

# Auckland Airport

## FY20 Preview — Recovery Runway Lengthening

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### NEUTRAL

We expect Auckland Airport (AIA) to report a heavily COVID-19 impacted FY20 result on 20 August 2020. Our underlying NPAT forecast of NZ\$166m is down -40% against the prior year and implies 2H20 NPAT of just NZ\$26m (-81%). We recognise that our version of underlying NPAT may not be wholly consistent with AIA's disclosure given already announced Significant Items. These in aggregate amount to a hit to reported pre-tax profits of NZ\$50m–NZ\$90m, and include capex termination costs, capex work in progress impairments, and retail rent abatements (included within our underlying forecasts), partially offset by revaluation gains. The company will not pay a final FY20 dividend.

NZX Code	AIA	Financials: Jun/	19A	20E	21E	22E	Valuation (x)	19A	20E	21E	22E
Share price	NZ\$6.30	NPAT* (NZ\$m)	274.7	165.7	-5.1	171.0	EV/EBITDA	20.2	27.2	75.4	27.3
Target price	NZ\$5.70	EPS* (NZc)	22.8	13.1	-0.3	11.6	EV/EBIT	24.8	37.4	n/a	38.6
Risk rating	Low	EPS growth* (%)	3.6	-42.4	n/a	n/a	PE	27.7	48.1	n/a	54.2
Issued shares	1470.2m	DPS (NZc)	22.3	0.0	0.0	4.7	Price / NTA	1.3	1.1	1.3	1.3
Market cap	NZ\$9,263m	Imputation (%)	100	100	100	100	Cash div yld (%)	3.5	0.0	0.0	0.7
Avg daily turnover	2,079k (NZ\$14,262k)	*Based on normalised profits					Gross div yld (%)	4.9	0.0	0.0	1.0

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

- **Pax growth planning assumptions:** The latest Alert Level increase highlights the challenges of navigating COVID-19 in the absence of a cure, vaccine or other medical solution. Uncertainty persists and the duration of recovery is likely to be medium term rather than short term.
- **Retail/rental abatements:** AIA has already signalled retail rent abatements of ~NZ\$65m in FY20 as most retail concessions have had Minimum Annual Guarantees (MAGs) removed. How concession yields play out over the medium to long term is a critical issue for AIA's investment case.
- **Opex:** AIA targeted a -35% reduction on FY19 opex. Sydney Airport (SYD) cut opex by -21% in its 1H20 result (December year end), we expect a similar reduction in AIA's 2H20 result assisted by ~NZ\$4m from the government's wage subsidy.
- **Capex:** We expect AIA to lift its capex guidance (~NZ\$275m between April 2020 and December 2021) given continued investment property development.

### Conference call details

AIA will host a post-result investor conference call at 10am NZST on 20 August 2020. Investors need to pre-register for the call at: <http://apac.directeventreg.com/registration/event/4898249>

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

	FY19	FY20	Change	Consensus
Sales revenue	743.4	570.3	-23.3%	563.9
EBITDAFI	554.8	398.4	-28.2%	387.2
<b>Underlying NPAT</b>	<b>274.7</b>	<b>165.7</b>	<b>-39.7%</b>	<b>162.0</b>
Underlying EPS (cents)	22.8	13.1	-42.4%	12.5
Final DPS (cents)	22.3	0.0	-100.0%	0.0

Source: Forsyth Barr analysis

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

	FY19	FY20	Change
Aeronautical	312.7	231.7	-25.9%
Retail	225.8	152.9	-32.3%
Property	94.7	89.4	-5.6%
Car Park	64.2	47.2	-26.5%
Other	46.0	49.0	6.6%
<b>Revenue</b>	<b>743.4</b>	<b>570.3</b>	<b>-23.3%</b>

