

Market release | 18 August 2022

FY22 results: Auckland Airport sets its sights on the future as rebounding demand for travel fuels aviation's recovery

Auckland Airport today announced its financial results for the 12 months to 30 June 2022, including incurring its second ever underlying loss.

Auckland Airport Chair Patrick Strange said: “The 2022 financial year has been a year of change and revival for Auckland Airport as we managed through the Covid-19 lockdowns, the gradual lifting of border restrictions and the restart of international travel.

“While the global aviation industry continues to experience ongoing operational challenges there is positive momentum with solid demand for travel to and from New Zealand supporting the recovery. We are in a global race to attract back visitors and international airline routes and services and New Zealand needs to work hard to ensure their return.

“We are now progressing our capital plan to build a stronger Auckland Airport, delivering on a world-class travel experience for travellers and fuelling our future success. As we look ahead, I offer my thanks to our employees who have continued to work through the challenges of the 2022 financial year to serve our customers, keep New Zealand connected and maintain the safe and secure operation of the airport.”

Key performance data for the 12 months to 30 June 2022:

- Total number of passengers decreased to 5.6 million, down 13%
- Domestic passenger numbers decreased 27% to 4.3 million, and international passenger numbers (including transits) increased 123% to 1.3 million
- Revenue was up 7% to \$300.3 million
- Operating EBITDAFI was down 16% to \$144.5 million
- Reported profit after tax was down 59% to \$191.6 million,
- Earnings per share was down 59% to 13.0 cents

- Net underlying loss after tax of \$11.6 million¹
- Net underlying loss per share of 0.8 cents¹
- No final dividend will be paid

Chief Executive Carrie Hurihanganui said that although Auckland Airport's results continued to reflect the impact of the pandemic and the challenging operating conditions of the 2022 financial year, the reopening of the border to Australia in April had marked a turning point in the organisation's recovery.

"After two years of disruption, careful cost management and perseverance from the team at Auckland Airport our recovery is now well underway," said Ms Hurihanganui, who became Chief Executive in February.

"As aviation rebounds there continues to be some uncertainty about the shape of recovery ahead with global operational challenges, such as labour shortages, currently constraining the system's capacity. However, Auckland Airport continues to take a long-term view and we remain optimistic about the future with the strong global appetite that exists for travel alongside Auckland's position as a key aviation hub in the South Pacific."

Overall, there were 5.6 million international and domestic passengers at Auckland Airport in the 2022 financial year, down 13% on the 2021 financial year. Domestic passenger numbers were 27% down to 4.3 million while international passenger numbers (including transits) rose 123% to 1.3 million.

The gradual reopening of the border between February and June saw airlines like LATAM restore services, with 17 airlines flying to 28 destinations at Auckland Airport by 30 June 2022, up from 12 airlines and 21 destinations during the worst of the pandemic.

"International travel to and from New Zealand has made a spirited comeback in recent months as border restrictions have fallen away. With key parts of our network now reconnected and capacity returning, our sights are firmly set on the future as we progress key infrastructure projects and look to future improvements in transport, technology and operations."

Auckland Airport's investment property division continued to perform strongly, with the industrial property market proving resilient in the 2022 financial year. Investment property rent roll is now \$127.5 million (up 9% year on year) and the investment portfolio is now valued at \$2.9 billion, up 10% year on year.

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

In the 2022 financial year, Auckland Airport continued to focus on climate change, developing a clear pathway to reduce scope 1 and 2 emissions to reach Net Zero by 2030.

“We are on a mission to drive down our emissions to tackle climate change. Alongside this we are working with airlines to support the decarbonisation of the wider aviation sector, ensuring the right ground infrastructure is in place to enable the adoption of future aircraft technologies and fuels as they become widely available,” said Ms Hurihanganui.

Infrastructure: Airline consultation continues

With fewer planes in the air in the 12 months to 30 June 2022, Auckland Airport focused on core maintenance projects and infrastructure upgrades that would support the recovery: airfield maintenance, pavement renewal, roading development and jet fuel line upgrades, with \$98.7 million invested in these assets during the period.

