

## AUCKLAND AIRPORT'S OVERVALUED AND VULNERABLE TO A PULL BACK

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"The Auckland International Airport ("AIA") result is better than analysts forecasted. But while on the surface it looks good, it is not good enough to justify the company's current share price" says Nick Dravitzki, Portfolio Manager of NZ Funds Management ("NZ Funds") Dividend Yield Strategy.

NZ Funds compare AIA's fundamentals – including the level of valuation – with an index of comparable listed Airports throughout the world, ("NZ Funds' Global Peers Index"). The index is comprised of 17 of the most prominent listed airport companies in the world. The index includes a number of leading European airports including Frankfurt (largest airport in Germany), Zurich (largest airport in Switzerland), Paris (second largest airport in Europe after BAA) as well as a number of leading Asian airports including Bangkok Airport, Kuala Lumpur Airport and Shanghai Airport. The table below summarises how the companies compare.

Name	EV/ EBITDA	EV/ Sales	EBIT margin	Debit/ EBITDA
Shanghai Airport	16.2x	8.9x	32.1%	1.7x
Shenzhen Airport	12.8x	7.1x	45.8%	-1.3x
Beijing Airport	12.3x	5.7x	14.4%	3.4x
<b>Auckland Airport</b>	<b>11.6x</b>	<b>8.8x</b>	<b>61.7%</b>	<b>3.8x</b>
Ferrocil	11.2x	2.3x	11.6%	9.1x
Airports of Paris	10.3x	3.4x	18.6%	3.2x
Airports of Thailand	9.3x	5.0x	15.8%	4.5x
Gemina	9.1x	3.8x	19.2%	5.5x
Fraport	8.3x	2.3x	14.6%	2.0x
Copenhagen Airport	8.3x	4.3x	37.1%	2.1x
Hainan Airport	8.3x	5.1x	48.6%	-2.0x
Guangzhou Airport	8.3x	3.5x	26.7%	0.4x
Mexian Airports	7.8x	4.8x	41.7%	-0.5x
Zurich Airport	7.7x	3.7x	24.8%	3.0x
Vienna Airport	7.6x	2.5x	18.9%	3.6x
Venice Airport	6.6x	1.1x	8.5%	1.2x
Malaysian Airport	5.3x	2.1x	29.9%	-0.8x

Source: Bloomberg.

"We believe capital flows are global in nature and that is why you see investors from Dubai and Canada bidding for AIA – so global valuations are almost more relevant than where locals put the value" – says Nick Dravitzki. "Remember, it wasn't local investors that sent AIA's share price soaring to \$3.50 in 2007, it was offshore airport investors."

Measured against NZ Funds Global Peers Index AIA is just too expensive. The business is valued at nearly 12x next years estimated earnings before interest, tax, depreciation and amortisation (EBITDA). That places it as the 4th highest valued airport out of its global peers. Only 3 Chinese airports such as Shanghai Airport, which are enjoying exponential growth are valued on higher earnings multiples.

"New Zealand investors are attaching too much value to the company's monopoly position as the gateway for international tourists. It's a great position to be in but, like everything, it has a price. And at nearly 12 times EBITDA and 22x profit (P/E ratio = 19x) the price is too high" says Nick Dravitzki.

"Remember to make a good investment you need to buy a good company at a good price – buying a good company at too high a price can be a disastrous investment" says Nick Dravitzki.

### AUCKLAND INTERNATIONAL AIRPORT FY09 RESULT

The AIA result showed solid revenue growth even though passenger numbers declined, a good performance in a very tough environment although retail growth was boosted by a single duty free operator contract which has now been renegotiated. A pleasing element of the result was confirmation that future capital expenditure is to be reduced. A perennial issue with AIA is a tendency to over-capitalise and the fact new management has a strong focus on controlling capex is positive.

AIA's management has demonstrated the ability to turn revenue into earnings over the years – their operating margins are the highest of the global comparison group. The problem with this is that there are no easy earnings gains to be made by removing costs – earnings growth must come from revenue growth. Unfortunately global aviation is in a parlous condition. It will of course turn, airline traffic will grow again and revenue growth will come. The problem for AIA is that at its current price investors won't get to share in that growth in the form of a higher share price.

## AIA PRICE



Source: Bloomberg.

## AIA RELATIVE TO NZ SHARES



Source: Bloomberg.

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