	55.5
Ordinary DPS (%)	6.1	2.3	0.0	0.0	0.0	Capex to sales (%)	56.6	43.1	64.9	81.9	78.0
						Capex to depreciation (%)	436	313	441	499	427
						Imputation (%)	100	100	100	100	100
						Pay-out ratio (%)	99	98	100	101	101
Cash Flow (NZ\$m)	2018A	2019A	2020E	2021E	2022E	Operating Performance	2018A	2019A	2020E	2021E	2022E
<b>EBITDA</b>	<b>506.4</b>	<b>554.8</b>	<b>557.9</b>	<b>576.3</b>	<b>605.2</b>	Aeronautical	328.5	342.2	334.4	348.1	366.6
Working capital change	(12.3)	(48.6)	(8.7)	(9.2)	(9.8)	Consumer	263.0	301.3	308.8	318.6	332.8
Interest & tax paid	(294.9)	(187.7)	(184.7)	(188.1)	(192.9)	Property	86.1	94.7	103.2	109.6	115.1
Other	122.0	57.4	8.7	9.2	9.8	Other	6.3	5.2	5.3	5.4	5.5
<b>Operating cash flow</b>	<b>321.2</b>	<b>375.9</b>	<b>373.3</b>	<b>388.2</b>	<b>412.2</b>	<b>Total sales revenue</b>	<b>683.9</b>	<b>743.4</b>	<b>751.7</b>	<b>781.7</b>	<b>820.0</b>
Capital expenditure	(387.4)	(320.1)	(488.0)	(640.0)	(640.0)	Aeronautical	239.9	252.1	244.4	255.0	269.5
(Acquisitions)/divestments	347.3	(0.8)	-	-	-	Consumer	232.6	269.0	274.8	283.6	296.2
Other	(8.8)	(7.0)	(7.3)	(12.4)	(15.1)	Property	65.5	72.2	78.9	83.9	88.0
<b>Funding available/(required)</b>	<b>272.3</b>	<b>48.0</b>	<b>(122.1)</b>	<b>(264.2)</b>	<b>(242.8)</b>	<b>Total EBITDAFI</b>	<b>506.4</b>	<b>554.8</b>	<b>557.9</b>	<b>576.3</b>	<b>605.2</b>
Dividends paid	(182.8)	(192.4)	(180.6)	(195.0)	19.8	International pax growth (%)	4.7	3.0	1.0	2.0	3.5
Equity raised/(returned)	-	-	-	-	-	Transits (%)	-1.2	-1.2	-15.0	2.0	3.5
<b>(Increase)/decrease in net debt</b>	<b>89.5</b>	<b>(144.4)</b>	<b>(302.7)</b>	<b>(459.2)</b>	<b>(223.1)</b>	Total int'l pax growth (%)	4.7	3.0	1.0	2.0	3.5
						Domestic pax growth (%)	7.7	3.6	-2.0	3.0	3.0
Balance Sheet (NZ\$m)	2018A	2019A	2020E	2021E	2022E	Aero income per pax change	-2.4	1.3	-0.7	-0.1	2.4
Working capital	(76.3)	(33.4)	(119.5)	(124.3)	(130.4)	Retail sales per int'l pax change	12.1	15.5	3.0	1.0	1.0
Fixed assets	6,378.0	6,577.1	6,814.4	7,226.1	7,616.2	Car park income per pax change	1.6	1.8	1.0	1.0	1.0
Intangibles	-	-	-	-	-	Yield on property BV (%)	7.4	6.8	6.6	6.5	6.4
Right of use asset	-	-	-	-	-						
Other assets	1,640.4	2,013.7	2,162.4	2,271.6	2,381.4	Int'l aircraft numbers ('000)	55.7	57.1	56.3	56.9	58.3
<b>Total funds employed</b>	<b>7,942.1</b>	<b>8,557.4</b>	<b>8,857.3</b>	<b>9,373.5</b>	<b>9,867.2</b>	Domestic aircraft numbers ('000)	118.6	121.7	117.8	119.8	121.9
Net debt/(cash)	1,953.6	2,153.1	2,455.8	2,915.0	3,138.1						
Lease liability	-	-	-	-	-						
Other liabilities	306.4	371.4	371.4	371.4	371.4						
Shareholder's funds	5,682.1	6,032.9	6,030.0	6,087.0	6,357.8						
Minority interests	-	-	-	-	-						
<b>Total funding sources</b>	<b>7,942.1</b>	<b>8,557.4</b>	<b>8,857.3</b>	<b>9,373.5</b>	<b>9,867.2</b>						

