

more
than
money



National
Australia
Bank

A world of
INSIGHT

Global Round Table – Airports

March 2019



A WORLD OF INSIGHT

AIRPORTS: BALANCING EXPANSION NEEDS WITH SUSTAINABILITY CONCERNS

In March 2019, National Australia Bank invited Treasury representatives from Heathrow, Changi, Sydney, Brisbane and Auckland airports to a virtual Global Round Table to discuss the opportunities and challenges of rapid growth in passenger traffic.

Major airports around the world are finding new ways to balance their ambitious expansion plans to cater to rapid passenger growth while addressing environmental and social concerns of both investors and communities.

Passenger trips worldwide topped 4.3 billion in 2018, and this figure is forecast to double over the next 20 years, underpinning the need for airport terminal and runway expansions. To meet this anticipated surge in demand, airports are taking innovative approaches towards their existing facilities as well as putting into place infrastructure to cater for future growth.

“The whole world will have to move forward with sustainable growth, and aviation will be the same,” says Sally Ding, Heathrow Airport’s Director of Treasury and Corporate Finance. “We need to make sure that future generations can continue to enjoy the benefits of flying – that means unlocking a sustainable future for aviation.”

Heathrow says it wants to use its scale and influence to drive change in the sector, setting a target for carbon

neutral growth as its planned third runway is completed in 2026. Terminal 2 of the airport is powered with 100% renewable electricity.

“The challenge now is not just to get a project done on time and budget; the challenge with sustainability is how we grow the airport in the most responsible way,” Ms Ding says. This includes an extension of existing limits on night flights; offering incentives such as cheaper landing fees for cleaner and quieter aircraft; and boosting efficiency in operations such as reduced taxi times.

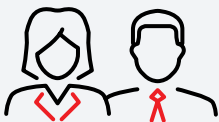
“The challenge is to grow in the most responsible way.”

— Sally Ding, Heathrow Airport.

Annual growth in global passenger traffic (commercial airlines, % yoy)

	2013	2014	2015	2016	2017	2018E	2019F
Global	5.8	6.3	6.9	7.5	8.0	6.5	6.0
North America	2.6	3.0	4.3	4.0	3.9	5.0	4.5
Europe	4.7	6.5	5.8	5.3	8.9	6.4	5.5
Asia-Pacific	8.0	7.8	9.6	11.1	10.9	8.5	7.5
Middle East	11.5	11.9	9.9	11.4	6.8	4.6	5.5
Latin America	6.3	6.3	6.7	4.5	7.3	6.0	6.0
Africa	5.0	0.6	3.4	7.3	7.3	3.6	5.0

Source: IATA, December 2018



PARTICIPANTS IN THE NAB GLOBAL ROUND TABLE

Participants

Auckland Airport

Philip Neutze
Chief Financial Officer

Brisbane Airport Corporation

Warren Briggs
Head of Corporate Finance

Changi Airport

Wilson Wu
Senior Manager

Heathrow Airport

Sally Ding
Director of Treasury and
Corporate Finance

Sydney Airport

Michael Momdjian
Group Treasurer

Moderators

Melissa Gribble

Head of Capital Markets
Origination, NAB

Jacqueline Fox

General Manager, Capital
Markets & Advisory, NAB

Environmental considerations

Growth in airport footprints and traffic volumes have well documented environmental implications and this is especially the case for airports that are built close to downtown areas, such as Sydney Airport, which lies eight kilometres from the city.

“We’re actively thinking about ways to more efficiently operate and deliver further growth within our footprint,” says Sydney Airport Treasurer Michael Momdjian. “This may involve opportunities that complement our service offering, in addition to leveraging technology and data.”

All airports were focused on the customer experience including travel to the airport. Options under consideration include downtown check-in, which is used in some international airports such as Hong Kong. Passengers can drop their bags before catching the

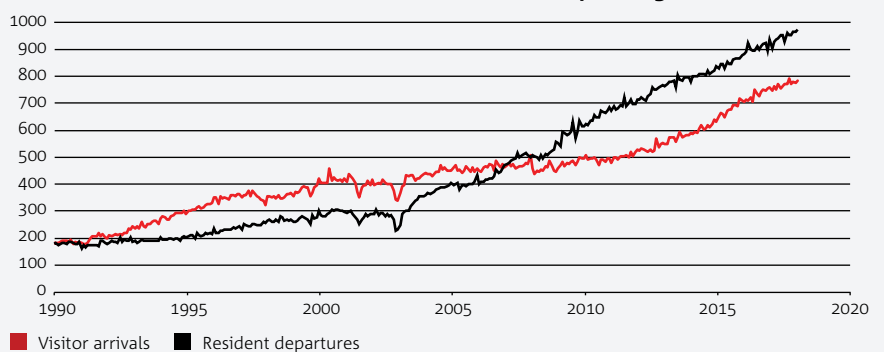
airport express train, instead of lugging their suitcases all the way to the airport.

