Airport Feature – by Steve Creedy

International Traffic Keeps Airport Revenues Aloft.

International traffic is offsetting a lacklustre domestic market and underpinning the credit outlook for Australian airports, according to ratings agency Moody's Investor Services.

Australian airports have had a stable outlook since 2009 and Moody's says in a recently released report that it expects this to continue thanks to revenue growth over the next 12 to 18 months in the mid-single digit percentage range.

This is despite a forecast that percentage passenger growth overall will remain in the low single digits and growth in domestic passenger volumes will remain flat.

"I think what's interesting to see is airport revenue continuing to grow notwithstanding the fact that a large proportion of the market that they serve — the domestic market — has been sluggish for a good couple of years,'' Moody's vice president and senior analyst Spencer Ng tells AAA.

"I think the way we're seeing this is that airlines are cautious in adding additional capacity in any of the domestic markets. They are in a mode where they're trying to manage their yield in terms of their revenue from selling those seats.

"I think airlines are still at a stage where they're rationalising their seat capacity and we're seeing aircraft deployed in markets where there is more demand, such as Brisbane, Melbourne and Sydney."

The saving grace in terms of allowing airport revenue to grow at a faster pace, according Ng, is a 4 to 5 per cent growth in international traffic.

"It could be up to 5 to 6 per cent for certain airports, depending on their exposure to international tourism and airlines' decision to add capacity'' he says, adding that the figures Moody's builds into its financial scenarios may be more conservative than projections produced by airports themselves."

The higher boost to airport revenues comes from the fact that airport charges levied on international travellers are generally higher than those levied on domestic passengers.

The ratings agency expects intense international competition to drive down fares and encourage more people to fly.

Tourism-related demand is also expected to be stimulated by new connections to under-serviced markets many of them made possible by the introduction of new fuel-efficient aircraft such as the Boeing 787 and the Airbus A350.
But Ng notes airports have been successful in increasing non-aeronautical revenues and the ratings agency is factoring in a higher contribution from businesses such as retail leasing and parking.

It suggests higher international passenger volumes could feed through to increased lease rentals for airports.

"That's one of the things we watch because in an economy where you're seeing domestic passenger growth slowing down, how do you make sure your revenue continues to grow,'' Ng says. "It's one of the key underpinnings for the stable sector outlook we have for the airports.''

The senior analyst says it's hard to say whether any particular factors dominate in the ratings agency's assessment, noting different factors affect different airports at different times.

"If your international aeronautical revenues, the standouts are probably Melbourne and Sydney which have been growing their international passenger numbers very quickly over the last two years,'' he says. "Melbourne has actually been maintaining a growth rate in high single digits over the last couple of years which is quite phenomenal.

"In terms of non-aero side of things, it does depend on factors such as when major contracts are being negotiated.

"For example, when Sydney Airport and Brisbane Airport renegotiated their duty-free shopping contract, that provided a bump in the revenue contribution.''

There's also good news in terms of earnings before interest tax depreciation and amortisation (ABITDA) margins.

These are currently between 60 and 80 per cent and Moody's expects them to remain high,
It says this provides airports with the flexibility to manage unexpected challenges in the operating environment by using cash flow from operations to fund capital projects or repay debt instead of paying dividends.

Subscribers can read the full report at:
http://www.moodys.com/viewresearchdoc.aspx?docid=PBC_1072689

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