FORSYTH BARR

NEW ZEALAND EQUITY RESEARCH | TRANSPORT | AIRPORT OWNER & OPERATOR

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Auckland Airport
Flight to Equity Defies Border Closures

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NEUTRAL

Auckland Airport (AIA) is raising up to NZ$1.2bn of equity to placate its lenders and credit rating agency, S&P, in an environment when passenger air travel is undergoing its biggest downturn since World War II. The new equity provides two years of funding certainty, which should see AIA through to at least the start of a recovery in passenger traffic and therefore earnings. Nonetheless, there remains a huge amount of uncertainty as to the short, medium and longer term trajectory for AIA. While its share price has almost halved since a 2019 peak, we believe that (1) it was over-priced to begin with, (2) it will take years rather than months for passenger travel to revert back to pre COVID-19 levels, and (3) the size of travel retail as an airport value bucket will be proportionally smaller in future. We recognise the attractive nature of AIA as a long term infrastructure asset, though trading at ~29x FY24 PE and ~2.8% FY24 dividend yield, the current price is not sufficiently compelling. We retain a NEUTRAL rating.

NZX Code	AIA
Share price	NZ$5.04
Target price	NZ$5.50
Risk rating	Low
Issued shares	1207.0m
Market cap	NZ$6,083m
Avg daily turnover	1,404k (NZ$11,231k)

Financials: Jun/	19A	20E	21E	22E
NPAT* (NZ$m)	274.7	166.8	-5.3	168.2
EPS* (NZc)	22.8	13.2	-0.4	11.4
EPS growth* (%)	3.6	-42.0	n/a	n/a
DPS (NZc)	22.3	0.0	0.0	4.6
Imputation (%)	100	100	100	100

*Based on normalised profits

Valuation (x)	19A	20E	21E	22E
EV/EBITDA	14.5	19.5	n/a	19.0
EV/EBIT	17.7	26.9	n/a	27.0
PE	22.1	38.2	n/a	44.1
Price / NTA	1.0	0.9	1.0	1.0
Cash div yld (%)	4.4	0.0	0.0	0.9
Gross div yld (%)	6.1	0.0	0.0	1.3

Big number but small discount

The scale of the AIA's capital raise reflects (1) the trade-off with lenders to waive covenants during the next two years given likely breaches, (2) the potential ~NZ$700m early repayment of US Private Placement (USPP) bonds plus any related penalties, and (3) to proactively manage its A- credit rating, which is now more secure, in our opinion. We believe the raise will be sufficient to see AIA's balance sheet through this crisis. However, AIA will emerge from COVID-19 with some serious battle scars. The asset beta implied by the market may need to be recalibrated higher as its earnings are less defensive than previously thought, its longer term passenger growth path may need to be moderated, and its dividend profile will likely be less attractive to investors.

Travel markets will recover but it could take years

Analysis of historical black swan events, including the GFC, 9/11, swine flu and SARS, suggests the recovery in air passenger travel can take years rather than months. AIA appears to accept this in obtaining a period for its funding covenants to December 2021. While the initial consumer apathy to air travel may subside within 12 months following the elimination of a pandemic, the lingering economic consequence has longer reaching implications.

Valuation appears fair-ish

Our revised estimates assume a return to ~90% of FY19 international passenger numbers by FY24. Our revised EPS estimate for the same year of 17.4c implies a four year forward PE of ~29x. Alternatively, the dividend yield for the same year on a revised post COVID-19 ordinary payout of 80% is ~2.8%. Notwithstanding a structurally lower bond yield environment, neither of these relative valuation measures appear at odds with how AIA has traded historically, yet both are four years forward and reflect a higher risk profile than previously accepted.

Auckland International Airport Ltd (AIA)

Priced as at 06 Apr 2020 (NZ$)	**5.04**

12-month target price (NZ$)*	**5.50**
Expected share price return	9.1%
Net dividend yield	0.0%
Estimated 12-month return	9.1%

Key WACC assumptions	
Risk free rate	2.00%
Equity beta	0.80
WACC	6.2%
Terminal growth	2.0%

Profit and Loss Account (NZ$m)	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
Sales revenue	683.9	743.4	563.2	282.3	551.2
Normalised EBITDA	**506.4**	**554.8**	**391.3**	**135.6**	**373.7**
Depreciation and amortisation	(88.9)	(102.2)	(108.5)	(107.7)	(110.4)
Normalised EBIT	**417.5**	**452.6**	**282.8**	**27.9**	**263.2**
Net interest	(77.2)	(78.5)	(57.1)	(35.3)	(34.6)
Associate income	8.5	8.2	6.0	0	5.0
Tax	(217.7)	(109.2)	(67.7)	2.1	(65.4)
Minority interests	0	0	0	0	0
Normalised NPAT	**263.1**	**274.7**	**166.8**	**(5.3)**	**168.2**
Abnormals/other	(387.0)	(248.8)	(7.3)	0	0
Reported NPAT	**650.1**	**523.5**	**174.1**	**(5.3)**	**168.2**
Normalised EPS (cps)	22.0	22.8	13.2	(0.4)	11.4
DPS (cps)	21.8	22.3	0	0	4.6

Growth Rates	**2018A**	**2019A**	**2020A**	**2021A**	**2022A**
Revenue (%)	8.7	8.7	-24.2	-49.9	95.3
EBITDA (%)	7.0	9.6	-29.5	-65.4	>100
EBIT (%)	5.6	8.4	-37.5	-90.1	>100
Normalised NPAT (%)	6.2	4.4	-39.3	n/a	n/a
Normalised EPS (%)	5.6	3.6	-42.0	n/a	n/a
Ordinary DPS (%)	6.1	2.3	-100.0	n/a	n/a

