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Auckland International Airport Limited

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Phil Neutze
Associate Director

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Hello, and welcome to our next presentation by Auckland International Airport from New Zealand. My name is Zafir Aziz [ph], head of DR Market Solutions at Deutsche Bank's Depository Receipts team.

Before I introduce the next presentation, a few quick points. Following the presentation, don't log out. You will automatically be transferred to the Auckland International Airport company booth where you can post additional questions via email. A company representative will respond to your questions in due course. On a final note, all of today's presentations will be recorded and will be available via the Deutsche Bank website, www.adr.db.com.

At this point, I'm very pleased to welcome representative from Auckland International Airport. Over to you.

Phil Neutze
Associate Director

Thanks, Zafar. My name is Phil Neutze, I am Auckland Airport's acting CFO. And I've been with the company for nearly 5 years now. I'm very happy to present this overview to you of Auckland Airport, and we would welcome your involvement in the future via our sponsored Level 1 ADR program. Firstly, I want to draw your attention to this important disclaimer. Please read it later. Now let's move onto my presentation on Auckland Airport.

There's a very important feature of Auckland Airport and it'll be obvious to those who know New Zealand. We're an island nation and this means that practically everybody arrives or departs from New Zealand does so by air. Auckland Airport is the country's main international gateway, and 75% of all arrivals come through this airport. Excluding visitors from our closest neighbor, which is Australia, 94% of all long-haul arrivals come through Auckland Airport. An important attribute of Auckland Airport is that we don't have a curfew. We can operate 24/7, 365 days a year.

In terms of our aeronautical infrastructure, we have a single runway that's nearly 3,900 yards long and is capable of handling all current types of the aircraft, including the courteous [ph] Airbus A380. We've got 3 of them currently arriving at our airport every day and we'll have another one starting off soon with Singapore Airlines. Our main taxiway can function as a standby runway during emergencies or standard maintenance outages. And we currently have separate international and domestic terminals. Both handle somewhere between 7 million and 8 million passengers every year, that's accounting arrivals and departures. But the domestic terminal is nearing its capacity. We will likely integrate a new domestic terminal within the international terminal over the next 10 years or so. We have nearly 4,000 acres of land that we own freehold and more than 750 acres of this are available for investment property developments. We think that will see us through roundabout 20 to 30 years of property development. The sort of properties we put on that land, we have office buildings, hotels, et cetera. And I'll provide more information on our property portfolio in our upcoming slide.

Auckland Airport's market cap is close to USD $3.6 billion. We are 1 of New Zealand's 5 largest listed companies by market cap. Over 30% of our shares are held by offshore owners, at this stage, almost entirely through direct holdings of Auckland Airport's head shares, but we expect our new sponsored Level 1 ADR Program to result in higher offshore ownership over time. Auckland Council is our largest shareholder and the Council holds just over 22% of our shares. The balance is pretty evenly split between institutional and retail investors. If you look at the table at the bottom of the slide, clearly, Auckland Airport has delivered strong shareholder returns over the last 4 years. And I just want to point out that the 2014 return of over 33% that, that actually excludes the capital return that we paid out to shareholders in April this year, and I have more information on that strategy coming up.

I won't dwell on this slide for too long. Mainly, it shows the companies comprising Auckland Airport's consolidated group. And of particular note is that we hold minority shareholdings in 1 on-airport hotel, an

East Coast Australian regional airport company and a small, but strategic South Island Regional Airport. Again, I'll give you some more information on our associate companies in an upcoming slide.

I think this is important slide. It focuses only on Auckland Airport aeronautical revenues and they comprise roundabout half of our total revenues. These revenues are dominated by passenger-based charges and landing charges both of which, we levy on aircraft, then airlines recover them from their own ticket prices. As you can see from the chart at the bottom on this page, Auckland Airport's passenger growth has proved very resilient this century. There's only been 1 year over this period when passenger numbers actually fell and that was during the global financial crisis in our fiscal 2009. Now this resilience is supported by our diverse geographic catchments and, in particular, by the diverse range of reasons for passengers to travel to New Zealand. Holidays to New Zealand dominate, followed closely by visiting friends and relatives and then by business trips and conferences. It's a fantastic country to visit and I would urge you to give it a go.