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

## Investment Summary

Auckland Airport (AIA) is New Zealand's premier airport and provides Air New Zealand with a domestic and international hub. It is very profitable given strong concession based commercial assets. It is part way through a major 10-year plus capex programme, which will facilitate longer term growth. Despite the support from attractive return on capital in AIA's non-regulated commercial assets and low prevailing Government bond rates, its valuation is stretched. Moreover earnings risk is to the downside, in our opinion. **UNDERPERFORM.**

### Business quality

- **Hub-airport:** AIA is New Zealand's key international gateway and accounts for ~90% of all long-haul passengers (pax) arriving in New Zealand. Its available land provides scope to increase capacity over the next 30+ years.
- **Multi-pronged strategy:** AIA has three key income streams — (i) aeronautical (regulated); (ii) commercial, which incorporates retail and car parking; and (iii) development property.
- **Track record:** AIA has created value in recent years through route development activities, expanding its retail footprint to optimise passenger spend and concession rates, and developing property.

### Earnings and cashflow outlook

- **Slower phase of earnings:** The growth outlook for the next three years is impacted by subdued aeronautical income and reversion to mean for pax growth after a recent boom. Earnings growth should accelerate from FY23.
- **Aeronautical income:** AIA resets its aeronautical prices every five years which are subject to regulatory oversight from the Commerce Commission (ComCom). The current price path prescribes subdued aeronautical income growth through to FY22.

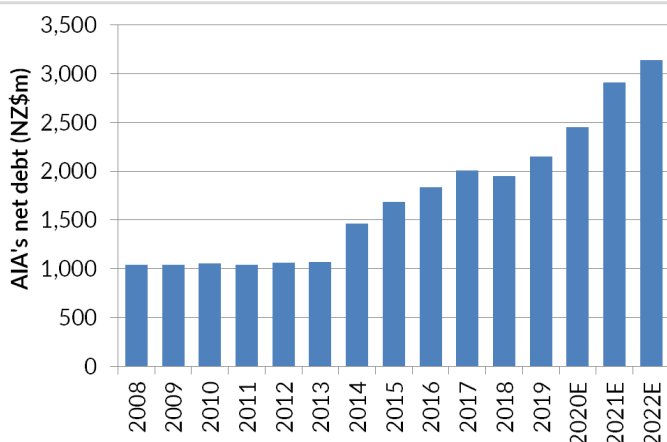
### Financial structure

- **Balance sheet:** AIA is in the midst of a major capex bulge given the need to build capacity. AIA expects to spend ~NZ\$3.0bn over the next five years.
- **Dividends:** It has a 100% dividend pay-out rate and has a dividend reinvestment plan in place.

### Risk factors

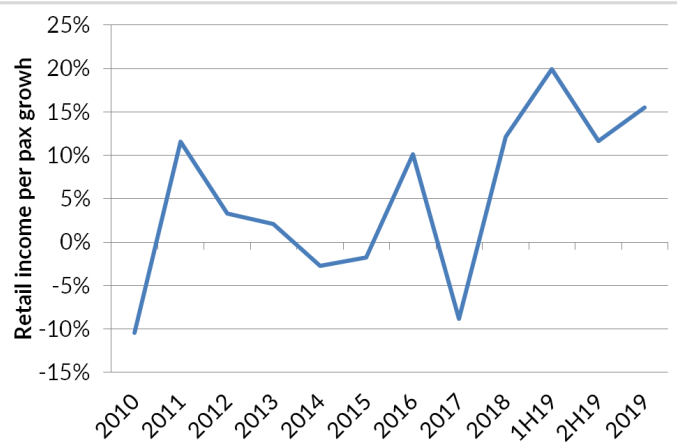
- **Rising bond yields:** AIA trades as a bond proxy. Its valuation holds a very strong inverse relationship with bond yields.
- **Regulatory risk:** We expect AIA to lower current aeronautical prices to ease any regulatory pressure given its mixed ComCom report last year.

**Figure 3. Increasing debt burden at AIA**

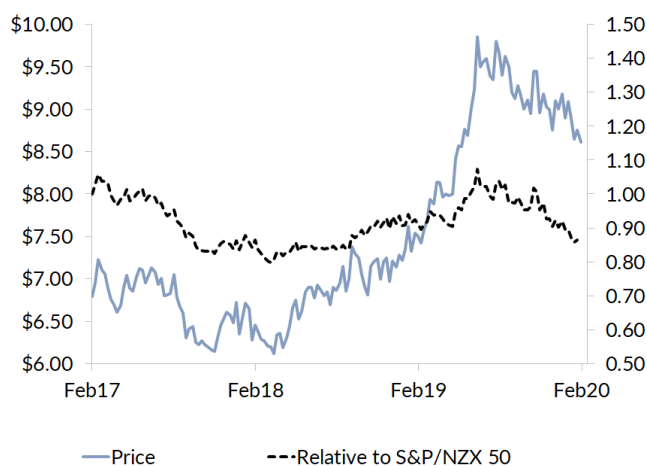


Source: AIA, Forsyth Barr analysis

**Figure 4. Retail income per international pax growth**



Source: AIA, Forsyth Barr analysis

**Figure 5. Price performance**


Source: Forsyth Barr analysis

**Figure 6. Substantial shareholders**

Shareholder	Latest Holding
Auckland City Council	22.1%
BlackRock Investment Management	5.0%