Cash Flow (NZ$m)	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
EBITDA	**506.4**	**554.8**	**391.3**	**135.6**	**373.7**
Working capital change	(12.3)	(48.6)	(6.0)	0	(5.0)
Interest & tax paid	(294.9)	(187.7)	(124.8)	(33.2)	(100.0)
Other	122.0	57.4	16.1	0	5.0
Operating cash flow	**321.2**	**375.9**	**276.6**	**102.4**	**273.6**
Capital expenditure	(387.4)	(320.1)	(350.0)	(160.0)	(340.0)
(Acquisitions)/divestments	347.3	(0.8)	0	0	0
Other	(8.8)	(7.0)	(15.5)	(8.3)	(7.4)
Funding available/(required)	**272.3**	**48.0**	**(88.8)**	**(65.9)**	**(73.8)**
Dividends paid	(182.8)	(192.4)	(98.0)	0	(28.6)
Equity raised/(returned)	0	0	1,200.0	0	0
(Increase)/decrease in net debt	**89.5**	**(144.4)**	**1,013.2**	**(65.9)**	**(102.4)**

Balance Sheet (NZ$m)	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
Working capital	(76.3)	(33.4)	(89.6)	(44.9)	(87.6)
Fixed assets	6,378.0	6,577.1	6,658.6	6,620.9	6,760.5
Intangibles	0	0	0	0	0
Right of use asset	0	0	0	0	0
Other assets	1,640.4	2,013.7	2,179.7	2,269.7	2,364.7
Total funds employed	**7,942.1**	**8,557.4**	**8,748.8**	**8,845.7**	**9,037.5**
Net debt/(cash)	1,953.6	2,153.1	1,139.9	1,205.8	1,308.2
Lease liability	0	0	0	0	0
Other liabilities	306.4	371.4	371.4	371.4	371.4
Shareholder's funds	5,682.1	6,032.9	7,237.4	7,268.5	7,357.9
Minority interests	0	0	0	0	0
Total funding sources	**7,942.1**	**8,557.4**	**8,748.8**	**8,845.7**	**9,037.5**

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

Spot valuations (NZ$)	
1. DCF	5.06
2. Sum-of-the-parts	5.14
3. n/a	n/a

DCF valuation summary (NZ$m)	
Total firm value	9,690
(Net debt)/cash	(2,255)
Less: Capitalised operating leases	0
Value of equity	7,435

Valuation Ratios	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
EV/EBITDA (x)	15.7	14.5	19.5	52.4	19.0
EV/EBIT (x)	19.0	17.7	26.9	>100x	27.0
PE (x)	22.9	22.1	38.2	n/a	44.1
Price/NTA (x)	1.1	1.0	0.9	1.0	1.0
Free cash flow yield (%)	-1.1	0.9	-1.2	-0.9	-1.1
Net dividend yield (%)	4.3	4.4	0.0	0.0	0.9
Gross dividend yield (%)	6.0	6.1	0.0	0.0	1.3

Capital Structure	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
Interest cover EBIT (x)	5.4	5.8	5.0	0.8	7.6
Interest cover EBITDA (x)	6.6	7.1	6.9	3.8	10.8
Net debt/ND+E (%)	25.6	26.3	13.6	14.2	15.1
Net debt/EBITDA (x)	3.9	3.9	2.9	8.9	3.5

Key Ratios	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
Return on assets (%)	5.1	5.2	3.2	0.3	2.8
Return on equity (%)	4.6	4.6	2.3	-0.1	2.3
Return on funds employed (%)	12.3	11.0	6.1	0.4	5.2
EBITDA margin (%)	74.0	74.6	69.5	48.0	67.8
EBIT margin (%)	61.0	60.9	50.2	9.9	47.7
Capex to sales (%)	56.6	43.1	62.1	56.7	61.7
Capex to depreciation (%)	436	313	323	149	308
Imputation (%)	100	100	100	100	100
Pay-out ratio (%)	99	98	0	0	40

Operating Performance	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
Aeronautical	328.5	342.2	256.4	116.6	256.2
Consumer	263.0	301.3	212.2	72.9	201.3
Property	86.1	94.7	89.4	87.4	88.2
Other	6.3	5.2	5.3	5.4	5.5
Total sales revenue	**683.9**	**743.4**	**563.2**	**282.3**	**551.2**
Aeronautical	239.9	252.1	174.4	46.6	174.2
Consumer	232.6	269.0	184.2	46.9	173.3
Property	65.5	72.2	69.7	68.2	67.9
Total EBITDAFI	**506.4**	**554.8**	**391.3**	**135.6**	**373.7**
International pax growth (%)	4.7	3.0	-27.0	-72.6	250.0
Transits (%)	-1.2	-1.2	-25.0	-93.7	1,380.6
Total int'l pax growth (%)	4.7	3.0	-27.0	-72.6	250.0
Domestic pax growth (%)	7.7	3.6	-26.0	-32.4	50.0
Aero income per pax change	-2.4	1.3	2.4	3.1	3.6
Retail sales per int'l pax change	12.1	15.5	-8.0	0.0	0.0
Car park income per pax change	1.6	1.8	0.0	0.0	3.0
Yield on property BV (%)	7.4	6.8	5.6	5.0	4.7
Int'l aircraft numbers ('000)	55.7	57.1	41.4	10.4	38.8
Domestic aircraft numbers ('000)	118.6	121.7	91.0	64.0	94.7

Capital raise — big in scale, but not in discount

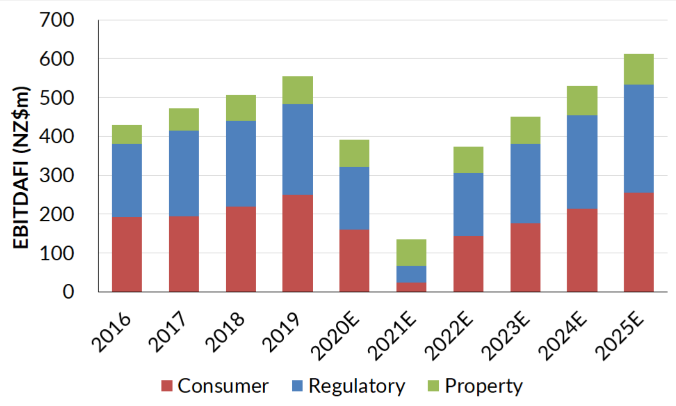
Auckland Airport's (AIA) capital raise alleviates any concerns that its balance sheet, or more importantly its lenders, can absorb the dire near term outlook for travel markets. The company has successfully negotiated waivers to covenant breach clauses within its banking group through to 31 December 2021. However, this does nothing to alleviate the uncertainty surrounding near, medium and long term earnings and cashflows.

