

Market Release | 23 February 2023

1H23 results: Auckland Airport returns to profitability as travel continues its recovery

Auckland Airport today announced its financial results for the six months to 31 December 2022.

Auckland Airport Chair Patrick Strange said: “As demand for air travel has surged globally, Auckland has remained firmly on airline radars as a destination worthy of capacity investment. In the first half of the 2023 financial year we welcomed back familiar airlines along with new routes and carriers, helping to deliver Auckland Airport’s first underlying profit in two and a half years.

“Our outlook is for continued growth, however, the recovery still has some way to go with global aviation facing ongoing systemic challenges. Travellers are feeling the frustration of mishandled bags, airline schedule changes and global staff shortages, as well as the increased likelihood of delays and queues across the aviation system – all issues that are going to take time to resolve.

“People have also had to contend with recent severe weather events – both the extraordinary Auckland flooding and Cyclone Gabrielle. Our thanks go to travellers for their ongoing patience and the team at Auckland Airport who continue to work hard to support the recovery of the business.”

Key performance data for the six months to 31 December 2022:

- Total number of passengers 7.6 million

- Domestic passengers of 4.1 million, and international passengers (including transits) of 3.5 million
- Revenue of \$288 million
- Operating EBITDAFI of \$189 million
- Reported profit after tax of \$5 million, impacted by the \$94 million non-cash investment property valuation decrease
- Earnings per share of 0.33 cents
- Net underlying profit after tax of \$68 million¹
- Net underlying profit per share of 4.62 cents
- No interim dividend will be paid

Chief Executive Carrie Hurihanganui said: "It's reassuring to see Auckland Airport return to profitability, reflecting a significant increase in capacity with 23 airlines now flying from Auckland Airport to 35 international destinations. Our focus has been on supporting airlines and their ground handlers by providing an operational environment which allows them to work as efficiently as possible, particularly in the tough-to-recruit labour market.

"We recognise that it's been a challenging time for travellers who have arrived in New Zealand without their luggage, or who waited in queues longer than we would have liked. Everyone in the wider Auckland Airport eco-system is working hard to address these issues as the recovery continues."

Overall, there were 7.6 million international and domestic travellers for the first half of the 2023 financial year, accounting for 71% of the same period pre-COVID in the 2019 financial year. Domestic passengers were 4.1 million (85% of the same period pre-COVID in the 2019 financial year) while international passenger numbers (including transits) were 3.5 million (60% of the same period pre-COVID in the 2019 financial year).

"The connection growth through to North America was a highlight for the period, with Hawaiian Airlines, Air Canada, United Airlines and American Airlines reconnecting into Auckland, and the announcement by Delta Air Lines that it plans to fly the route between Los Angeles and Auckland next summer. These are all high-quality airlines with

¹ We recognise that EBITDAFI and underlying profit are non-GAAP measures. Please refer to the table at the end of the media release for the reconciliation of reported profit after tax to underlying profit after tax.

extensive domestic and international networks, providing choice for Kiwis and helping to keep airfare prices competitive in future, as well as greater reach into New Zealand's second largest inbound tourism market. Add to that Air New Zealand is now flying into seven North American cities, including its flagship service to New York, to be joined mid-way through this calendar year by Qantas flying from Sydney to New York via Auckland.

“More recently, we've seen an easing of travel restrictions in mainland China - an important milestone in New Zealand's aviation and tourism recovery. Pre-COVID, China was a key visitor market with approximately 400,000 Chinese visiting New Zealand each year and up to 42 flights from mainland China arriving at Auckland Airport every week.

“New Zealand has been named as one of 20 countries open to Chinese travel agencies and online tour operators as a destination for Chinese tour groups, and like other market re-openings, we're expecting the first round of Chinese travel demand to come from friends and family reconnections, quickly followed by business travellers resuming important face-to-face meetings. As we head into the autumn and winter, we expect to see a further lift in traveller numbers as Chinese leisure travellers have their passports reissued and obtain visas to visit New Zealand, resulting in a corresponding lift in flight frequency. We also expect to see students from China returning in greater numbers after the Chinese Government announced online credentials obtained from a foreign educational institution would no longer be recognised.

