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PREPARING FOR TAKEOFF

Three reasons to be upbeat about Sydney Airport

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Investing in property means more than just houses, shopping centres, office buildings and industrial warehouses, it can also include infrastructure like airports and toll roads. One such investment is Sydney Airport. Stuart Cartledge, Portfolio Manager at Phoenix Portfolios, discusses what makes this an appealing proposition.

A short history of Sydney Airport

Sydney Airport is Australia's busiest airport. Sydney Airport was first available to share market investors as part of the listed infrastructure vehicle, Macquarie Airports, back in 2002. At that time, Macquarie was criticised for paying too much money for the privatised airport and the initial share market performance of Macquarie Airports was weak. Fast forward over 12 years, Macquarie Airports, once a diversified holder of airport assets globally, is now entirely focused on its 100% stake in Sydney Airport, and hence the vehicle's name change.

One of the attractive features of the original acquisition of Sydney Airport, was that the infrastructure had been upgraded to cater for the 2000 Sydney Olympics and would be able to grow into its new capacity with lower than normal capital expenditure. Sydney Airport has been a big financial success story, with some stunning growth from the 2000 calendar year through to 2014 of 62% in passenger movements, 373% in revenue and nearly 500% in earnings before interest, tax, depreciation and amortisation. These strong operational results have resulted in increased distributions and substantial capital growth for shareholders.

SYD

In 2014, the airport was used by

38.5 million passengers

and connected Sydney to

44 International destinations

22 Domestic destinations

22 Regional destinations

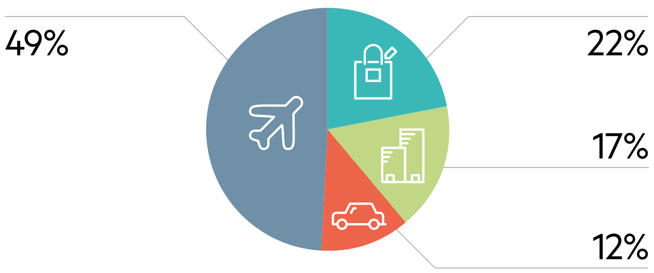
Three reasons for a positive outlook

1. Strong international passenger growth

International travellers contribute most to the overall financial metrics of the airport as they typically spend more money in retail outlets, car parks, duty free and other airport facilities. Sydney Airport has done well in its targeted approach to attracting new airlines and opening up new routes. It has also been a beneficiary of the growth of international low cost carriers such as Scoot and Air Asia X. Low cost carriers have the added benefit to an airport in that they typically deliver a higher number of passengers per aircraft movement and the aircraft spend less time at the gates. Ultimately this means more travellers through the airport and higher productivity of both aeronautical and non-aeronautical facilities.

Phoenix expects solid growth in passenger movements to continue and to be supported by capacity expansions within the Asia Pacific region, which accounts for 43% of all wide-body aircraft orders over the next eight years.

2. Substantial contribution outside of flights



Flights generate the largest single contribution to airport revenue but this still represents less than half of total revenue. Retail, property and car parking represent 22%, 17% and 12% respectively. These have been an intensive focus for Sydney Airport. For example, substantial car parking capacity has been added over the last few years and there has also been a strong focus on improving the customer experience, better marketing efforts and the development of new products. From a standing start three years ago, online bookings for car parking now represent approximately 32% of car parking revenue with a plethora of products to suit all types of travellers. (Tip to the cost conscious traveller: online booking can be very worthwhile.)

From the perspective of retail, duty free represents over half of the total retail revenue. The duty free contract was recently re-tendered with incoming new operator, Heinemann, enjoying a strong start to trading. Sydney Duty Free benefits from its proximity to Asia and the longer than average dwell times (approximately 108 minutes) associated with being a destination rather than a transit location. Compared to traditional shopping centre outlets, airport stores tend to be more productive based on sales per square metre with each retailer occupying a smaller footprint. Sydney Airport also enjoys occupancy levels over 99% for retail.

3. Western Sydney Airport

Based on Sydney Airport's master plan, the current airport will reach a capacity of 74 million passengers by 2033, from today's level of 38.5 million passengers. The NSW State Government, in consultation with Sydney Airport, has carried out substantial work in planning for the Western Sydney Airport with a targeted opening date likely to be in the mid 2020s. The capacity would start low and ramp up as needed.

There's still a lot of work to go to plan the look and feel of the new Western Sydney Airport. While Phoenix is conscious of the risk involved with large scale capital investments like this, the management team at Sydney Airport has demonstrated a tight focus on capital management and development expenditure over many years. Sydney Airport also has the right of first offer, meaning it can help shape the opportunity and determine whether the project is financially viable to invest in. If Sydney Airport was able to operate both the Kingsford Smith Airport and the new Western Sydney development as one system, it would provide more management tools and flexibility to help reduce traffic risks and enhance overall returns.

Sydney Airport represents just one of the many property assets you can access in the Advance Property Securities Multi-Blend Fund and the Advance Diversified Multi-Blend Funds.

For more information on these Funds and the holdings, please speak to your financial adviser or contact Advance on 1800 819 935.

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