Environmental considerations are also key at Heathrow Airport. This includes both the noise impact on local residents and a wider focus on carbon neutrality including limiting the increase in road traffic as passenger numbers grow.

“Heathrow Airport has committed to ensuring that expansion will not result in additional road traffic, which will require 50% of passenger journeys to be made using sustainable transport modes after completion of the third runway,” Ms Ding says.

Others have wildlife habitats to consider: Brisbane Airport, which is due to complete its new runway next year, has approximately 10 per cent of its total area designated as a biodiversity zone including wetlands that are home to bird species including the Lewin’s Rail and the Eastern Grass Owl.

Australia tourism indicators: inbound and outbound passenger traffic



Note: includes minority of people coming by cruise ship
Source: National Australia Bank, ABS

A WORLD OF INSIGHT

AIRPORTS GLOBAL ROUND TABLE

Common measures being adopted at several airports include installation of solar panels and fully electric fleets of buses, vans, or baggage handling tractors. Changi Airport has introduced machines that use microbes to break down food waste into water, which processed over 600 tonnes of food waste last year that would otherwise have gone to incineration plants.

For Auckland Airport, the focus is on the local community. Faced with a heavy infrastructure building program for a new domestic terminal at the same time as extensive construction projects are taking place across New Zealand, Chief Financial Officer Philip Neutze says it has been hard to procure the sub-contractors needed.

“So we’ve focused on training unemployed people, giving them the skills so they can be employed by the construction contractors, and getting them on the ladder for gainful employment,” Mr Neutze says.

“ESG is very much core to the way we operate.”

— Philip Neutze, Auckland Airport.

Investor focus on ESG

The focus on community is backed by investors, who are increasingly incorporating Environmental, Social and Governance (ESG) factors into their portfolios.

In some cases, this also means issuers need to educate investors about the role of airports in driving ESG outcomes within the aviation industry. “There are unique ways in which we contribute as an infrastructure provider, such as improving energy efficiency, in addition to working with our airline partners in achieving their own sustainability goals, such as improving fuel efficiency. Climate resilience in general is very important to us,” says Sydney’s Mr Momdjian.

Sydney has set a target to achieve carbon neutrality by 2025, and recently entered into a power purchase agreement to contract up to 75 per cent of its current electricity load from wind.

Heathrow’s Ms Ding says that demonstrating the airport’s ESG credentials has become increasingly important so as not to be screened out by investors with strict ESG criteria and the onus is on the airport operators to proactively demonstrate their credentials and challenge the assumptions of investors.

“From recent conversations with investors, we understand that ESG eligibility is becoming more and more important for a lot of investors in Europe and the US,” she says.

“We think if you don’t have this ESG lens now, you will be excluded from certain portfolios that would otherwise invest. We are updating our reporting to demonstrate our ESG agenda, reporting measurements and KPIs. You will need to demonstrate for all their portfolios that have internal screening criteria that you have the sustainability credentials so that they can continue to invest in the business.”

Auckland Airport agrees, noting that particularly for equity index fund investors, ESG screening is a precursor to making any investment decision. “For the investor side, we have to demonstrate that all of our activities tick those boxes. But more than that, we look at ESG as very much core to the way we operate and effectively giving us that social licence to operate,” says Mr Neutze.

Among the proof points for investors are clear goals and targets, which major airports have committed to and in many cases publish in annual sustainability reports.

CARBON TARGETS

Auckland Airport

Reduce energy and fuel consumption by 20% per passenger by 2020 (from 2012 levels)

Brisbane Airport

Carbon neutral growth from 2020

Changi Airport

Reduce carbon emissions by 20% by FY2029/30 (based on 2017/18 levels)

Heathrow Airport

Goal to be carbon neutral by 2020 and zero-carbon airport by 2030; growth from new runway to be carbon neutral

Sydney Airport

Achieve carbon neutrality by 2025

Source: Airline websites

Financing the expansion

The market for green and sustainability bonds has grown dramatically in recent years, but airports have yet to tap into that funding opportunity. They have been steady borrowers in the medium-term note, US 144(a), Euro, and U.S. Private Placement (USPP) markets, with 60 new issues globally since 2016.

Sydney Airport recently tapped the USPP market to extend its debt maturity profile to as long as 30 years. Mr Momdjian noted that during roadshows across the US and Europe, some investors showed interest and raised questions about sustainability but did not see it as a prerequisite to investing.

