

FLIGHT PLANS

The aviation business is growing as passenger numbers climb. But while airlines may struggle with costs, airport infrastructure provides a possible way to capitalize on that long-term growth. And with privatisation becoming a preferred option for governments around the world, the investment options are growing as well.

STORY RYAN SWIFT

The next time you fly into a new airport, consider all the activity that's involved. There are the runways and tarmac, the buildings, the retail, the fees that airlines pay to be there, as well as the connectivity between the airport and the surrounding world. Consider if the airport is located where businesspeople like to come and go frequently, or is it a place that's due to pick up, perhaps because of a growing tourism market?

These are the questions the people who buy into airports may be considering. If you get things right, it's an investment that can reap long term, stable rewards. In 1997, TAG Aviation Group bought Farnborough Airport in the UK, beating out other bidders to take control of one of the UK's most historic airports, and one that had been run by the Ministry of Defense since World War II. TAG Aviation turned Farnborough into

a private jet hub for the UK with a luxury hotel onsite. It also hosts the biggest airshow in the UK, generating plenty of profit.

Such deals were rarities in years past, but thanks to a wave of airport privatisation that seems to be in the offing, there are more and more opportunities for investors to get involved in one of the world's most critical infrastructure elements. Until now, investors would have been large pension

funds, but with a growing pipeline of deals, opportunities for smaller players – even family offices – are becoming available.

Experts in the field agree that as an asset class, airports are increasing in popularity. Marcus Balmforth, managing director at Intervistas, an aviation consulting group, has been in the business for 20 years. He reckons that whereas once, there might be three to five deals in a year, now one could

expect between 10 and 20 a year. Curtis Grad, CEO of Modalis, a Canadian infrastructure and advisory firm, estimates as many as 35 deals per year coming online. Both men spoke at the Global Airport Development Conference in Portugal in September 2016. Portugal, a popular tourist destination, has already seen some airport privatisation deals, and HSBC and Bank of America Merrill Lynch were event co-sponsors.

The Airports Council International (ACI) is due to publish a report in 2017 on airport private ownership, and it notes that of the world's 100 busiest airports, 46 have some private sector participation. Europe leads the way in privatisation, with 76 per cent of its airports having private sector participation. North America has just one per cent, while Latin America and Asia Pacific are at 60 and 45 per cent respectively.

ABOVE
Farnborough
Airport was
purchased by
private owners
TAG Aviation
Group in 1997

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Globally, the ACI expects a 33 per cent growth in passenger volume from 2015 to 2020.

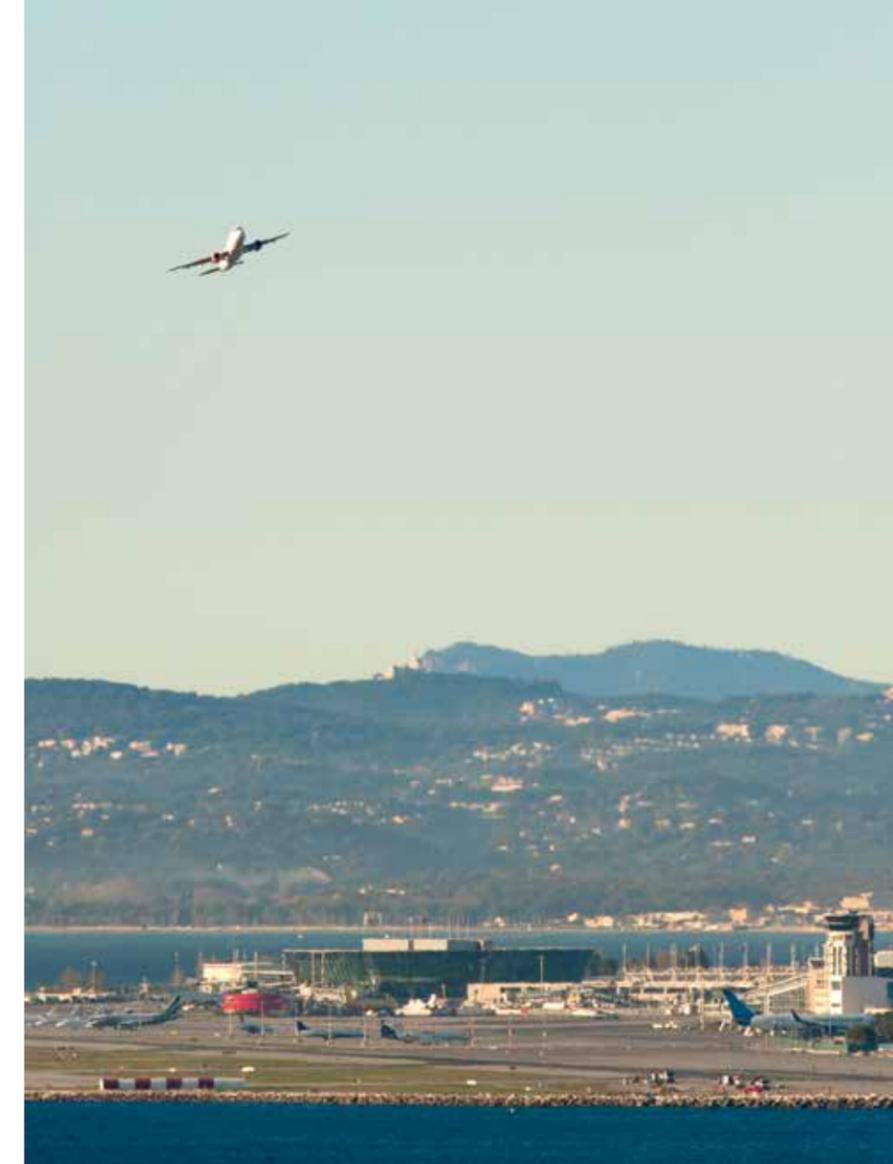
The attraction of an airport as an investment is prestigious, but also straightforward: an inflation-linked investment that sees stable returns over the long term. With air travel set to continue increasing, there are few impediments to the market, apart from the threat of serious

political instability, according to Balmforth. A 2013 report by Greg Maclean, head of research for AMP Capital, pointed out that airports provide a hedge against local economic downturn, as profits are dependent on global travel, rather than just the local economy. It also opens up areas of revenue that depend on passenger levels, including everything from coffee shops to car rental.