Source: Forsyth Barr analysis

## Auckland International Airport Ltd (AIA)

Priced as at 13 Aug 2020 (NZ\$)					6.30							
12-month target price (NZ\$)*					5.70	Spot valuations (NZ\$)						
Expected share price return					-9.5%	1. DCF					5.29	
Net dividend yield					0.1%	2. n/a					n/a	
Estimated 12-month return					-9.4%	3. n/a					n/a	
Key WACC assumptions						DCF valuation summary (NZ\$m)						
Risk free rate					2.00%	Total firm value					10,074	
Equity beta					0.80	(Net debt)/cash					(2,303)	
WACC					6.2%	Less: Capitalised operating leases					0	
Terminal growth					2.0%	Value of equity					7,771	
Profit and Loss Account (NZ\$m)						Valuation Ratios						
2018A	2019A	2020E	2021E	2022E	2018A	2019A	2020E	2021E	2022E			
Sales revenue	683.9	743.4	570.3	284.3	556.9	EV/EBITDA (x)	21.9	20.2	27.2	75.4	27.3	
Normalised EBITDA	506.4	554.8	398.4	137.6	379.3	EV/EBIT (x)	26.6	24.8	37.4	>100x	38.6	
Depreciation and amortisation	(88.9)	(102.2)	(108.5)	(107.7)	(110.4)	PE (x)	28.7	27.7	48.1	n/a	54.2	
Normalised EBIT	417.5	452.6	289.9	29.9	268.9	Price/NTA (x)	1.3	1.3	1.1	1.3	1.3	
Net interest	(77.2)	(78.5)	(65.7)	(37.0)	(36.3)	Free cash flow yield (%)	-0.7	0.6	-1.7	-0.6	-0.7	
Associate income	8.5	8.2	6.0	0	5.0	Net dividend yield (%)	3.5	3.5	0.0	0.0	0.7	
Tax	(217.7)	(109.2)	(6.5)	2.0	(66.5)	Gross dividend yield (%)	4.8	4.9	0.0	0.0	1.0	
Minority interests	0	0	0	0	0	Capital Structure						
Normalised NPAT	263.1	274.7	165.7	(5.1)	171.0	2018A	2019A	2020E	2021E	2022E		
Abnormals/other	(387.0)	(248.8)	(17.6)	0	0	Interest cover EBIT (x)	5.4	5.8	4.4	0.8	7.4	
Reported NPAT	650.1	523.5	183.3	(5.1)	171.0	Interest cover EBITDA (x)	6.6	7.1	6.1	3.7	10.4	
Normalised EPS (cps)	22.0	22.8	13.1	(0.3)	11.6	Net debt/ND+E (%)	25.6	26.3	14.6	15.2	16.1	
DPS (cps)	21.8	22.3	0	0	4.7	Net debt/EBITDA (x)	3.9	3.9	3.1	9.4	3.7	
Growth Rates						Key Ratios						
2018A	2019A	2020A	2021A	2022A	2018A	2019A	2020E	2021E	2022E			
Revenue (%)	8.7	8.7	-23.3	-50.1	95.9	Return on assets (%)	5.1	5.2	3.2	0.3	2.9	
EBITDA (%)	7.0	9.6	-28.2	-65.5	>100	Return on equity (%)	4.6	4.6	2.3	-0.1	2.4	
EBIT (%)	5.6	8.4	-36.0	-89.7	>100	Return on funds employed (%)	12.3	11.0	7.2	0.5	5.3	
Normalised NPAT (%)	6.2	4.4	-39.7	n/a	n/a	EBITDA margin (%)	74.0	74.6	69.9	48.4	68.1	
Normalised EPS (%)	5.6	3.6	-42.4	n/a	n/a	EBIT margin (%)	61.0	60.9	50.8	10.5	48.3	
Ordinary DPS (%)	6.1	2.3	-100.0	n/a	n/a	Capex to sales (%)	56.6	43.1	61.4	56.3	61.1	
Cash Flow (NZ\$m)						Capex to depreciation (%)						
2018A	2020E	2021E	2022E	Imputation (%)	100	100	100	100	100			
EBITDA	506.4	398.4	137.6	379.3	Pay-out ratio (%)	99	98	0	0	40		
Working capital change	(12.3)	(6.0)	0	(5.0)	Operating Performance							
Interest & tax paid	(294.9)	(72.1)	(35.0)	(102.9)	2018A	2019A	2020E	2021E	2022E			
Other	122.0	(127.4)	0	5.0	Aeronautical	328.5	342.2	262.4	118.7	261.9		
Operating cash flow	321.2	192.8	102.6	276.5	Consumer	263.0	301.3	213.2	72.9	201.3		
Capital expenditure	(387.4)	(350.0)	(340.0)	Property	86.1	94.7	89.4	87.4	88.2			
(Acquisitions)/divestments	347.3	0	0	0	Other	6.3	5.2	5.3	5.4	5.5		
Other	(8.8)	(7.0)	(10.9)	(9.7)	Total sales revenue	683.9	743.4	570.3	284.3	556.9		
Funding available/(required)	272.3	48.0	(68.2)	(73.3)	Aeronautical	239.9	252.1	180.4	48.7	179.9		
Dividends paid	(182.8)	(192.4)	0	(29.2)	Consumer	232.6	269.0	185.2	46.9	173.3		
Equity raised/(returned)	0	0	0	0	Property	65.5	72.2	69.7	68.2	67.9		
(Increase)/decrease in net debt	89.5	(144.4)	(68.2)	(102.5)	Total EBITDAFI	506.4	554.8	398.4	137.6	379.3		
Balance Sheet (NZ\$m)						International pax growth (%)						
2018A	2019A	2020E	2021E	2022E	4.7	3.0	-26.3	-72.8	250.0			
Working capital	(76.3)	(33.4)	(90.7)	(45.2)	(88.5)	Transits (%)	-1.2	-1.2	-1.2	-93.5	1,380.6	
Fixed assets	6,378.0	6,577.1	6,658.6	6,620.9	6,760.5	Total int'l pax growth (%)	4.7	3.0	-26.3	-72.8	250.0	
Intangibles	0	0	0	0	0	Domestic pax growth (%)	7.7	3.6	-26.5	-31.9	50.0	
Right of use asset	0	0	0	0	0	Aero income per pax change	-2.4	1.3	4.8	4.9	5.9	
Other assets	1,640.4	2,013.7	2,179.7	2,269.7	2,364.7	Retail sales per int'l pax change	12.1	15.5	-8.0	0.0	0.0	
Total funds employed	7,942.1	8,557.4	8,747.6	8,845.4	9,036.6	Car park income per pax change	1.6	1.8	0.0	0.0	3.0	
Net debt/(cash)	1,953.6	2,153.1	1,220.2	1,288.4	1,390.9	Yield on property BV (%)	7.4	6.8	5.6	5.0	4.7	
Lease liability	0	0	0	0	0	Int'l aircraft numbers ('000)	55.7	57.1	45.0	11.9	43.6	
Other liabilities	306.4	371.4	371.4	371.4	371.4	Domestic aircraft numbers ('000)	118.6	121.7	94.2	64.0	92.2	
Shareholder's funds	5,682.1	6,032.9	7,156.1	7,185.6	7,274.3							
Minority interests	0	0	0	0	0							
Total funding sources	7,942.1	8,557.4	8,747.6	8,845.4	9,036.6							

