Auckland Airport

Market Release | 17 October 2024

2024 Annual Meeting: Chair and Chief Executive addresses

Patrick Strange, Chair

Tēnā koutou, tēnā koutou, tēnā tatou katoa.

Good morning. I'm Patrick Strange, Chair at Auckland Airport and it's my pleasure to welcome you to today's 2024 annual meeting.

With us today are my fellow directors: Christine Spring, Mark Binns, Julia Hoare, Tania Simpson, Dean Hamilton, Liz Savage and Mark Cairns. Also with us is Grant Devonport, who is standing for election as a director. Grant will address the meeting a little later today, along with Mark Binns, Dean, and Tania who are standing for re-election.

We will also be hearing from our CEO, Carrie Hurihanganui. Also here is Chief Financial Officer Stewart Reynolds, the other executives, and our auditors.

I am pleased to report on a second straight year of strong recovery in aeronautical activity and airline capacity connecting Auckland to the world. The airport closed out the year to 30 June 2024 with airline capacity back at 91% of the pre-COVID figure. With that came stronger top and bottom-line performance.

- In FY24 total passsenger numbers increased to 18.5 million, up 17% on the prior year and representing 88% of the pre-pandemic figure - we processed 21 million passengers in 2019, the last full year before the pandemic.
- Auckland Airport's revenue was $895.5 million, up 43% compared to 2023.
- Operating EBITDAFI was up 55% to $614 million.
- Reported profit after tax was down 87% to $5.5 million.
- However, putting aside the impact of the government change in tax policy on depreciation, property revaluations, and other one-off items, we recorded an underlying profit of $276.6 million up 87% on the prior year.
- Earnings per share were down 86% to 0.37 cents.
- Consistent with the movement in underlying profit, underlying earnings per share was up [85]% to 18.75 cents.
- Reflecting these results, we paid total dividends of 13.25 cents per share.

We saw a strong lift in capacity. This was particularly marked on North American routes, where we enjoyed a 48% increase in available seats. This strongly benefitted the New Zealand visitor market with a 38% growth in North American visitors.

Another bright spot was connectivity with China. With the return of Sichuan Airlines in April, six airlines now service a total of seven destinations in China. Seat capacity for China actually surpassed 2019 levels by 2%, with a 13% gain in the final quarter alone.

In total, 27 airlines now fly non-stop between Auckland and 42 international destinations. That's an increase of two airlines and two destinations over the previous year. Our dedicated aero commercial team continues to work hard to bring airlines back to Auckland, marketing to them and then supporting them to launch and grow their services. This is important for the airport and New Zealand – our experience is that choice in the market supports lower airfare prices, which drives increased patronage.

There are still challenges. Although we are now sitting at around 90% of pre-COVID capacity, we think it will take longer to draw in that last 10% and beyond. Fundamentally, this is because of worldwide constraints on aircraft availability. Airlines have a choice about where they fly, and we must compete hard to make sure they make one of those choices New Zealand. The aircraft shortage is exacerbated by engine issues - and Air New Zealand has been hit particularly hard, with both Rolls Royce and Pratt & Whitney problems. We have adjusted our operational spending and forecasts to reflect these challenges.

Shortly, Carrie will outline in more detail the strong progress we are making to transform the airport to be fit for the future. As we make this transformation, we need make sure our balance sheet stays strong and ensure we have adequate funding to see us through a period of capital reinvestment and to continue the value-adding growth of our wider business.

In line with this, we concluded a fully-subscribed $1.2 billion capital raise from institutional investors in mid-September, shortly followed by a $200 million share purchase plan focused on retail investors. The offer price on both raises was $6.95 per share. This was a discount of 7% to the ex-dividend adjusted last close price of $7.48 on 13 September 2024.

The investment community provided very positive feedback on the capital raise and the business case behind it.

The capital raise means we can deliver critical infrastructure to add capacity and, importantly, make our airport more resilient, while continuing to invest where opportunities arise to add value in our high-performing property business.

The total proceeds of $1.4 billion will be initially used to reduce net debt, while also giving us the flexibility to fund our planned capital investment programme over future years while borrowing at the favourable rates that the A- rating provides.

Our capital raise coincided with the airport entering a contract with Hawkins Limited, worth around $800 million, to manage the construction and delivery of our new domestic jet terminal which will complete the integration of domestic jet and international services under one roof.