The sustainability bond market may generate an additional source of funding in the future, but the major airports at the NAB round table said they have yet to see it materialise significantly. Appetite will also depend on how stringent the investors are, with varying degrees of appetite for green investments described as 'dark' or 'light' green.

"We have seen a lot of 'dark green' investors who don't want to touch anything fossil-fuel related," says Ms Ding. "Others take the view that we can't stop the world from flying, and we should support people to get closer to their sustainability goals."

She said Heathrow's expansion plans will see a near doubling of its funding requirement to £3.5-4.0 billion annually, with a focus on diversification, long-dated opportunities, accessing new markets while maintaining strong presence in existing markets and building out the duration curve in each currency it issues in.

Global infrastructure investors have been supportive of many airport issuers, particularly in the USPP market. "The USPP market has such deep knowledge of the sector and appetite for the sector, they have that willingness to provide funds over very long dated maturities," said Brisbane Airport's Head of Corporate Finance Warren Briggs.

Changi Airport Senior Manager Wilson Wu says that the airport currently has low levels of debt, but in order to finance the Changi East expansion -- spanning 1,080 hectares and including a new terminal and third runway -- that situation will change significantly. "We expect to go into the markets quite deeply over the next decade," Mr Wu said.

A WORLD OF INSIGHT

AIRPORTS GLOBAL ROUND TABLE

Sydney Airport has had annual growth of over 15% in Chinese tourist arrivals for several years.

Drivers of growth

For airports across Asia, the greatest source of passenger growth in recent years has been the rise of the Chinese tourist, as urbanisation grows and the expanding middle class embraces international travel.

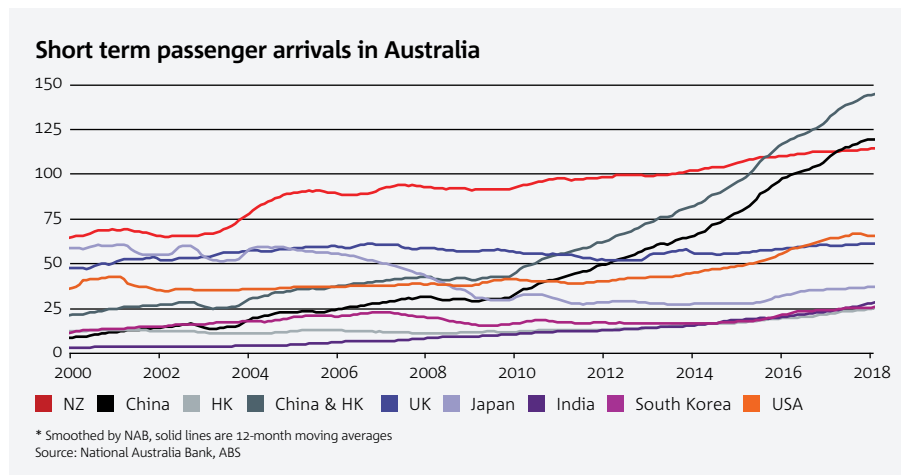
Australia and New Zealand, with their attractions of natural beauty, clean air and wide open spaces, have been particular beneficiaries. Chinese visitors to Australia rose 8 per cent to 1.3 million last year, while Australia-China city routes have grown from 12 in 2014 to 38 in 2018, according to [government data](#).

Sydney Airport has had annual growth of over 15% in Chinese tourist arrivals for several years, while Queensland has five international airports, with tourists especially drawn to the Gold Coast and Sunshine Coast beach resort areas.

Australia's role as a leading provider of education services to university students from Asia has also supported a rise in family visits. Education is Australia's third-largest export earner and Chinese students account for 30 per cent of the total. One student at a local tertiary institution can generate many trips to and from the country for themselves and family members.

The liberalisation of air rights with China also helped, with new carriers setting up routes to Asian destinations after an open skies agreement was reached in 2016. Auckland Airport says six or seven Chinese airlines have begun services to Auckland in recent years.

For Changi Airport, growth has been driven by key markets in Asia such as China and India. There was no change to Changi's top 10 routes, with nine in Asia and one from Australia (Sydney).