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

## Summary of forecasts

Figure 3. FY20 earnings forecasts (NZ\$m)

	FY19	FY20E	Change
Sales revenue	743.4	570.3	-23%
Airfield income	127.6	99.2	-22%
Passenger Service Charge	185.1	132.5	-28%
Retail income	225.8	152.9	-32%
Property income	94.7	89.4	-6%
Car Park income	64.2	47.2	-26%
Interest income	1.8	1.8	0%
Other income	44.2	47.2	7%
EBITDAFI	554.8	398.4	-28%
Depreciation	(102.2)	(108.5)	6%
Associate income	8.2	6.0	-27%
One-time items	249.6	(11.4)	-105%
Interest expense	(78.5)	(65.7)	-16%
Taxation	(108.4)	(35.5)	-67%
Reported NPAT	523.5	183.3	-65%
Abnormals (post tax)	(248.8)	(17.6)	-93%
<b>Underlying NPAT</b>	<b>274.7</b>	<b>165.7</b>	<b>-40%</b>
Underlying EPS (cents)	22.8	13.1	-42%
Final DPS (cents)	22.25	0.00	-100%

Source: Forsyth Barr analysis

## 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, albeit this is now on hold in light of COVID-19 disruption. Ordinarily it generates attractive return on capital in its non-regulated commercial assets and valuation benefits from low prevailing government bond rates. However, COVID-19 has had a material impact on its operations and we expect recovery will take years given border closures, consumer apathy to travel and the impact on the travel retail sector. **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 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.