Valuation hit from longer duration recovery and capital raise dilution

Historic approaches to valuing many assets hard hit by COVID-19 have largely been thrown out the window, at least for the foreseeable future. Ordinarily we can use NTA (net tangible asset) values as a basis for asset heavy companies. However, in AIA's case this is misleading as, while its NTA as at 31 December 2019 was NZ$4.95 per share, if we exclude revaluation gains and focus only on historic cost, it falls to NZ$1.57 per share (this has been boosted by the equity raise).

With AIA's earnings entering a deep trough we look through the near term outlook to FY24 when AIA's commercial operations will make ~NZ$210m according to our revised forecasts. We use this as the basis for our commercial segment valuation and apply (somewhat arbitrarily but reflective of AIA's historical timeseries) an ~18x EV/EBITDA multiple. In combination with a 1.2x RAB (regulatory asset base) multiple (AIA is still capable of generating excess returns in its regulated activities, in our opinion) and property at book value, we calculate a sum-of-the-parts of NZ$5.11 as shown in Figure 4. In combination with our DCF (NZ$5.06) we lower our target price to NZ$5.50 from N$7.10.

Figure 1. EBITDAFI split by business segment



Source: Forsyth Barr analysis

Figure 2. Sum-of-the-parts (NZ$m)

Segment	Approach	EV
Commercial	EV/EBITDA (18x NZ$210m)	3,780
Aeroanutical	1.2x RAB inlc. LHFU & non-comissioned assets	2,814
Property	1.0x NTA (at par)	1,849
Associates	EV/EBITDA (13x NZ$12m)	156
Enterprise value		**8,599**
Capital raise	Assuming SPP taken in full	1,200
Net debt	Actual as at 31 Dec 2019	(2,238)
Implied market cap		**7,561**
Shares on issue (m)	Assuming 257.5m new shares	1,479
Implied share price (NZ$)		**5.11**

Source: Forsyth Barr analysis

Earnings revisions

We make some material changes to our earnings estimates as summarised in Figure 1. Key assumptions embedded in our revised forecasts include:

- Domestic pax recover quicker than international pax reaching 50% of FY19 levels in FY21, 75% in FY22, and 90% in FY23.
- International border restrictions ease in FY21 and int'l pax recover to 20% of FY19 in FY21, 70% in FY22, and 80% in FY23.
- Retail income per international pax falls to NZ$16.00 in FY21, before recovery to a new base of NZ$18.00 in FY22.
- Opex falls by -35% over coming weeks before climbing as the pax recovery is underway.
- The NZ$1.2bn equity raise is undertaken at an assumed price of NZ$4.66.

Figure 3. Earnings revisions summary (NZ$m)

	FY20E			FY21E			FY22E		
	Old	New	Chg	Old	New	Chg	Old	New	Chg
International pax growth	-24.5%	-27.0%	-250 bps	0.0%	-72.6%	-7260 bps	34.0%	250.0%	21600 bps
Retail per int'l pax	18.86	18.86	0.0%	18.86	16.00	-15.2%	21.50	18.00	-16.3%
Sales revenue	592.5	563.2	-4.9%	602.3	282.3	-53.1%	788.8	551.2	-30.1%
EBITDAFI	405.5	391.3	-3.5%	409.9	135.6	-66.9%	588.1	373.7	-36.5%
Underlying NPAT	**162.6**	**166.8**	**2.6%**	**156.2**	**(5.3)**	**-103.4%**	**274.2**	**168.2**	**-38.7%**
Underlying EPS (cents)	13.4	13.2	-1.2%	12.7	(0.4)	-102.8%	22.2	11.4	-48.6%
DPS (cents)	13.4	0.0	-100.0%	12.7	0.0	-100.0%	22.2	4.6	-79.4%

Source: Forsyth Barr analysis

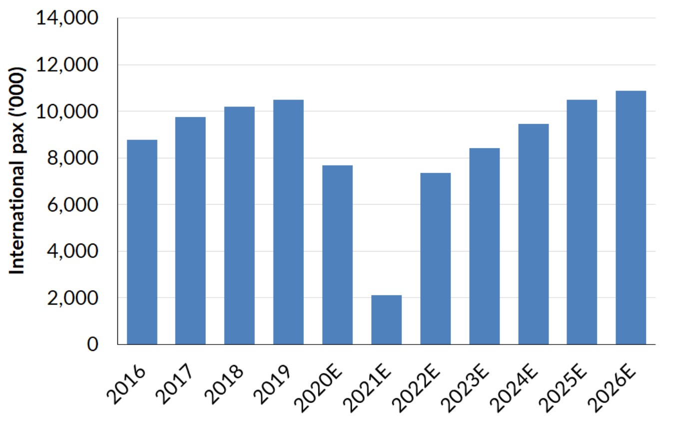
The uncertain path to recovery — untangling the four S's

It's easy to think of just the demand side when considering the **shape** and **speed** of a potential aviation industry recovery as COVID-19 recedes through suppression or medical means. However, in light of the **severity** of the pandemic on airlines we must also consider the implications on future capacity or **supply**. The shape of the trough and subsequent recovery, whether U, V, or L, depends on the:

- **Speed of recovery**
- **Scope of recovery**

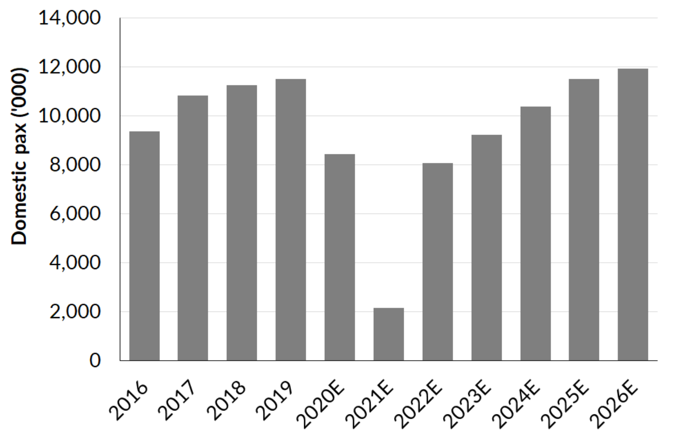
We assume that the recovery is long dated; we expect domestic pax to return to FY19 levels in FY24 and international pax in FY25 as summarised in Figure 4 and Figure 5.

Figure 4. International pax history and outlook



Source: AIA, Forsyth Barr analysis

Figure 5. Domestic pax history and outlook



Source: AIA, Forsyth Barr analysis

Speed of recovery

This is perhaps the hardest question to answer as it relates to the success of government and medical action to fight, kill and/or suppress the outbreak. It reflects a combination of (1) when the recovery begins, and (2) the slope of the recovery upswing.

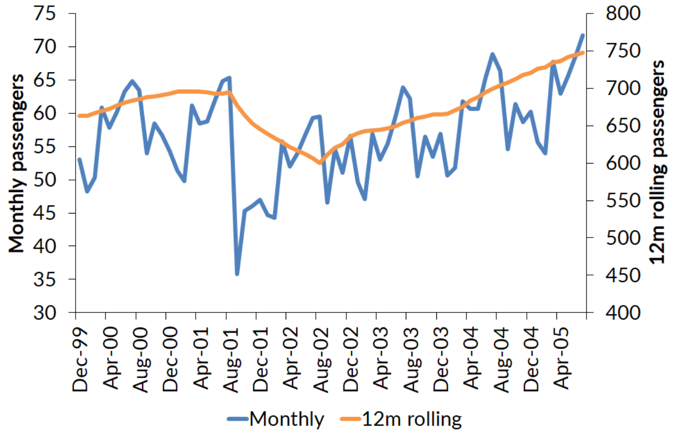
- **Recovery begins**: When lock-downs are removed. In New Zealand this is not until the initial four week period ends, with a high risk that it is extended. Current domestic capacity is down more than 90% to a skeleton service. Domestic capacity will resume once the lock-down is over, and recover ahead of international capacity.
- **Slope of upswing**: This reflects two principal drivers: (1) the economic damage inflicted by COVID-19, and (2) consumer confidence in flying safely. They're difficult to separate from each other and therefore we take a look at historical black swan events to get a better understanding.

A history lesson from previous black swans

We consider three previous black swan events and a global recession that had a material impact on air transport:

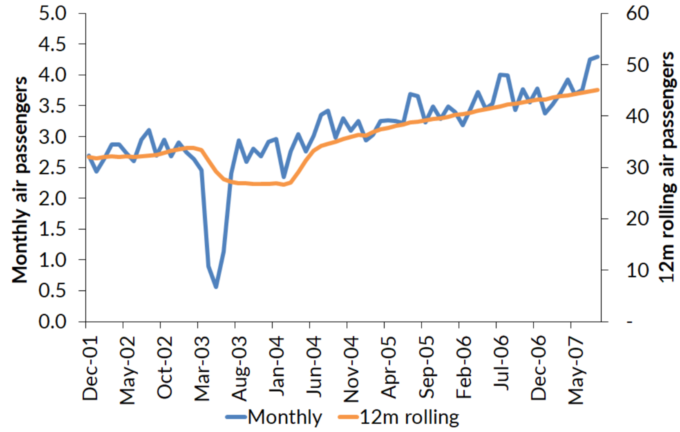
- **9/11** (September 2001) — US air travel took more than two years to get back to pre-9/11 levels.
- **SARS** (March–April 2003) — Asian air traffic was severely impacted for three months and had largely recovered after six months from the trough.
- **GFC** (2008–2009) — US air traffic took 5–6 years before recovery to pre-GFC levels.
- **Swine flu** (January 2009–August 2010) — Mexican air travel only recovered to pre-Swine flu levels after more than 3 years post the initial outbreak.

Figure 6. 9-11 recovery took more than two years: US air passengers (millions)



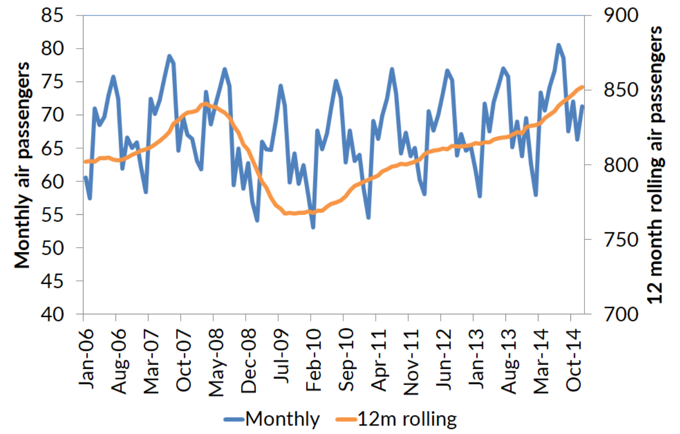
Source: Bureau of Transportation (US), Forsyth Barr analysis