“With China Eastern, China Southern, and Air New Zealand adding flights between Auckland and mainland China, travellers will have a choice of 19 weekly flights from April onwards.”

Transport, property, retail and commercial

An ongoing programme of work to upgrade the precinct's roading network continued in the first half of the 2023 financial year, with improvements underway on the main southern access road to the domestic terminal (Laurence Stevens Drive) to add high occupancy vehicle lanes for smooth flowing public transport.

To the north of the airport precinct, Auckland Airport is building a new road with the addition of Te Ara Kōrako, connecting George Bolt Memorial Drive and Nixon Road. Construction of Te Ara Kōrako will provide an alternative route for travellers leaving the international terminal and heading east, as well as supporting freight moving around the precinct, helping to reduce traffic volumes on the core roading network.

“Construction on the Transport Hub directly in front of the international terminal has made significant progress with the first stage – the new undercover public pick-up and drop-off zone – set for completion by the end of the year. Parking options at the airport will also be increased by year end with work resuming on Park & Ride South off Puhinui Road,” said Ms Hurihanganui.

Auckland Airport’s commercial property business continued to improve in the six months to 31 December 2022 alongside the continued recovery of our retail business.

“Fitout of the Te Arikinui Pullman (a joint venture between Auckland Airport and Tainui Group Holdings) has begun with Māori motifs incorporated into the sophisticated and contemporary interior design. All construction work will be completed by late 2023 with doors opening in early 2024 after a period of commissioning.

“Mānawa Bay, New Zealand’s first ever purpose-built premium outlet shopping destination, is taking shape with major construction work underway on the 150,000m² site. With Savory Construction appointed lead contractor, the completed outlet centre will feature 100-plus retail stores and 13 food and beverage tenancies.”

The increased summer travel numbers have been matched by the reopening of terminal-based tenancies. Currently 87% of international terminal and 95% of domestic terminal retail and food and beverage operators are trading daily. However, like everyone else in the airport system, operators remain impacted by labour shortages and are operating across a shorter trading day while they continue to actively recruit staff.

“We have announced a decision to move from two duty-free operators – a rarity in international airports – to a single operator, Aelia Duty Free (owned by Lagardère Travel Retail SAS) from September 2023. A full single-operator re-tender will be completed by mid-2025.

“The pandemic has accelerated online shopping trends for travel retail. In the current environment it’s important that duty-free shopping can evolve to match the customer demand for product choice and innovative retail experiences they can’t access on the high street, while delivering competitive prices. We believe this is best delivered through a single operator.”

Sustainability

“Climate change resilience remains a key focus for Auckland Airport,” said Ms Hurihanganui.

“The unprecedented flooding over Auckland Anniversary Weekend caused huge disruption to travellers and airport operations, and like other infrastructure owners, we are taking a hard look at our stormwater system and modelling around climate change to ensure the future capacity we are building into our infrastructure programme is fit for purpose.

“We take every opportunity to upgrade stormwater infrastructure – a major and ongoing programme of work. An example is our recent Northern Network roading development, which included work to improve the stormwater systems and build additional stormwater capacity. Our seawall maintenance also includes upgrades to future-proof against sea level rises.

“We remain committed to reducing our carbon footprint and meeting our target of a 90% reduction in direct emissions from 2019 levels by 2030. To this end we started phasing out natural gas use in the international terminal, replacing gas boilers with electric heat pumps.

“We recognise new development generates an increase in carbon, and we are actively taking steps to minimise this. We are exploring on-site generation of electricity to reduce the footprint of new developments, including building what is expected to be the largest rooftop solar system in New Zealand on top of the 36,000m² Mānawa Bay outlet centre. It will support more than 80% of the 100-store centre’s anticipated power usage when it opens in 2024. A second 14,000m² solar array will sit atop the under-construction Transport Hub providing enough electricity to power the attached office and electric vehicle charging stations within its car park.

“We continue to look for opportunities to reduce carbon emissions across our infrastructure – from construction methods and materials through to operational efficiency. A strong emphasis on sustainable design is reflected in both the Transport Hub and Mānawa Bay, with Mānawa Bay aiming for a 5-Star green design and build, and the Transport Hub targeting a US-accredited Gold Parksmart rating in innovative sustainable practices in parking facilities.”