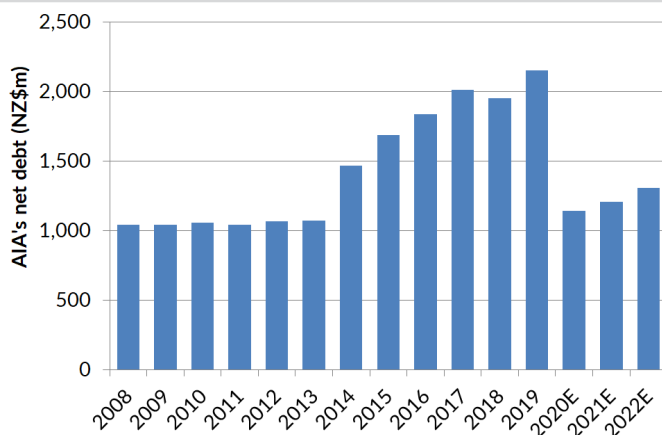
### Financial structure

- **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

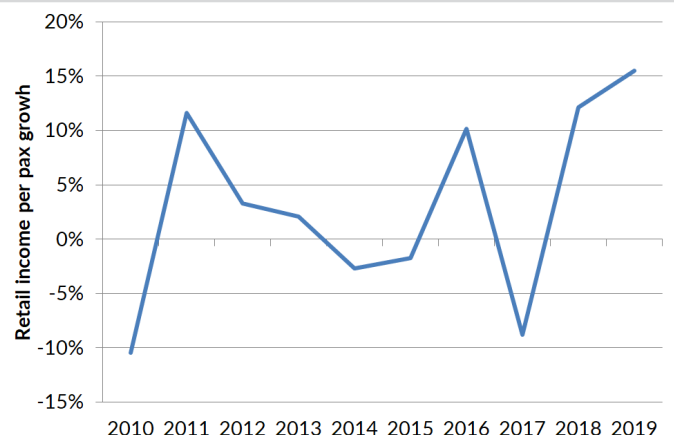
- **Rising bond yields:** AIA trades as a bond proxy. Its valuation holds a very strong inverse relationship with bond yields.
- **Regulatory risk:** We expect AIA to lower current aeronautical prices to ease any regulatory pressure given its mixed ComCom report last year.