Now please bear with me on this slide. This is a reasonably complicated story. It's a bit of information to go through. The first thing I want to stress is that our regulated aeronautical activities are subject to information disclosure, not to price control. And secondly, that we must consult every 5 years, at least, on aeronautical price path, but there's no obligation to negotiate and agree that price path. We have a dual-till regime. Only our regulated aeronautical activities are subject to these obligations. Our commercial operations are outside of this regime, they fall into the second till. And to give you examples of our second-till activities, they include our investment property business, our hotels, the end-terminal retail concessions and our car parking operations.

Our current pricing period, which covers our fiscal 2013 to 2017, 5-year period, we're almost exactly halfway through that and we're almost exactly on track to deliver our forecast after-tax return on the aeronautical business of 8%. Now the Commerce Commission, that's New Zealand's consumer watchdog, it reviewed our forecast for this price period round about a year ago, and it found this forecast return was acceptable. But this year, the commission announced that it will have a look at its benchmark weighted average cost of capital calculation for airports, the benchmark against which people who read our disclosure statements can assess our returns, the commission intends to conduct that review during 2015.

At this stage, we think, at worst, this could potentially lead to a 1% reduction in the commission's benchmark WACC. That would be if it fell from the 75th percentile to the 30th percentile estimate. Now this is a complicated concept and I'm happy to take questions on that, what this means, in terms of percentiles. But it is important to note that the commission publishes it's WACC estimate for Auckland airport every year in July. And that WACC estimate has increased by almost 0.9% from FY '13 to '15 and that's been a result of steadily increasing New Zealand government bond rates, which is the benchmark cost of debt for the WACC calculation. So bearing this in mind, we expect the commission's benchmark WACC for Auckland Airport for our upcoming pricing period, which is FY '18 to '22, will be similar if not higher than during this pricing period. So that's enough on regulatory. Moving onto the next slide.

Now this is about how we grow our travel markets. So arguably, our core growth strategy is to grow airline capacity and passenger numbers through this airport. We don't discount our published aeronautical charges to achieve this, but we do undertake high-quality economic analysis for airlines, and we target marketing campaigns and other initiatives to support sustainable capacity growth. A key growth target is Asia, in particular, China, Indonesia and India. The middle-class in this region is expected to grow very strongly over the next 15 years. A study in 2010 by Homi Kharas predicted that by 2030, 66% of the world's middle-class will come from this region. As you know, once people are comfortable in terms of food, a roof over their heads, health and education, you must start to look further a bit afield and start venturing abroad on recreational travel. We aim to tap that desire. We've been very successful growing capacity in passengers into New Zealand from this region over the recent years, and we expect this success to be ongoing.

This slide shows another key reason why we target growth in Chinese passengers. If you look at the bar on the right, you'll see that offshore resident Chinese visitors spend well over twice as much in our retail outlets as the average of all our other passengers. And you can see that New Zealand passengers, third from the right, are the next high spenders after the Chinese.

We call this our retail 101 Slide. This illustrates how Auckland Airport's retail revenue is generated. And just running through those components, to build retail income, we focus on, firstly growing passenger numbers; secondly, increasing the proportion of passengers who make the purchases at our retail concessions; third, increasing the average transaction size; and finally, by our concession arrangements with our retailers, securing a fair share of passengers spend as our own income. So if you can probably deduce from this, we actually don't operate those internal retail outlets. We bring in specialist retailers by way of concession arrangements. Majority of our retail income is generated by 2 Duty Free operators in our international terminal, and the key products are alcohol, tobacco, fragrances, et cetera. Early next year, we will complete a -- the current Duty Free tender prices. So the existing concessions terminate in June 2015. And we are well along the path to completing the retender for 2 Duty Free operators at the beginning of our fiscal 2016. We will appoint those operators early next year, and so far, the results of this retender are looking very strong.

