Market release | 24 February 2022

FY22 Interim Results: Preparing for the travel restart, Auckland Airport focuses on operational readiness and core infrastructure

Auckland Airport today announced its financial results for the six months to 31 December 2021, including incurring its third consecutive half-year underlying loss.

Auckland Airport Chair Patrick Strange said: "Our conservative approach to financial management in the first six months of the 2022 financial year reflected the difficult market conditions that we are operating in. Our focus has been on the safe operation of our airport and investing in core foundational infrastructure and enabling works for future aeronautical projects to ensure we are in the best position possible for the return of international travel.

"Overall, we continue to see the solid recovery of air travel in overseas markets where isolation requirements for travellers have been removed. We remain confident that we will experience the same meaningful rebound in New Zealand – it is just a matter of when. As we prepare for the restart, we are especially thankful to our employees who continue to work for New Zealand, making journeys possible and keeping travellers safe and connected."

Key performance data for the six months to 31 December 2021:

- Total number of passengers decreased to 1.7 million, down 39%
- Domestic passengers decreased 45% to 1.5 million, and international passengers (including transits) increased 38% to 0.3 million
- Revenue was down 4% to 126 million
- Operating EBITDAFI was down 31% to $60 million
- Reported profit after tax was up 274% to $109 million, bolstered by the $132 million non-cash investment property valuation uplift
- Earnings per share was up 274% to 7.39 cents
- Net underlying loss after tax of $11.5 million[1]

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[1] We recognise that EBITDAFI and underlying loss 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 loss after tax.

- Net underlying loss per share of 0.71 cents[1]
- No interim dividend will be paid

Chief Executive Carrie Hurihanganui, who started in the role on 8 February 2022, said while Auckland Airport continued to operate in a challenging environment with the emergence of Omicron and continued border restrictions, the organisation was looking firmly beyond the near-term volatility to its long-term recovery.

“The team at Auckland Airport has been doing it tough for two years now, navigating through the ever-changing environment created by Covid-19. While the recovery pathway remains uncertain, there is demand for travel and people want to fly as soon as they are able.

“Our goal is to emerge from this crisis match-fit for the restart. For us that means continuing our strategy of careful cost management while making good choices about the infrastructure works that we progress now, such as roading and airfield projects and enabling works for future aeronautical infrastructure projects.”

In the six months to 31 December 2021, Auckland Airport completed $33 million in roading improvements to its 40km core roading network, widening and creating new roads, adding high occupancy vehicle lanes, and improving pedestrian and cycle paths. On the airfield, a further $28 million in upgrades were carried out to pavement, ground lighting and the underground fuel network. Preliminary design and enabling works continue around the international terminal, with a focus on site preparation for the proposed Transport Hub outside the international terminal, and the future expansion of the international terminal to accommodate domestic jet operations.

Omicron preparedness

The growing community transmission of the Omicron variant required an immediate response to ensure that core aerodrome operations could continue with higher-than-normal absenteeism.

“Scenario planning has been undertaken and additional health and safety measures introduced, including the establishment of work bubbles and the use of high frequency rapid antigen testing alongside PCR surveillance testing for selected frontline workforces.

“The importance of vaccination as a tool to protect not only our staff but the Auckland community saw us offer our Park & Ride facility as a convenient place for people to be vaccinated, including eligible children. With great support from health workers, the site delivered 155,000 vaccines by 30 January 2022 – making it the second-biggest vaccination site in Auckland. We also played an important role in the mobile vaccination drive, offering our Park & Ride buses to be used as mobile health clinics in the South Auckland community. By the end of January our buses, which include Shot Bro and Shot Cuzz, had delivered an additional 55,000 vaccines direct into the community, something we're incredibly proud of," said Ms Hurihanganui.

Property and retail business

Auckland Airport's property business continued to grow strongly in the six months to 31 December 2021, with occupancy remaining at 98.5% and a solid development pipeline from both new and existing tenants. In November 2021, Auckland Airport (in partnership with Tainui Group Holdings) committed to restarting construction on the Te Arikinui Pullman Auckland Airport Hotel, with the hotel expected to be completed in 2024.

Design work and pre-development planning is well underway for the airport's 100-store fashion outlet centre to be built on the north-eastern edge of the airport precinct, with enabling works to begin shortly.

"We've continued to field strong interest from tenants including several major international brands, reinforcing for us that there is substantial demand from customers for a development of this nature in New Zealand."

Auckland Airport has been proud to continue its substantial support of existing retail tenants during the pandemic. With international travel restrictions and regional lockdowns continuing to challenge our retailers, 92% of in-terminal retail rental income was abated during the six months to 31 December 2021.