Aeronautical pricing

Auckland Airport is due to set proposed aeronautical prices for the remainder of the price setting event for the 2023 to 2027 financial years (PSE4) by June this year.

With the support of the majority of airlines, prices for the 2023 financial year were held constant at 2022 financial year prices. Aeronautical prices will be forecast to make up the 2023 financial year under-recovery versus our target return over the remainder of PSE4².

“On 8 February 2023 we shared our Draft Pricing Proposal for PSE4 with major airlines and we will consider their feedback before finalising PSE4 prices. Among other things, this process requires Auckland Airport to determine our aeronautical capital expenditure roadmap for PSE4 and beyond,” said Ms Hurihanganui.

“We have undertaken deep and wide-ranging consultation with our substantial airline customers on PSE4 prices and on the aeronautical capital expenditure roadmap. The consultation process has taken longer than we originally anticipated, but we have taken the time necessary given the significance of the overall programme and we hope to complete it soon.”

Auckland Airport, together with NZ Airports, has also submitted on the Commerce Commission’s Input Methodology review which is due to be completed by December this year. Our main submission is that the Commission should refresh its 2016 calculation of the weighted average cost of capital for the regulated airport sector to bring it up to date using the same process it has adopted in previous years with the most recently available information. Auckland Airport will give consideration to the progress of the Commission’s review when setting our target return for PSE4. We expect the Commission to publish its draft determination in the June quarter this year.

² The 2023 financial year price freeze, and subsequent recovery mechanism, was agreed with the majority of airlines prior to its implementation from 1 July 2023, as was the discontinuation of the \$2.00 plus GST per international passenger Regulatory or Requested Investment ‘RRI’ charge that applied over the last 9 months of the 2022 financial year linked to COVID-related costs.

Outlook

In October 2022, Auckland Airport revised its guidance for the 2023 financial year following a stronger than expected rebound in the aviation market as demand to reconnect exceeded capacity.

Auckland Airport continues to see positive signs in the recovery of the aviation industry and as a result is revising earnings guidance of underlying profit after tax to between \$125 million and \$145 million, an uplift from the guidance of between \$100 million and \$130 million provided in October 2022.

In addition, Auckland Airport is also revising capital expenditure guidance for the year to June 2023 from \$600 million to \$700 million to between \$525 million and \$600 million – largely reflecting the phasing of development from design to construction for a number of commercial projects.

Auckland Airport expects our total passenger numbers to recover to pre-pandemic levels during 2025, broadly consistent with IATA's outlook for global air travel. For the full 2023 financial year Auckland Airport is anticipating international passenger numbers will be around 70% of pre-COVID levels, with domestic passenger numbers at around 85%. This would result in overall passenger numbers of circa 16 million for the 2023 financial year, roughly comprising 50% domestic passengers and 50% international passengers.

As agreed with our banks following fresh interest covenant accommodations in February last year, no dividend has been declared for the six-month period to 31 December 2022. We will be reviewing our dividend policy later in the 2023 financial year, with dividends expected to resume in October 2023.

ENDS

Note 1. Underlying profit / (loss) reconciliation

For the six months ended 31 December (\$m)	2022			2021		
	Reported profit	Adjustments	Underlying profit / (loss)	Reported profit	Adjustments	Underlying profit / (loss)
EBITDAFI per income statement	189.0	-	189.0	60.3	-	60.3
Investment property fair value change	(93.8)	93.8	-	131.5	(131.5)	-
Fixed asset write-offs and impairment	-	0.1	0.1	-	0.1	0.1
Derivative fair value movement	(0.3)	0.3	-	(0.6)	0.6	-
Share of profit / (loss) of associate and joint ventures	3.0	0.0	3.0	(17.4)	19.8	2.4
Depreciation	(68.7)	-	(68.7)	(53.7)	-	(53.7)
Interest expense and other finance costs	(30.7)	-	(30.7)	(26.8)	-	(26.8)
Taxation benefit / (expense)	6.3	(31.1)	(24.8)	15.5	(9.3)	6.2
Profit / (loss) after tax	4.8	63.1	67.9	108.8	(120.3)	(11.5)

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