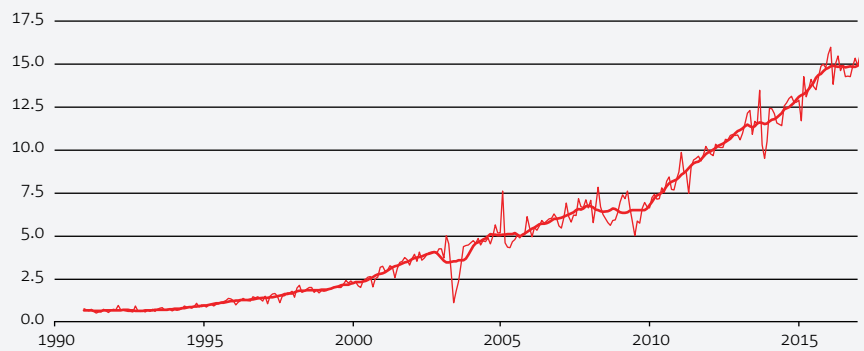


As for potential risks to the long-term prospects for growth in tourist numbers, not even Brexit nor continuing U.S.-China trade tensions were seen as posing major challenges by the airports at the round table.

Historical shocks such as the SARS epidemic, the 9/11 terror attacks and the Global Financial Crisis have not had a long-term effect on the growth of travel. “That’s not to say we’re immune from a major downturn, we’re clearly not, but there has been a high degree of resilience for a long period of time,” said Brisbane Airport’s Mr Briggs.

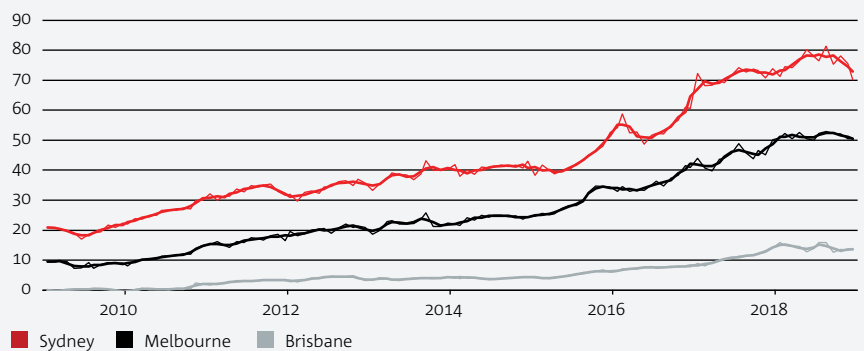
Returning to the sustainability theme, any increases in carbon taxes or other government charges could make air travel more expensive in the future and dampen appetite for frequent travel. “If that happens, I think we could see that elasticity of demand start to bite,” says Auckland’s Mr Neutze.

Short term arrivals in Australia – China market share



* Smoothed by NAB, solid lines are 12-month moving averages
 Source: National Australia Bank, ABS

International arrivals from Chinese airports (direct)



* Seasonally adjusted and smoothed by NAB, solid lines are 3-month moving averages
 Source: National Australia Bank, BITRE

GET IN TOUCH WITH US

Eric Williamson

EGM, Corporate Finance
+61 3 8634 0256
eric.williamson@nab.com.au

Jacqueline Fox

GM, Capital Markets & Advisory
Corporate Finance
+61 3 8641 2341
jacqueline.fox@nab.com.au

Melissa Gribble

Head of Capital Markets Origination,
Capital Markets & Advisory
+61 2 9237 1465
melissa.gribble@nab.com.au

Tabitha Chang

Director, Capital Markets Origination
+61 2 9903 0260
tabitha.chang@nab.com.au

Brad Scott

Director, Capital Markets Origination
+61 2 9376 5985
brad.scott@nab.com.au

Lorna Greene

Director, Debt Syndicate & Origination Asia
Capital Markets & Advisory
+852 2826 8118
lorna.greene@nabasia.com

Andrew Santone

Head of Capital Markets, Europe
+44 20 7710 2994
andrew.santone@eu.nabgroup.com

Rosalie Valladares

Director, Capital Markets Europe
+44 20 7710 1537
rosalie.valladares@eu.nabgroup.com

Mike Faville

Head of Capital Markets,
Bank of New Zealand
+64 9 375 1391
mike.faville@bnz.co.nz

Fiona McIntyre

Head of Energy & Utilities, Client Coverage
Corporate & Institutional Banking
+61 3 8641 2923
fiona.mcintyre@nab.com.au

Connie Sokaris

GM Resources, Infrastructure & Government,
Client Coverage
Corporate & Institutional Banking
+61 2 9237 9149
connie.sokaris@nab.com.au

Important information

This document has been prepared by National Australia Bank Limited ABN 12 004 044 937 AFSL 230686 ("NAB"). Any advice contained in this document has been prepared without taking into account your objectives, financial situation or needs.

Before acting on any advice in this document, NAB recommends that you consider whether the advice is appropriate for your circumstances. NAB recommends that you obtain and consider the relevant Product Disclosure Statement or other disclosure document, before making any decision about a product including whether to acquire or to continue to hold it.