With the gradual reopening of the border in the second half of the year, Auckland Airport focused on a range of other capital expenditure projects to take advantage of the low traffic environment, including progressing \$82.4 million in works to enable development of a new purpose-built domestic facility to be merged into the eastern end of the existing international terminal. The development pathway was approved by the Auckland Airport Board in August 2021.

Ms Hurihanganui said Auckland Airport is working to ensure “the best possible outcome for the next 20-plus years of travel at Auckland Airport, with an initial focus on domestic travel”.

“As we look ahead, we are entering a period of investment to transform Auckland Airport into a world-class travel experience with seamless customer journeys and improvements to domestic travel as our first priorities,” said Ms Hurihanganui.

“When the current domestic terminal opened in the 1960s it was the dawn of the jet age. It’s now more than half a century old and while we have continued to reinvest in the facility to support growth in domestic travel and the needs of travellers, this infrastructure is now nearing the end of its life. It’s vitally important for Auckland and New Zealand’s economy that we invest for the future, creating a domestic travel experience Kiwis can be proud of.”

Ms Hurihanganui said Auckland Airport is currently in consultation with airlines regarding the design of the new \$1 billion-plus combined terminal, to be delivered in stages in line with aviation’s recovery. Airlines currently pay some of the lowest domestic charges in Australasia to operate at Auckland Airport due to the age of the domestic terminal and the write down of

assets.

“Ageing terminals all over the world are being modernised and rebuilt following 50 years of growth in air travel. We know from overseas experience that is both a huge challenge and an incredible opportunity for us.

“Auckland Airport’s asset investment creates opportunities for airlines to provide a quality experience for their customers and increases operational efficiency, with expanded terminal capacity also allowing airlines to grow and develop their aircraft fleet and networks.”

Ms Hurihanganui said as investments were made in new assets, the prices that airlines pay will have to increase over time.

“We look forward to working with our airline partners as we consult on the next stages of development for the combined terminal.”

Roading and commercial projects

In the 2022 financial year, Auckland Airport continued to focus on key road transport projects, completing a \$160 million-plus upgrade of the core roading network and announcing the development of a \$300 million world-class transport hub to be built at the front door of the international terminal. The project will transform how travellers arrive at and depart from the main airport terminal, while paving the way for any future mass rapid transit to deliver passengers direct to the airport terminal precinct. The project is also the critical initial step in enabling delivery of the future combined terminal.

“We are incredibly excited about this project as it will be another step towards creating a high-quality customer experience that equals some of the best airports in the world,” said Ms Hurihanganui.

Auckland Airport announced the development of Mānawa Bay to the east of the precinct. This is a \$200 million-plus premium outlet shopping destination that will offer sought-after premium fashion, athleisure, lifestyle and homeware brands as well as food and dining options. With earthworks on the 150,000m² site and the building platform now complete, leasing is now underway for what will be New Zealand’s first ever premium purpose-built outlet centre.

Support for the community and our airport partners

Auckland Airport’s long-standing connections with the South Auckland community continued during the 2022 financial year.

“We were proud to offer our buses to be used as mobile health clinics delivering vaccinations direct into the South Auckland community, while converting our Park & Ride facility into a drive-through vaccination centre,” said Ms Hurihanganui.

Known as “Park & Vax” it ultimately became one of Auckland’s most successful drive-through vaccination centres, with health workers delivering 155,000 vaccines between September 2021 and January 2022.

Auckland Airport also continued to support tenants impacted by the pandemic, providing \$173 million in rent reductions to tenants in the international terminal in the 2022 financial year, making a total contribution of \$358 million in retail rent abatements over the past two financial years. Retailer lease occupancy across both terminals was 94% as at 30 June 2022.

Support for airlines included more than \$8 million in relief for aircraft parking across the 2022 financial year as well as the introduction (in January 2022) of a price freeze to aeronautical charges for the 2023 financial year in response to continued uncertainty in the aviation market (FY23 is the first year of “Price Setting Event 4” which covers the period from FY22/23 to FY27/28).