Figure 7. The SARS recovery was far quicker: Hong Kong air passengers (millions)



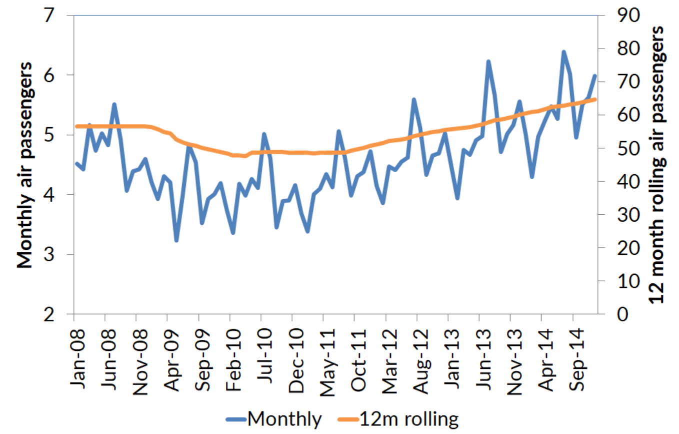
Source: Civil Aviation Dept (Hong Kong), Forsyth Barr analysis

Figure 8. The post GFC recovery took 5-6 years to climb back to previous levels: US air passengers (millions



Source: Bureau of Transportation (US), Forsyth Barr analysis

Figure 9. The swine flu recovery in Mexico took several years: Mexican air passengers (millions)



Source: CEIC, Forsyth Barr analysis

Scope of the recovery

The scope of a recovery is dependant on individual countries suppressing the virus and ultimately at a global level a vaccine being approved and distributed. In the absence of a vaccine we expect an element of apathy towards international travel particularly among older demographics, which are more at risk from higher mortality rates.

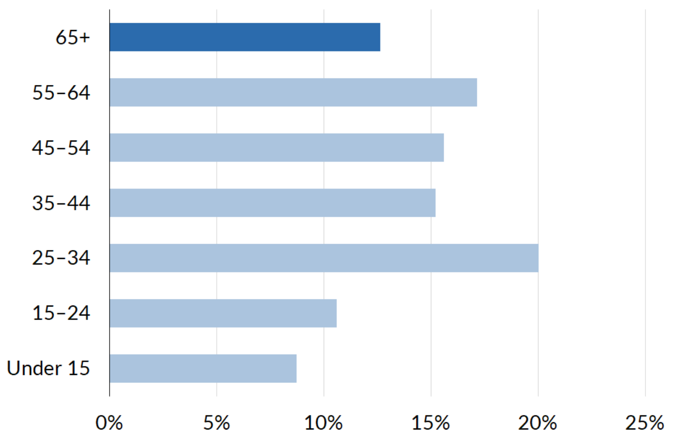
In the meantime, we expect international markets to open up on a country by country basis, with Australia likely to be the first for New Zealand. This will be a relative positive for AIA given that Australia represents its largest market accounting for ~43% of international seat capacity in 2019.

At risk demographics

Some consumers may be less motivated to travel once the recovery begins, albeit this depends on the driver of the recovery. This includes the elderly and those with pre-existing medical conditions. Inbound passenger data shows that ~13% of passengers are aged 65 or older. While this doesn't incorporate New Zealand resident travellers, we assume a similar proportion is appropriate, based on UK airport data from 2018.

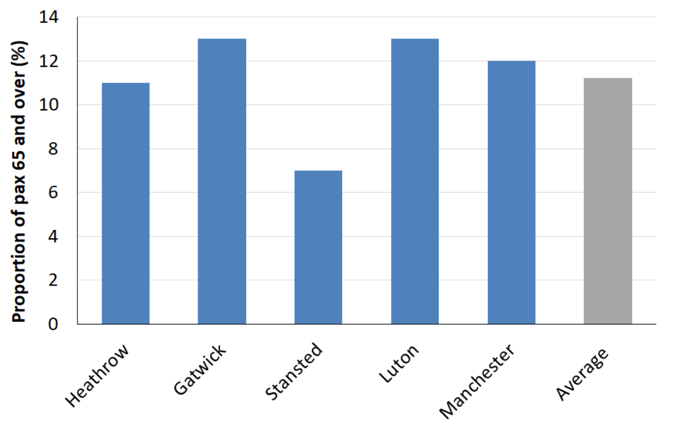
If the propensity to travel for this age demographic was reduced, it could have a material impact on the ultimate level of recovery from COVID-19.

Figure 10. NZ inbound visitors by age group (year to Jan 2020)



Source: NZ Stats, Forsyth Barr analysis

Figure 11. UK airports pax exposure to older pax (2018)



Source: CAA (UK), Forsyth Barr analysis

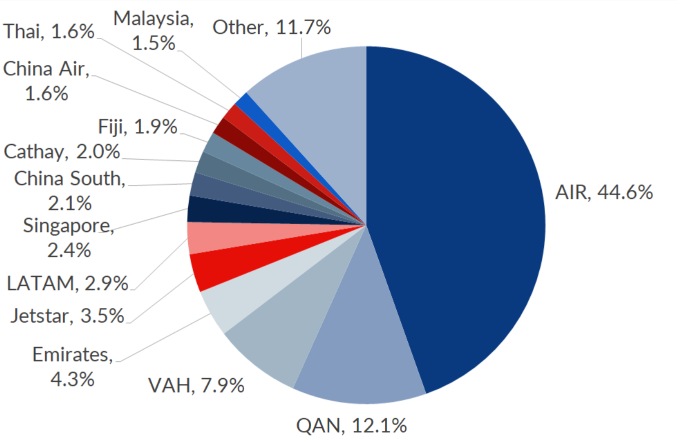
Supply implications given the severity of the downturn

Even a small drop in demand on airlines can have a material impact on their profitability. The implications of a substantial drop in demand due to government action and consumer behaviour means that most airlines globally will be generating meaningful losses in the current environment despite the emergence of low oil prices.

