

Transport Sector

Tours Cancelled as Coronavirus Demand Risk Increases

Andy Bowley

andy.bowley@forsythbarr.co.nz

+64 4 495 8246

The cancellation of group tours (including those travelling internationally) by the Chinese Government as it attempts to contain the Wuhan coronavirus outbreak, poses a near term demand risk to both Auckland Airport (AIA) and Air New Zealand (AIR). There are now more than 2,000 confirmed cases of the disease, which has spread to 12 other countries and resulted in 56 deaths. While Chinese group tours to New Zealand have been in relative decline in recent years they still represent ~45% of Chinese arrivals. It is not clear whether the restrictions will impact free independent travellers that often book trips as scheduled tours through Chinese travel agencies. The dynamic nature of the spread of the coronavirus and measures being undertaken to contain it means at this stage it is very difficult to forecast the financial impact on companies under our coverage. AIA (UNDERPERFORM) and AIR (NEUTRAL) are both at risk from a decline in passengers travelling to and from China, and potentially other Asian countries.

Coronavirus in numbers

At the time of publishing there have been 2,116 confirmed cases of the coronavirus. While the majority of these (2,062) are in China, it has now spread to 12 other countries including the US, Japan, France and Australia. So far 56 deaths have been reported, all in China and the majority in Wuhan.

Containment challenges

The Chinese Government has launched unprecedented measures to contain its spread. These include the cancellation of all group tours both domestically and internationally. This will have a dramatic impact on air travel within China and internationally. While the fatality rate is significantly lower than that of SARS in 2002–2003 (9.6% of cases resulted in death), the increased mobility of the Chinese population and the apparent infectious nature of the virus during its incubation period may mean it becomes more difficult to contain.

Travel markets will recover

While the near term impact of reduced travel can be material, the SARS pandemic showed that once contained these events have no lasting impact on travel markets. We expect traveller numbers to recover to pre-event levels within a few months of containment.

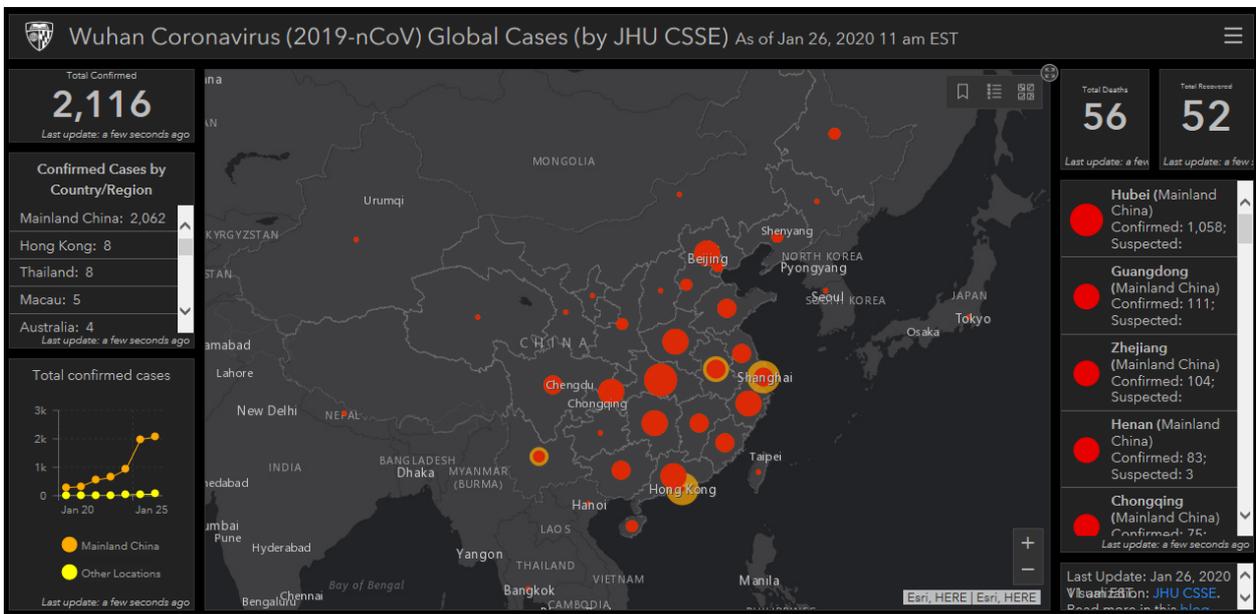
Implications for companies

Auckland Airport (AIA) and Air New Zealand (AIR) are both at risk from reduced near term passenger demand from China (and potentially other Asian countries) as a result of the coronavirus. Given the heightened risk of exposure to the virus when travelling by air (confined space for an extended period) we expect many travellers will defer or cancel their travel plans, if not already forced to do so by Government action.

- **AIA:** Chinese passengers (pax) currently represent just ~6.6% of AIA's total international pax. However, group earnings are more leveraged to Chinese pax than other nationalities given they spend substantially more in duty free and other airport retail on a per pax basis.
- **AIR:** China (Shanghai) and Hong Kong represent ~13% of AIR's current total international capacity on an available seat km (ASK) basis. While, AIR's exposure to the Chinese group tour sector is lower than its competitors, lower Chinese demand overall will have a yield impact on all carriers.

The coronavirus risk

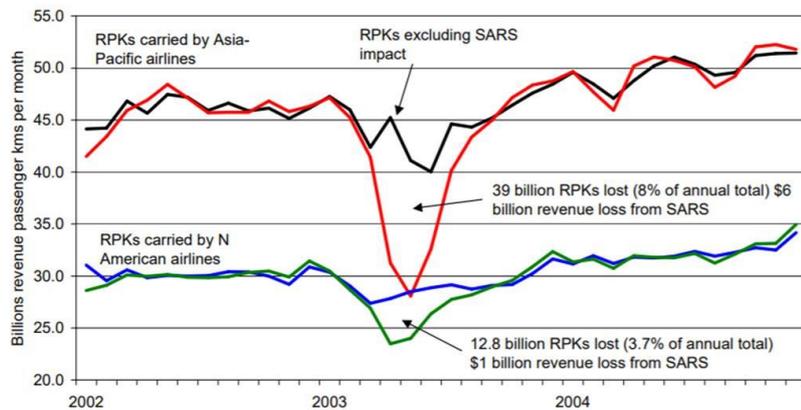
Figure 1. The coronavirus has spread through many parts of China and a number of other countries via air travel



Source: John Hopkins University, Forsyth Barr analysis

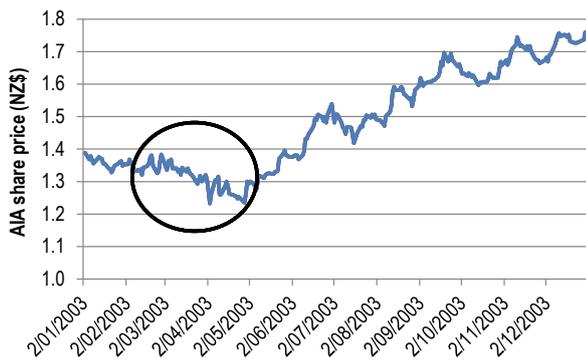
Figure 2. The SARS virus had a significant short term impact on air passenger travel in 2003

Impact of SARS on Asia-Pacific and N American airlines international traffic



Source: IATA, Forsyth Barr analysis

Figure 3. AIA share price during SARS



Source: Eikon, Forsyth Barr analysis

Figure 4. AIR share price during SARS



Source: Eikon, Forsyth Barr analysis

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