“This has helped to support airline partners during the early phase of the Covid-19 recovery and was something the vast majority of airlines operating at Auckland Airport supported.”

Outlook

Auckland Airport continues to adopt more conservative planning assumptions than the International Air Travel Association (IATA), which predicted in its most recent report that the global industry would recover to pre-pandemic levels in the 2024 calendar year, with the Asia-Pacific region to follow at a later stage.

“While we are hopeful of a strong recovery over the next 18 months, our outlook remains conservative.”

Reflecting this, Auckland Airport is providing guidance of underlying profit after tax of between \$50 million and \$100 million for the 2023 financial year and capital expenditure of between \$600 million and \$700 million, reflecting a number of roading, airfield, investment property projects alongside progressing the design and enabling works for the combined domestic and international terminal (\$130 million). Auckland Airport is currently consulting with substantial airline customers for Price Setting Event 4, with a decision on aeronautical prices scheduled to be made following this consultation in June 2023. The capital investment plan is considered

within the consultation on aeronautical prices and may be subject to change as consultation with airlines is undertaken.

“After what has been another challenging year, I am thankful to our investors for their continued support and to our capable and passionate employees who make journeys possible at Auckland Airport. To our customers, thank you for your patience and support as we have ramped up activities alongside airlines and our aviation partners,” said Ms Hurihanganui.

ENDS

Note 1. Underlying profit / (loss) reconciliation table

The table below shows the reconciliation between reported profit after tax and underlying profit after tax for the years ended 30 June 2022 and 2021.

	2022			Restated 2021 ¹		
	Reported profit \$M	Adjustmen ts \$M	Underlying profit \$M	Reported profit \$M	Adjustmen ts \$M	Underlyi ng profit \$M
EBITDAFI per income statement ²	144.5	-	144.5	171.1	-	171.1
Investment property fair value increase	204.4	(204.4)	-	527.3	(527.3)	-
Property, plant and equipment revaluation	(1.4)	1.4	-	(7.5)	7.5	-
Fixed asset write-offs, impairments and termination costs	-	6.9	6.9	-	2.5	2.5
Reversal of fixed asset impairments and termination costs	-	-	-	-	(19.4)	(19.4)
Derivative fair value movement	1.7	(1.7)	-	(0.5)	0.5	-
Share of profit of associate and joint ventures	(12.8)	17.2	4.4	21.1	(15.7)	5.4
Depreciation	(113.1)	-	(113.1)	(120.9)	-	(120.9)
Interest expense and other finance costs	(53.7)	-	(53.7)	(94.0)	-	(94.0)
Taxation expense	22.0	(22.6)	(0.6)	(30.0)	45.9	15.9
Profit after tax	191.6	(203.2)	(11.6)	466.6	(506.0)	(39.4)

Notes

1. The 2021 comparatives are restated following the IFRIC decision on cloud computing. Refer to note 2 of the Financial Statements.
2. 2022 EBITDAFI included fixed asset write-offs, impairments and termination costs of \$6.9m. 2021 included a net reversal of \$16.9 million.

We have made the following adjustments to show underlying profit after tax for the years ended 30 June 2022 and 2021:

- we have reversed out the impact of revaluations of investment property in 2022 and 2021. 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

- consistent with the approach to revaluations of investment property, we have also reversed out the revaluations of the land and building class of assets within property, plant and equipment in 2022 and the land class of assets within property, plant and equipment in 2021.
- we have reversed out the impact of capital expenditure write-offs, impairments and termination cost expenses and reversals in 2022 and 2021. 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
- we have also 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. Further information is included in note 18(b) of the financial statements
- in addition, we have adjusted the share of profit of associates and joint ventures in both 2022 and 2021 to reverse out the impacts on those profits from revaluations of investment property and financial derivatives
- we have also reversed out the taxation impacts of the above movements in both the 2022 and 2021 financial years

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