Balance sheet stress will be a very common feature and recapitalisation in many cases will likely be necessary. While globally slow to the party at this stage, government support/ownership of airlines is likely to increase, which, similar to the banking crisis through the GFC, may result in government's having greater control/oversight over the operations of airlines when COVID-19 recedes. This may mean a more conservative approach to capacity and balance sheets for the foreseeable future.

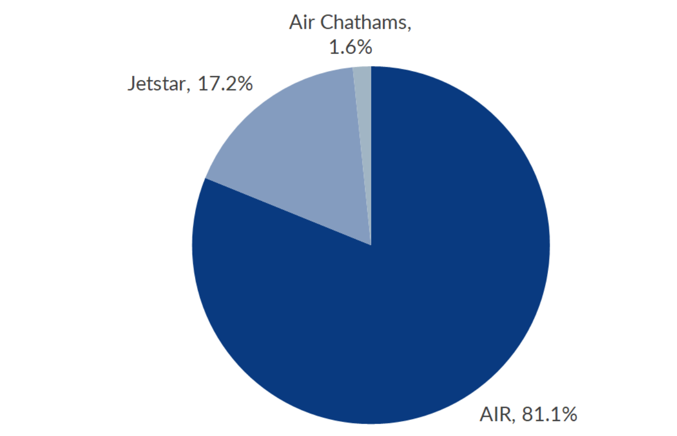
However, not all airlines will have the benefit of government funding and consequently some are likely to fail. Failure will have an impact on residual values of aircraft, which will make the competitive environment for surviving players, like AIR, very challenging, given the scope for some players to purchase cheap capacity and compete more aggressively on price.

Figure 12. International seat capacity by airline at AIA (2019)



Source: OAG, Forsyth Barr analysis NOTE: excludes airlines that have exited AIA

Figure 13. Domestic seat capacity by airline at AIA (2020)



Source: OAG, Forsyth Barr analysis NOTE: based on 2020 schedule data given exit by Jetstar from regional routes in late 2019

Balance sheet protected from wrath of lenders

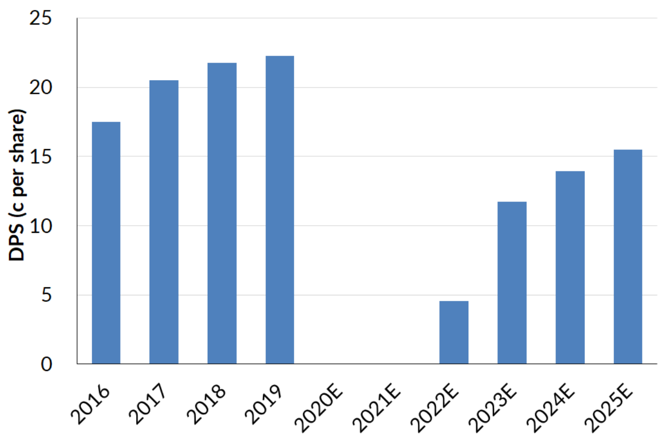
AIA's significant capital raise radically changes the shape of its balance sheet and paves the way for a more prudent approach to gearing in future. In particular, we expect AIA to lower its dividend payout ratio when it recommences dividends in 2022. This will be consistent with other companies that have been impacted by COVID-19 as outlined in our report *Equity Strategy: The Dividend Hit Has Only Just Started*, dated 6 April 2020.

Dividend holiday

AIA will not be able to pay a dividend while the covenant breach waivers are in place. The earliest date for AIA's next dividend is, therefore, likely to be the final FY22 dividend payable in September/October 2022. This will mean a three year dividend holiday.

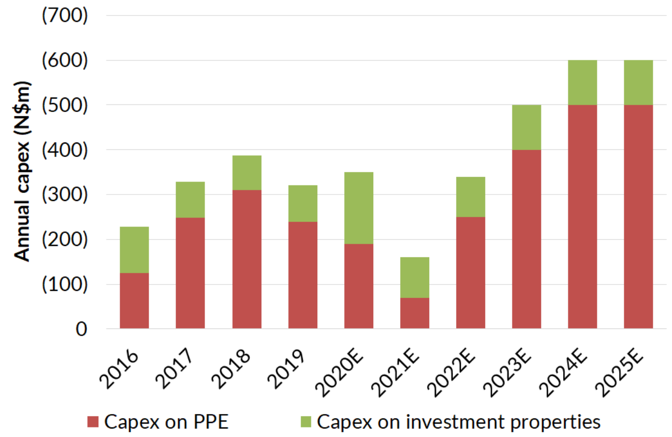
When dividends do recommence we expect the board to adjust its pay-out policy to a more prudent ordinary dividend pay-out, with scope for special dividends and share buy-backs as other forms of capital return. In contrast to the 100% payout of recent years, we expect the board to resume dividends in 2H22 at an 80% payout.

Figure 14. Step change in dividend profile



Source: AIA, Forsyth Barr analysis

Figure 15. Revised capex profile



Source: AIA, Forsyth Barr analysis

Capex profile lowered

AIA has substantially reduced its near term capex with a number of projects having been suspended including the domestic jet terminal, a multi-storey carpark, Park & Ride South, a new Mercure hotel, the northern runway, international arrivals upgrade, a new Pullman hotel and northern taxi-ways. It now expects to spend ~NZ$275m of capex between April 2020 and December 2021 which will include:

- Essential safety, asset replacement, maintenance and resiliency, and includes the planned runway pavement replacement
- Finishing projects sufficiently close to completion

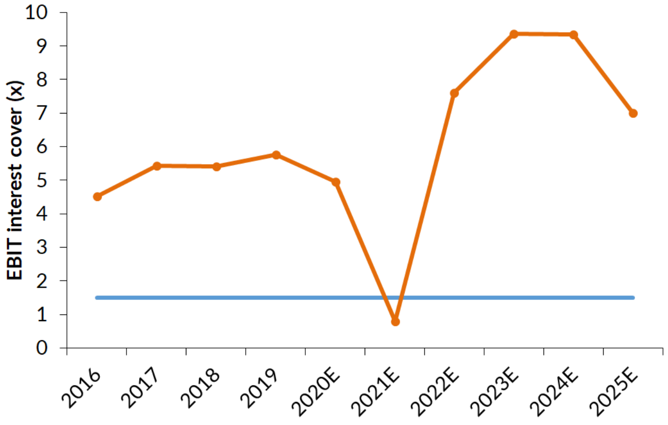
Having spent NZ$214m on capex during 1H20 we assume that AIA will now spend ~NZ$350m in total during FY20, which includes ~NZ$160m on investment property. We estimate it spends a further ~NZ$160m in FY21.