Figure 4. Debt burden at AIA helped by capital raise

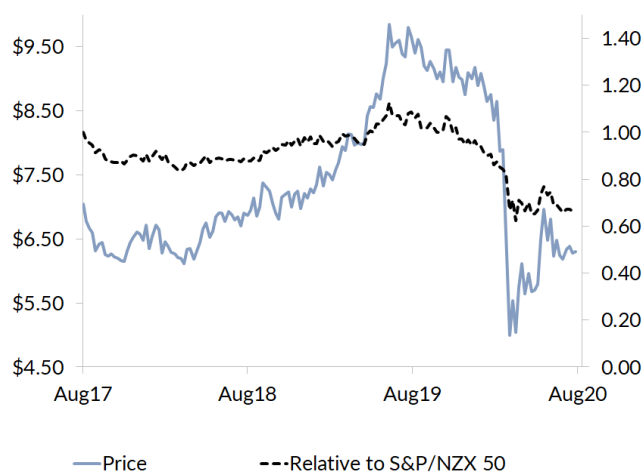


Source: AIA, Forsyth Barr analysis

Figure 5. Retail income per international pax growth



Source: AIA, Forsyth Barr analysis

**Figure 6. Price performance**


Source: Forsyth Barr analysis

**Figure 7. Substantial shareholders**

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

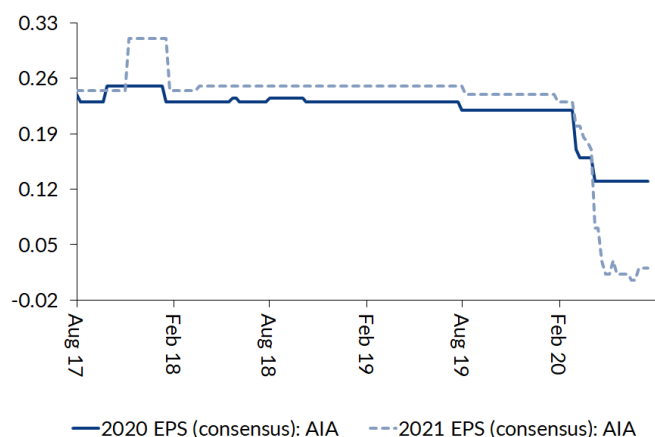
Source: NZX, Forsyth Barr analysis, NOTE: based on SPH notices only

**Figure 8. International valuation comparisons**

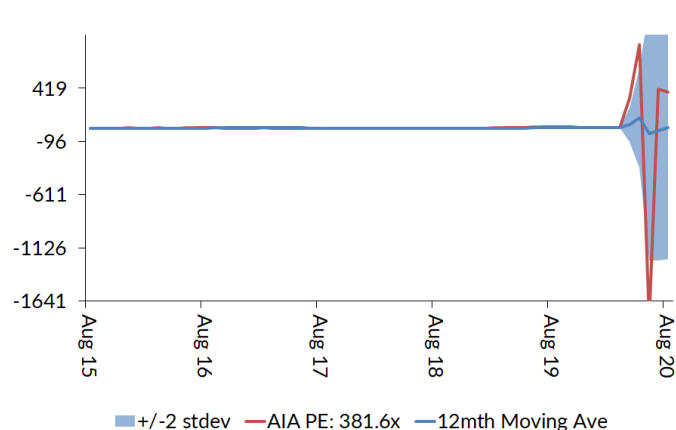
Company	Code	Price	Mkt Cap (m)	PE 2020E	PE 2021E	EV/EBITDA 2020E	EV/EBITDA 2021E	EV/EBIT 2020E	EV/EBIT 2021E	Cash Yld 2021E
(metrics re-weighted to reflect AIA's balance date - June)										
Auckland Airport	AIA NZ	NZ\$6.30	NZ\$9,263	48.1x	<0x	28.7x	>75x	39.4x	>75x	0.0%
SYDNEY AIRPORT	SYD AT	A\$5.39	A\$12,028	<0x	>50x	32.9x	39.9x	>75x	>75x	1.5%
MALAYSIA AIRPORTS HLDGS BHD	MAHB MK	RM5.11	RM8,478	<0x	7.7x	9.3x	10.1x	37.0x	39.5x	1.3%
FLUGHAFEN WIEN AG	FLU AV	€25.90	€2,176	<0x	<0x	13.1x	14.3x	<0x	<0x	2.3%
FLUGHAFEN ZURICH AG-REG	FHZN SW	CHF127.40	CHF3,911	<0x	<0x	14.8x	16.1x	<0x	<0x	2.8%
FRAPORT AG FRANKFURT AIRPORT	FRA GY	€37.14	€3,434	<0x	11.1x	26.1x	27.9x	<0x	0.5x	1.5%
AIRPORTS OF THAILAND PCL	AOT TB	THB53.25	THB760,714	>50x	>50x	52.8x	54.7x	>75x	>75x	0.8%
BEIJING CAPITAL INTL AIRPO-H	694 HK	CN¥5.56	CN¥25,460	>50x	>50x	10.3x	12.4x	36.0x	43.1x	1.6%
Compco Average:				n/a	9.4x	22.8x	25.1x	36.5x	27.7x	1.7%
AIA Relative:				n/a	n/a	26%	n/a	8%	n/a	-100%

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


Source: Forsyth Barr analysis

**Figure 10. One year forward PE (x)**


Source: Forsyth Barr analysis

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