This is an exciting slide for Auckland Airport. Right now, we are progressing concept design to expand our outbound processing areas, so that's security screening and immigration processing as well as our outbound air-side retail area. This development should significantly increase retail space and will appreciably improve the passenger experience in our international terminal. Our outbound net lettable retail area could increase by up to 80%. And our benchmarking shows that compared with best practice, we are low on space, so we expect this to have a significant impact -- beneficial impact to our retail operations. In terms of timing, design work should be completed over the next 12 months, with the first phase, which would be the relocation of the Duty Free operators to go live in late calendar 2016. A much larger specialty retail space than we have now should go live by late calendar 2017. In the meantime, we will continue to build our highly successful online retail offering, which is growing very rapidly, albeit off of a lower base. We kicked that off this financial year.

Turning to our car parking business. Our car parking and Park & Ride operations provide nearly 9,000 parking spaces. They serve domestic and international passengers and staff working on the airport precinct. Our key focus areas for the parking business at present include improving pricing and yield optimization via our online parking offering, so our travelers can book carparks online at our website and on our mobile app. They can also drive up and pay the drive-up rates, but the online tool is very helpful for optimization of our parking tariffs. We are also moving lower yielding staff parking to Park & Ride to free up the parking spaces near to the international and domestic terminals for higher-value passenger parking. And we're also increasing and improving our high-value valet parking offerings for both domestic and international passengers.

As I said earlier, we'll give you some more information on the property business. So let's start with our land. Our vacant developable land supply can fuel another 20 to 30 years of investment property development on our land. The main property types that we develop include: warehouses and logistics buildings; fast food and off-terminal retail outlets, examples include KFC, a supermarket, banks, cafés, et cetera. We have offices and we have hotels. And we've also focused on improving the amenity around the airport precinct for people who work out here. Recent additions include a mountain bike trek; we've installed a football field, which has proved very popular this summer; as sculpture trail; paintball facilities; a bar and restaurant and cafés. But it's important to note that we're running it around 99% occupancy currency -- currently, and we have a weighted average lease term of nearly 4.5 years. So to continue to grow our property business, we need to implement new developments. And the things are active at the moment, we've been successful attracting new landmark tenants to new property developments. Among other things, we're currently planning a new office block and new hotel.

This is an aerial photograph of Auckland Airport's landholdings. And I think it must have been taken last year, where we were in the middle of a drought in the summer, does look rather brown. But the blue boundaries or the blue lines show the boundary to our landholding. And by way of comparison, the red line shows the area of Auckland's Central Business District, so we dwarf that area, clearly. And perhaps a more useful comparable for our listeners today is that our landholding is just a little bit less than the ear of Manhattan's Central Park. And if you're like me, you've attempted to walk or run round the park, you'll understand that, that's a big chunk of land. Other things I want to emphasize is that land value, and this excludes the value of the land under our investment properties, which are valued as part of the investment property value. Excluding that, the rest of the land has a valuation, more than $1 billion greater than in our total debt of $1.5 billion, so you can see our borrowings are underpinned by assets. That pretty much covers this slide.

So moving on to our hotels. This slide shows photos of Auckland Airport's 2 existing hotels. At the top is our 4-plus star Novotel Hotel, that's located immediately adjacent to the international terminal. And it's a joint venture with the Accor Group, and the investment arm of a high-profile local Maori tribe called Tainui. This has been a very successful partnership. We have a 20% shareholding in this company, but we also collect ground rents from the hotel site. The Ibis Budget Hotel, which is shown at the bottom is an easy walking distance from the international terminal, that actually happens to be right beside our corporate offices. This hotel was designed to be out to be extended, and because it's been so successful, we have just about completed the process of adding another 73 rooms to that hotel. But to give you a sense of how well these developments have gone, they both achieved target occupancy and room yields 1 or 2 years ahead of budget, and that's the key reason why we're examining the opportunity for another high-quality hotel nearby to the international terminal.

Moving onto our investments in airports. We have just under a 25% shareholding in Queenstown Airport. Queenstown is a beautiful New Zealand destination for skiing and for summer tourism. Our shareholding in this airport provides a strategic foothold in tourism-centric South Island of New Zealand, and it helps us market new routes to Auckland Airport, with viable connections through to Queenstown. Our Civil Aviation Authority recently approved the safety case for night flights into and out of Queenstown, and we're expecting night flights to commence in our 2016 winter. Given we're in the southern hemisphere, that's in the middle of the 2016 calendar year. This will dramatically improve connectivity for Auckland and Australian-based skiers. It'll enable Friday-night arrivals and Sunday-night departures.