Covenants and credit metrics

AIA's key funding covenants are (1) EBIT interest cover of 1.5x, and (2) net debt to total assets <60%. While breaching the latter would be difficult in light of the book value of assets (~NZ$8.7bn at FY19), AIA will still likely breach the former irrespective of the capital raise, given the significant hit to EBIT. However, it is now protected in light of the waivers provided by its banking group, due to it undertaking the capital raise.

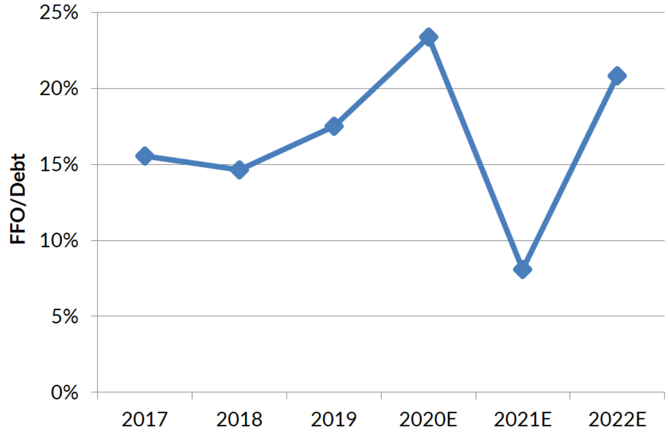
However, we understand that the USPP (US Private Placement) bonds have similar covenants. AIA has still to negotiate suitable arrangement with these lenders, which are typically less flexible than other debt providers. The level of new equity is in part allowing for the early repayment (which will incur penalties) to these bond holders, if a suitable alternative is unable to be negotiated.

Figure 16. AIA would still breach its 1.5x EBIT interest cover



Source: AIA, Forsyth Barr analysis

Figure 17. FFO/net debt to fall below 11% temporarily



Source: Forsyth Barr analysis

The last credit metric that investors need to consider is S&P's FFO (funds from operations)/net debt requirement of >11%. While this hurdle is not as strict as a lender covenant, AIA's need to retain its A- rating is important for all its other facilities. We expect FFO/debt to fall materially below 11% in FY21 (Figure 17) but this will be a temporary breach and therefore shouldn't lead to a rating downgrade, in our opinion.

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. It generates attractive return on capital in its non-regulated commercial assets and valuation benefits from low prevailing Government bond rates. While we recognise near term earnings risk is to the downside, given the impact on demand from the COVID-19 outbreak, recent share price weakness broadly compensates for this. NEUTRAL.

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

- **COVID-19 implications**: AIA will be hard hit by COVID-19. We expect air travel to being to recover in FY21, albeit only slowly over a number of years.
- **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.

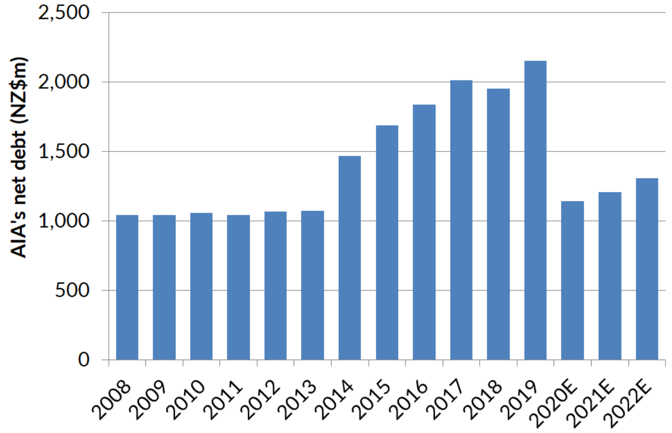
Financial structure

- **Balance sheet**: AIA is in the midst of a major capex bulge given the need to build capacity, albeit this is now on hold in light of COVID-19.
- **Dividends**: It has a 100% dividend pay-out rate and has a dividend reinvestment plan in place, albeit won't be paying any dividends until FY23 given its agreement with lenders.

Risk factors

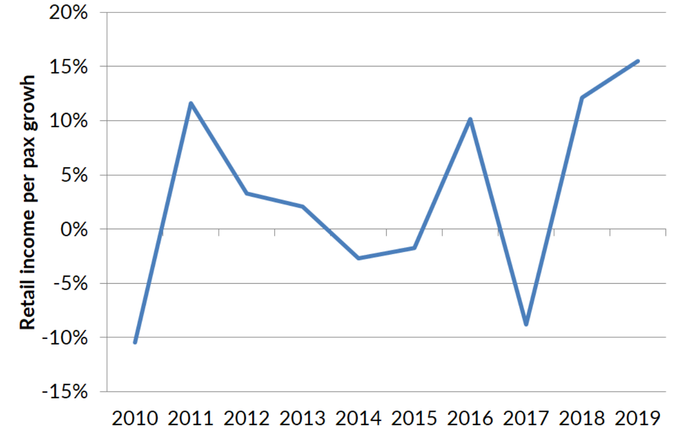
- **Rising bond yields**: AIA trades as a bond proxy. Its valuation holds a very strong inverse relationship with bond yields.
- **Regulatory risk**: We expect AIA to lower current aeronautical prices to ease any regulatory pressure given its mixed ComCom report last year.