Carrie will address our reinvestment programme in much more detail. The integrated terminal is being developed following a decade of planning and discussion with airlines. COVID-19 delayed its execution, but it is now well-advanced. A key driver is the planned need to do runway renewal work by about 2030. Without this development, we would have to severely limit flights into Auckland for 18 months or more in order to carry out these works - with enormous impacts for New Zealand.

Air New Zealand withdrew its previous support for the new integrated terminal on the basis of cost, which was disappointing. In the absence of a viable alternative, we have no option but to continue. But we continue to seek all the cost-savings we can.

Let me assure you that your board and management spend a huge amount of time looking for savings and efficiencies in the new build - but the one thing we cannot do is suspend the programme, which is now well advanced.

It is always easy to say why you shouldn't build something. As you may be aware, I have been intimately involved in major programmes at Transpower and Chorus in recent years, and believe me at the time there was no lack of fervent opposition to both those investments . Time has proved their value conclusively. And so it will at the airport - and I applaud my fellow directors for their vision in advancing the programme.

Construction of the domestic jet terminal, along with the critical upgrades to the airfield and runway needed by 2030, integrated baggage systems and associated facilities are all part of the wider $5.7 billion planned aeronautical capital investment programme that will be recovered long-term through airline charges.

Our aeronautical capital programme and aeronautical charges are reviewed by the Commerce Commission. They published their draft report on 17 July: while they considered our capital investment plans to be reasonable, they thought the WACC we used to set our prices for PSE4 – of 8.73% – was too high. The difference in view is principally around how the pandemic is treated, which was new ground for everybody. Their final view, which will be based on their consideration of our final submission and those of the airlines, is due by the end of Q1 next year.

This was another strong year for our non-aviation business. We completed developments for Reece Group and Hellmann, as well as two specialised pharmaceutical facilities, and we have developments underway for IKEA and DHL. The new Te Arikinui Pullman Hotel, a 50/50 joint venture with Tainui, opened within walking distance of the international terminal.

And, the new premium outlet shopping centre, Mānawa Bay, opened last month, creating 750 jobs and becoming New Zealand's first ever 5 star Green retail facility.

With its distinctive architecture, the centre's first 90 stores have already set a new standard for outlet shopping in New Zealand.

Despite extensive traffic management planning, the popularity of the new centre saw some disruption to traffic to and from the airport on the opening's first four days – delays of between 5 and 12 minutes according to NZTA.

Every major new shopping centre in Auckland has experienced traffic congestion in the first few weekends. Our priority is always our airport operation and getting people to and from their flights on time, and we were determined to limit any disruption to this.

As anticipated, a more regular pattern has settled in quickly, the school holidays – a peak time – passed without a hitch, and we thank people for their patience.

To summarise your company's performance – it's been strong in the past financial year, and we are pleased with our progress. The Board would like to thank Carrie and her team for their hard work and dedication in delivering these results.

As was announced in March this year, I will be retiring from the Board effective from the close of today's meeting. Having worked with your new Chair, Julia Hoare, since 2017 – I know the airport will be in very safe hands under Julia's stewardship as we move further through FY25 and beyond.

Outlook

In FY25, we are working hard to maintain the momentum for new international routes and growth in overseas visitors. Our focus is helping retain New Zealand's attractiveness as a destination. This includes efforts to encourage airlines to commit capacity. This is especially true to support the return of travellers from across the Tasman, which was at only 83% of pre-pandemic levels at the end of June 2024. Australia is historically New Zealand's number one inbound tourist market, and we need to work as an industry and a country to restore our attractiveness to them as a destination.

Some uncertainty remains due to external factors constraining the supply of aircraft globally, and the availability of jet engines. Also, continuing headwinds in the local economy may have an impact on passenger numbers.

We are reconfirming guidance of underlying profit after tax to between $280 million and $320 million for the 2025 financial year, and capital expenditure of between $1 billion and $1.3 billion for the year.

I will now pass over to Carrie to give us more insights on the factors driving airline capacity and our progress on mission-critical projects across the airport.

Carrie Hurihanganui, CEO

Thank you, Patrick. Ngā mihi nui kia koutou katoa.

I am very pleased to report to you on a year which saw a 17% growth in passenger numbers, and in which we made significant progress on major projects across virtually every part of our terminal facilities, the airfield, and the wider precinct.