Aviation recovery

On Monday the New Zealand border will reopen to vaccinated New Zealanders arriving from Australia, with a further reopening to vaccinated New Zealanders located in other parts of the world from 13 March 2022.

"While the isolation requirement will restrict demand to just those who have the time and ability to self-isolate, it will come as a huge relief for families divided during times of celebration or grief, or those who simply want to return to their homeland. I know our Auckland Airport staff are excited and ready to safely reconnect Kiwis over the coming weeks," said Ms Hurihanganui.

"As we look to the rest of the year, we expect international travel numbers to remain low with overseas experience showing the self-isolation requirements for vaccinated travellers seriously denting demand. We continue to work with airlines to ensure this doesn't negatively impact Auckland Airport's future international network connections.

"Domestic traveller volumes during the half-year period were impacted by outbreaks of COVID-19 in the community, with passenger numbers falling to just a few hundred a day during Auckland's lockdown. This was in contrast to the promising domestic recovery that took place in July 2021, when domestic passenger numbers were about 90% of pre-COVID levels. We anticipate it will take time for confidence in domestic travel to rebuild back to those levels again."

Outlook

Despite ongoing uncertainty around the recovery of both domestic and international travel, Auckland Airport is providing earnings guidance for the 2022 financial year of an underlying loss after tax of between $25 million and $50 million.

"We are also reconfirming capital expenditure guidance for the 2022 financial year of between $250 million and $300 million as we continue to take a measured approach to capital expenditure due to the current trading environment."

"Given the domestic travel restrictions in place for much of the first six months of the year and the later than expected reopening of international travel, we have also reached agreement with our banks to lower the new EBITDA-based interest coverage covenants agreed in August last year for the measurement periods between June 2022 and June 2024. Auckland Airport thanks its lenders for their ongoing support," said Ms Hurihanganui.

The above guidance is subject to any material adverse events, significant one-off expenses, non-cash fair value changes to property, and any deterioration due to global market conditions or other unforeseeable circumstances.

ENDS

Note 1. Underlying profit / (loss) reconciliation

For the six months ended 31 December ($m)	2021			Restated 2020		
	Reported profit	Adjustments	Underlying profit / (loss)	Reported profit	Adjustments	Underlying profit / (loss)
EBITDAFI per Income Statement	**60.3**	**-**	**60.3**	**87.9**	**-**	**87.9**
Investment property fair value increase	131.5	(131.5)	-	29.8	(29.8)	-
Fixed asset write-offs and impairment	-	0.1	0.1	-	0.9	0.9
Reversal of fixed asset termination costs	-	-	-	-	(14.9)	(14.9)
Derivative fair value movement	(0.6)	0.6	-	0.8	(0.8)	-
Share of profit of associates and joint ventures	(17.4)	19.8	2.4	3.2	(0.1)	3.1
Depreciation	(53.7)	-	(53.7)	(57.7)	-	(57.7)
Interest expense and other finance costs	(26.8)	-	(26.8)	(35.0)	-	(35.0)
Taxation expense	15.5	(9.3)	6.2	0.1	6.1	6.2
Profit after tax	**108.8**	**(120.3)**	**(11.5)**	**29.1**	**(38.6)**	**(9.5)**

We have made the following adjustments to show underlying profit / (loss) after tax for the six months ended 31 December 2021 and 2020:

- reversed out the impact of revaluations of investment property. An investor should monitor changes in investment property over time as a measure of growing value. However, a change in one particular year is too short to measure long-term performance. Changes between years can be volatile and, consequently, will impact comparisons. Finally, the revaluation is unrealised and, therefore, is not considered when determining dividends in accordance with the dividend policy;
- reversed out the impact of fixed asset project write-offs, impairments and termination costs. In response to the COVID-19 outbreak, some capital expenditure projects were abandoned and fully written off and others were suspended. Some of these abandoned or suspended projects incurred contractor termination costs. The abandonment or suspension of live capital expenditure projects is extremely rare and is the direct consequence of COVID-19. These fixed asset write-off costs, impairments and termination costs are not considered to be an element of the group’s normal business activities and on this basis have been excluded from underlying profit;
- reversed out the impact of derivative fair value movements. These are unrealised and relate to basis swaps that do not qualify for hedge accounting on foreign exchange hedges, as well as any ineffective valuation movements in other financial derivatives. The group holds its derivatives to maturity, so any fair value movements are expected to reverse out over their remaining lives;

- adjusted the share of profit of associates and joint ventures to reverse out the impacts on those profits from revaluations of investment property and financial derivatives; and
- reversed out the taxation impacts of the above movements in both six-month periods.

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