Figure 18. Debt burden at AIA helped by capital raise



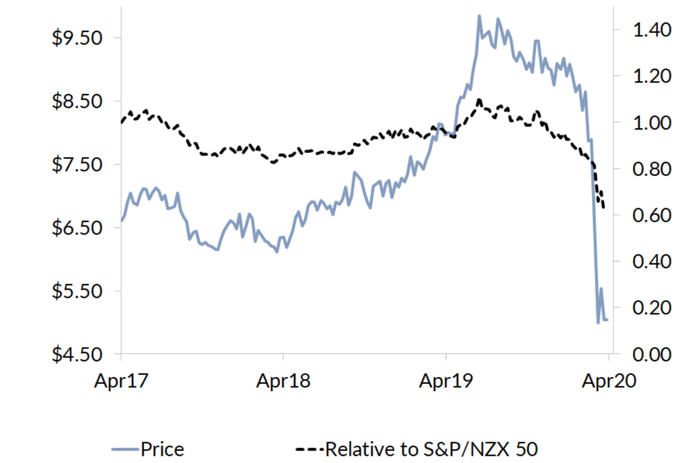
Source: AIA, Forsyth Barr analysis

Figure 19. Retail income per international pax growth



Source: AIA, Forsyth Barr analysis

Figure 20. Price performance



Source: Forsyth Barr analysis

Figure 21. Substantial shareholders

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

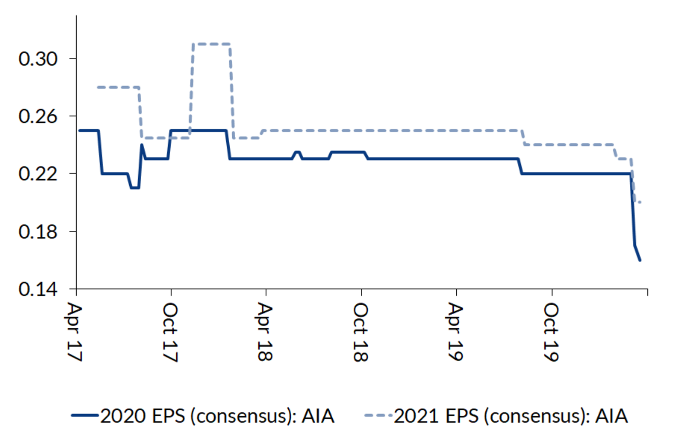
Source: NZX, Forsyth Barr analysis, NOTE: based on SSH notices only

Figure 22. 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)			(m)	2020E	2021E	2020E	2021E	2020E	2021E	2021E
Auckland Airport	**AIA NZ**	**NZ$5.04**	**NZ$6,083**	**38.2x**	**<0x**	**21.0x**	**60.7x**	**29.1x**	**>75x**	**0.0%**
SYDNEY AIRPORT	SYD AT	A$4.99	A$11,277	33.3x	32.7x	17.2x	17.1x	26.7x	26.2x	7.3%
MALAYSIA AIRPORTS HLDGS BHD	MAHB MK	RM4.29	RM7,118	15.2x	13.5x	5.1x	5.0x	9.0x	8.8x	3.9%
FLUGHAFEN WIEN AG	FLU AV	€23.40	€1,966	13.2x	13.1x	6.1x	6.0x	9.7x	9.6x	5.0%
FLUGHAFEN ZURICH AG-REG	FHZN SW	CHF107.60	CHF3,304	11.8x	13.6x	7.2x	7.6x	11.6x	12.8x	4.2%
FRAPORT AG FRANKFURT AIRPORT	FRA GY	€36.12	€3,340	9.0x	9.0x	7.3x	7.3x	12.6x	12.5x	5.7%
AIRPORTS OF THAILAND PCL	AOT TB	THB48.00	THB685,714	32.0x	26.5x	19.3x	16.0x	23.9x	19.7x	2.1%
BEIJING CAPITAL INTL AIRPO-H	694 HK	CN¥4.93	CN¥22,575	12.9x	16.5x	6.2x	7.2x	10.2x	13.1x	2.7%
			Compco Average:	**18.2x**	**17.8x**	**9.8x**	**9.5x**	**14.8x**	**14.7x**	**4.4%**
EV = Current Market Cap + Actual Net Debt			**AIA Relative:**	**110%**	**n/a**	**116%**	**542%**	**97%**	**n/a**	**-100%**

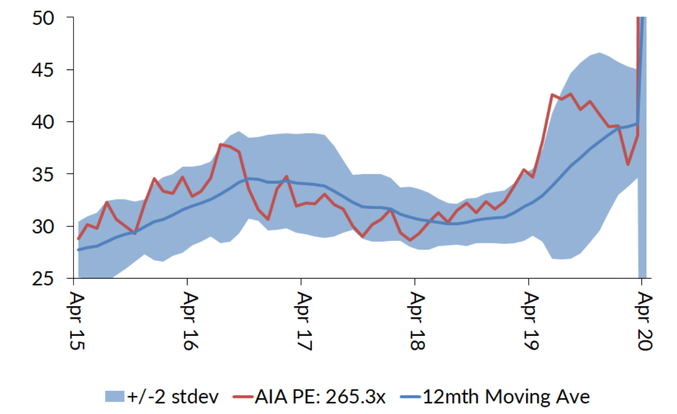
Source: *Forsyth Barr analysis, Bloomberg Consensus, Compco metrics re-weighted to reflect headline (AIA) companies fiscal year end

Figure 23. Consensus EPS momentum (NZ$)



Source: Forsyth Barr analysis

Figure 24. One year forward PE (x)



Source: Forsyth Barr analysis

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