With many major infrastructure projects stalled or still in planning across Aotearoa, we are proud to be making tangible progress. In many instances, we have already improved resilience and/or the customer experience. However, we also acknowledge and thank our customers and aviation partners for their patience and understanding as we work at pace to make Auckland Airport fit for the future.

I'd like to provide a bit more colour behind the high-level aviation figures covered by Patrick.

FY24 was a strong international story for us. With the recovery in long-haul international capacity to 91% of pre-2019 levels, we saw a 29% increase in the number of international passengers using the airport – at 10.1 million.

North American airlines were back in force with a total of eight destinations in the United States and Canada. As Patrick mentioned, the 48% increase in available seats from North America to New Zealand brought 38% more North American visitors here.

And the good news is that US travellers to New Zealand have the highest median daily spend of all visitors. They contributed $1.4 billion to the economy in 2023, so I look forward to seeing the 2024 figures when they become available.

Eleven per cent more Kiwis also went Stateside, and they enjoyed a healthy 13% reduction in airfares compared to the year before due to increased airline competition in that market.

Just as importantly – China is back. Six airlines now connect Auckland to seven destinations in China. With the addition of two new routes - Haikou from Hainan Airlines and Hangzhou from China Eastern Airlines - seat capacity on routes to China between April and October 2024 is at 114% of 2019 levels, and passenger numbers are steadily following. This is great news for our connections with New Zealand's largest trading partner.

The India market was another big mover during FY24 as visitor numbers from India increased by 60% during the year with 72,000 arrivals. Visitors from the Philippines also grew strongly by 59% to 23,000.

As Patrick mentioned, we are still working on the Australian market. Post pandemic, many Australians have taken to long haul flights to the North or visiting Bali.

1.3 million Australians visited New Zealand in the year to June 2024, representing only an 86% recovery of pre-pandemic levels.

We are working with tourism industry partners to ensure New Zealand remains appealing to Australian tourists.

New Zealand's overall tourism has only recovered to about 80% of pre-pandemic levels; and according to the Tourism Industry Association the missing 20% means New Zealand is missing out on at least $3.6b in GDP.

Our strategy is focused on "Building a Better Future" - to create a vibrant precinct of travel, trade, and hospitality that connects people and place; a place that contributes to the prosperity of the community and supports the wider economy.

We know that aviation connectivity is crucial to New Zealand's prosperity and wellbeing. It's a responsibility the airport holds dear as the owner and operator of one of the nation's most strategic infrastructure sites that currently welcomes over 18.5 million passengers a year.

I'd like to share with you some updated information from a new EY study on Auckland Airport's contribution to this prosperity, and why that matters for New Zealand.

The headline findings are that, overall, the airport supports 25,000 jobs and contributes $35.1 billion in economic output per annum. We also act as New Zealand's third largest goods port by value.

Of that $35.1 billion of economic contribution, $26.9 billion is supported by international travel, $6.8 billion is supported by domestic tourism, and $1.4 billion of economic output is supported by employment at the airport precinct itself.

If those big numbers are hard to visualise, another way to look at it is that every time you see an international flight coming into land – that's $1.4 million of economic output flying in.

And it's not just passengers. The $26.6 billion of New Zealand's trade that flows through Auckland Airport is strategically important. By value, we are the second busiest import channel, after the Port of Auckland, and the second most valuable export channel after the Port of Tauranga. We moved 19% of New Zealand's imports and exports by value. Around 75% of that air freight is moved in the belly hold of passenger planes.

The figures on our economic contribution I have just shared highlight the two primary reasons for our current once-in-a-generation investment programme at Auckland Airport – and those are capacity and resilience.

Domestically, we are full at peak times. While the current domestic terminal has served us well, it is almost 60 years old, and it's at capacity.

We need to create new capacity and resilience to enable growth for Auckland and to benefit the wider domestic and regional aviation network. Without more room for jets at Auckland at peak, that limits growth on the whole network.

Our investment programme is critical to NZ Inc over the coming years because it enables the next steps in the airport's journey to accommodate 26.3 million annual passenger movements by 2032, to support $55 billion per year of economic output.

International movements are forecast to increase by more than 45%, from 9 million to 14.4 million per year. Domestic movements are forecast grow from 8.5 million to 11.9 million per year.

After delays due to the pandemic, we need this programme more than ever to avoid major operating constraints that would have far-reaching impacts for the airport, airlines, and New Zealand across tourism, travel, and trade.