Moving onto North Queensland Airports. We own 24.55% of North Queensland Airports. This company owns 2 Australian east coast airports, Cairns Airport is NQA's largest airport, that serves domestic and international tourist visitors to the world-renowned Great Barrier Reef. There's a wealthy Chinese investor that's planning a $9 billion hotel and casino development called AQUIS just 2 miles north of Cairns Airport. This could be a game changer for Cairns airport if that development goes ahead, which is at early stages at the moment. Mackay Airport is much smaller, but it's still an important regional airport, serving the huge coal-mining region in North Queensland Bowen Basin.

Let's move onto some financial information. I won't dwell on this page for long. You can study it at your leisure. The key thing I want to highlight is our strong underlying earnings growth since 2009. This is a result of strong share price growth as well as dividend growth over the last 5 or 6 years. And it was a primary driver of a $450 million capital return that we just distributed to our shareholders in April this year. The purpose of that capital return was to share the benefits of strong earning growth over recent years with our shareholders and aim to bring our credit metrics back in line with our state of intention of maintaining a strong A- Standard & Poor's credit rating going forward.

To give you more information on our revenue base, you can see from this chart that we have a diverse revenue base. It is split roughly 50-50 between the regulated aeronautical activities and our commercial second-till activities. If you study this chart in detail, please note that we introduced some changes to our aeronautical tariffs in FY '13 that was as part of the new price path FY '13 to '17. Those changes explain the jump in passenger charges in 2013 and 2014 and the disappearance of the previous cost recovery-based terminal services charge after FY '12.

This slide gives you a feel for our expenses composition. In terms of cost, every year, when we set the budget, we target operating leverage, that means growing revenue at a faster pace than expenses. This has been successful and it's driven double-digit underlying earnings growth over several years. And it's not just important for our bottom line, it also helps us share operating efficiencies with our airline customers. Efficiency sharing is one of the key intents of New Zealand's Aeronautical Regulatory Regime.

A bit more information on capital structure. This is one of several mechanisms that we target to maximize shareholder returns is capital efficiency. This focus on capital efficiency won't diminish going forward.

Even though we expect capital expenditure to increase over the next few years, we still expect our credit metrics to strengthen over the medium term, and we don't foresee any need for future equity raises.

Looking to the future. First, we'll start with guidance. In terms of our earnings guidance, Auckland Airport expects to deliver underlying profits after tax of between NZD 160 million to NZD 170 million for the year ending June 2015. This represents EPS growth of 2% to 9% versus FY '14, and that's net of an estimated 2% EPS hit from the recent reduction in New Zealand's duty-free tobacco limit on arriving passengers. That's recently fallen to 50 cigarettes per person to a line up with Australia's inbound tobacco limits. That change takes effect from this month. You can see from the table at the bottom that Auckland Airport's earnings guidance has been a reliable, albeit, arguably conservative yardstick for investors over the last 6 years.

We're onto our final 2 slides. Talking about our 30-year vision. About this time last year, we published our 30-year vision, a long-term master plan. The slide sets out our key demand assumptions underpinning that master plan. And you can find our 30-year vision document also on this virtual investor conference platform. Please note that this forecast should not be regarded as investor guidance regarding future growth in passengers and aircraft movements. A bit more detail about the master plan. You can see key milestones over the next 30 years from the chart in the middle of the slide. The key message of this slide is that our 30-year vision is a roadmap only. It's not a paint-by-numbers pathway for our future infrastructural development. All future investment will be driven by demand growth and by economic business cases. We expect continuing advances in technology to help delay the need for capacity additions. And please do have a look at our 30-year vision video that's also available on this virtual investor conference platform.
Thank you for watching and listening to my presentation. Auckland Airport is excited by the opportunity this new ADR program creates for increased U.S. investor participation in our company going forward. Feel free to submit follow-up questions via this platform. Until then, thank you, and good evening.