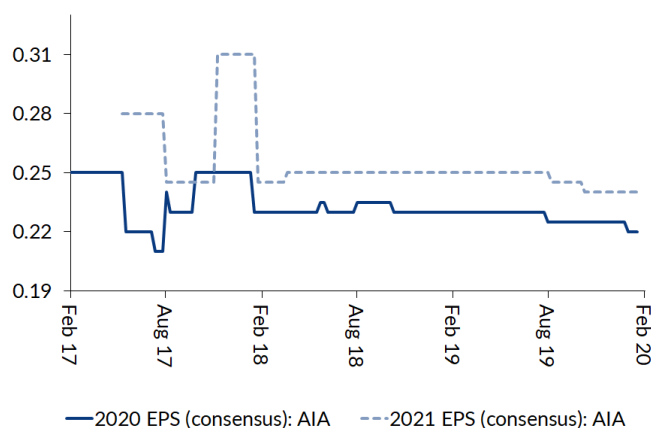
Source: NZX, Forsyth Barr analysis, NOTE: based on SSH notices only

**Figure 7. International valuation comparisons**

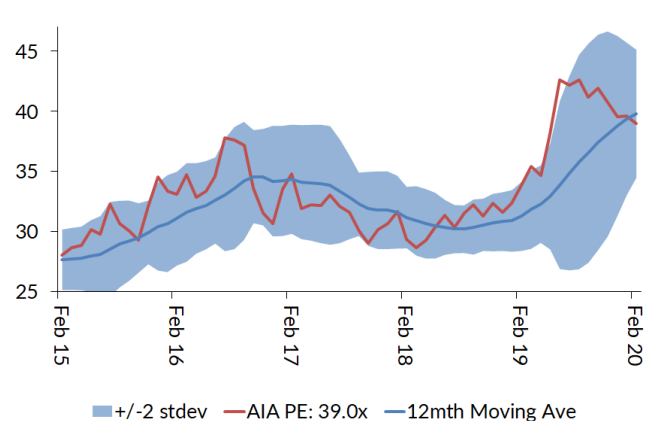
Company	Code	Price	Mkt Cap	PE		EV/EBITDA		EV/EBIT		Cash Yld	
(metrics re-weighted to reflect AIA's balance date - June)				2020E	2021E	2020E	2021E	2020E	2021E	2021E	
Auckland Airport	AIA NZ	NZ\$8.55	NZ\$10,320	38.3x	38.9x	22.4x	21.6x	27.9x	27.8x	2.6%	
Sydney Airport	SYD AT	A\$8.54	A\$19,288	48.2x	44.2x	21.2x	20.2x	31.0x	29.3x	4.8%	
Malaysia Airports Holdings Bhd	MAHB MK	RM7.15	RM11,863	19.3x	17.5x	7.0x	6.7x	11.5x	10.9x	3.1%	
Flughafen Wien AG	FLU AV	€35.50	€2,982	18.0x	17.5x	8.3x	8.0x	12.6x	12.2x	3.4%	
Flughafen Zurich AG	FHZN SW	CHF170.50	CHF5,235	17.2x	18.9x	9.2x	9.5x	14.8x	15.7x	3.2%	
Fraport AG Frankfurt Airport Services Worldwide	FRA GY	€69.10	€6,390	14.1x	13.4x	8.9x	8.6x	14.6x	14.2x	3.2%	
Airports of Thailand PCL	AOT TB	THB70.75	THB1,010,713	38.7x	29.9x	24.5x	19.0x	28.9x	22.3x	2.0%	
Beijing Capital International Airport Co	694 HK	CN¥6.92	CN¥31,688	15.9x	20.5x	8.1x	9.5x	12.8x	16.9x	2.1%	
Compco Average:				24.5x	23.1x	12.5x	11.6x	18.0x	17.4x	3.1%	
EV = Current Market Cap + Actual Net Debt				AIA Relative:	57%	68%	80%	86%	55%	60%	-16%

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 8. Consensus EPS momentum (NZ\$)**


Source: Forsyth Barr analysis

**Figure 9. One year forward PE (x)**


Source: Forsyth Barr analysis

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