In the developed world, the appetite for airport privatisation follows on from the need for infrastructure funds for other development needs. The Trudeau government in Canada has started to look at privatising its airports, according to numerous media reports and Curtis Grad himself. The founder and CEO of Modalis points out that Canadian pension funds have been very active in airport investing, and it



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LEFT Canadian pension funds were used to purchase the London City Airport.

ABOVE Nice Côte d'Azur airport, popular with luxury and business travellers, was sold off for €1.2 billion in 2016.

was mostly Canadian pension fund money that purchased London City Airport for £2 billion (HK\$9.6 billion). The airport, which is heavily used by the financial community, saw an 18 per cent increase in passengers from 2014 to 2015.

Grad reckons that Trudeau's government has sought to unlock the value of an existing airport infrastructure and use those funds to pay for new developments. The Trudeau government has reportedly retained Credit Suisse to advise on privatisation, though it's not clear how well such a development will sell politically.

Unlocking value from existing infrastructure has led to a flurry of airport privatisation deals in the last few years. France has sold off stakes in its regional airports in tourist areas of the Mediterranean, including Nice Côte d'Azur Airport. Japan has got in on the act as well,

selling off three airports in the past year – a development that surprised a number of people.

The market for smaller players seems to be in emerging markets, where airports need to be built to keep up with growing air traffic numbers, and the desire of cities to expand their reach, whether as a business hub or tourist destination. Maclean's report noted that developed market airports tend to do better as a yield investment, generating cash returns for investors more quickly, whereas developing economies may see the airport investment rise in capital value more quickly.

In October 2016, China Everbright Group bought all shares in Albania's airport operator Tirana International Airport SHPK, which services the country's only international airport, commonly known as Rinas International

Airport. The hub saw passenger numbers rise from 600,000 in 2005 to 1.9 million in 2016, according to Reuters. Chen Shuang, CEO of China Everbright Ltd, characterised the acquisition as being in line with the One Belt, One Road policy. Balmforth reports that Serbia's main airport in Belgrade recently went to a group of mid-sized private equity funds.

Both Grad and Balmforth see the opportunities in smaller airports as the place for family offices. Emerging markets present opportunities but require local knowledge. Balmforth cautions small investors looking at emerging markets to deal in geographic areas they are familiar with, or else they should be looking for partners with local knowledge and technical expertise.

Given the relatively rare nature of buying into an airport, the deals and ownership structures that investors may get into can be as varied as the nations in which airports exist. Establishing frameworks for investing partners early on is a key requirement, according to Balmforth.

Southeast Asia is the region that seems to have global players pricking up their ears. Indonesia is high up on the list, given President Joko Widodo's desire to build the infrastructure necessary to connect the geographically disparate regions of his sprawling island nation. "Indonesia is the hottest area," says Grad. "The state hasn't figured out how to do it yet, but they've ordered a lot of aircraft; the numbers are going up. In five to ten years, those airplanes will need airports."

The World Bank reported that the number of air travel passengers in Indonesia reached 88.7 million in 2015, triple that of five years ago, according to Bloomberg. That number is projected to reach 219 million by 2034. The government plans to sell stakes in 10 airports, starting in 2017.



ABOVE Finding better ways to do business can yield returns – Bali's Ngurah Rai International Airport.

RIGHT Chinese investors acquired 100 per cent of the shares in Albania's Tirana International Airport in 2016.

FAR RIGHT Opportunities are arriving in the Philippines – Cebu Pacific airliner touching down.



Also on the list of Southeast Asian nations looking at private investment in airport infrastructure are Cambodia and the Philippines. In November 2016, the Philippines Information Agency announced President Rodrigo Duterte's plan to invest up to US\$23 billion in tourism infrastructure until 2022. A big part of the plan is building the roads and airport facilities needed to connect the Philippines' 7000 islands.

While Balmforth is quite cautious on the idea of investing in airports, even for family funds, Grad is more open, suggesting that off-market opportunities, where bidding is not part of the process, are best. "The market has become much more mature in the last ten years," says Grad. "You have individual investors buying fractional shares; off market purchases privately negotiated between buyer and seller." For his part, Balmforth says family funds tend to look for turnaround jobs and early stage investments, where easy improvements can be made, but where yields only come some time after the funds go in.

That said, a lot of effort goes into finding a suitable investment destination and partners, as well as establishing the ownership structure. And though airports are essentially a bet on the growth of air travel, that doesn't mean individual airports stand still. Just one month before the February 2016 announcement of the sale of London City Airport, Ardian, a private investment firm specialising in airports, announced a massive renovation and upgrade programme for London's Luton Airport.

And all of this activity took place before the Brexit vote, which may now see London's role as financial hub for Europe diminished. At least, London will remain a great tourist destination. ☺