Some airlines have been vocal in their view that the upgrades are costing too much. However, airports are sophisticated pieces of infrastructure with lots of moving parts.

We need to balance the high cost of infrastructure post-pandemic against the much-needed additional capacity, operational safety and resilience, and protect the airport against the increased frequency of adverse weather events like those seen last year; as well as faster processing times, larger, modern and integrated facilities, and better services.

The results of a survey released in May told us to get on with it. More than 75% of people surveyed want to see the airport development happen, with nine in 10 travellers wanting increased capacity to allow more flights and potentially more airline competition.

I have talked about the 'why' of our infrastructure investment programme, now I will touch on the 'how'.

We currently have over 400,000sqm of aeronautical-focused infrastructure in development across 17 airfield, transport, and integrated terminal project streams.

On the airfield, we are almost halfway through our 250,000sqm airfield expansion. This project includes delivery of vital stormwater upgrades to boost our defence against major weather events. And by the end of the 2024 financial year, we had completed more than 20% of our integrated terminal programme and today, we currently sit at 23% completion.

Auckland Airport is now the region's most active construction site, with 1,200 people working on projects to upgrade the airport, with more than 1,000 of those focused on advancing our integrated terminal and associated works.

With the recent appointment of Hawkins, the next major phase of development involves expanding the international terminal further to the east to construct the new domestic jet terminal building.

It will feature a new headhouse and a 240 metre-long pier, with the facility delivering 44% more processing space for passengers. Alongside this it will provide 26% more airline seat capacity and an additional 10% flexible seat capacity provided through bus lounge operations. A key highlight for travellers will be a short indoor walk between domestic jet services and international flights. The build is programmed to take five years, with the new terminal set for opening to the public in 2029.

This is an investment for the coming decades and beyond, creating essential resilience, increased capacity, improved processing for domestic jet travellers and their baggage, and an all-round better experience for everyone who travels, visits, and works in our aviation precinct.

While the new terminal is being built for jet travel, how we cater for the future of regional travel and smaller aircraft operations is also top of mind for us. We are currently consulting with airlines on this and we look forward to updating you once this work is complete.

This current period of transformation will inevitably cause disruption, and we thank everyone who uses the airport precinct for their patience. The outcome will be worth waiting for – however, I would also like to touch on some of the things we're doing to care for our customers in the here and now.

While we build the new terminal, customers will need to continue using the existing domestic terminal for the next five years. So, we are also improving the travel experience from the front door to the gate lounge by upgrading and renovating traveller facilities, including signage, bathrooms, helpdesks, and dwell spaces, to make trips more comfortable, along with improved WiFi.

In April, we opened the ground floor of our Transport Hub, providing travellers with a more spacious, covered public pick-up and drop-off zone. This allows the temporary closure of the inner terminal road to make way for upgrades to essential services and stormwater and new public areas ahead of the eventual return of public transport and commercial drop-offs to that area.

Elements of the upgrade programme on the terminal forecourt have been accelerated so taxi and rideshare pickups could move closer to the terminal much earlier than originally planned, making it quicker and more convenient for customers to meet their ride.

At the international terminal, our Transport Hub marks the biggest change to transport flows in 50 years and is a vital step towards making the journey from road to plane a more efficient and modern airport experience.

Currently serving 10,000 vehicles arriving and departing with passengers each day, through separate car, bus, taxi and rideshare drop-off lanes, the Transport Hub will offer four levels of parking and an additional 2,000 parking spaces above the public pick-up/drop-off zone. The first upper levels are opening from October this year with the rest of the building progressively coming online before the end of this calendar year.

Inside the terminal, our operations team is constantly working with airlines, ground handlers, aviation security, and border agencies to proactively manage and troubleshoot pressure points and ease congestion. Queue times for international arrivals in the 2024 financial year improved by 33% (at the 95th percentile) compared to the prior year.

I'd like to talk a little more about the airport's role as an employment hub. The Auckland Airport aviation precinct supports the employment of over 25,000 jobs. The airport itself directly employs 746 people, generating $73 million in salaries and wages. A further 24,700 people are employed in over 250 businesses in 19 different industries within the airport precinct, generating $1.4 billion in salaries and wages. This makes us the largest employment centre in the region outside of the CBD.

I am particularly proud of the more than 4,400 students and job seekers we have assisted through Ara Auckland Airport Job and Skills Hub programmes since 2017, most of whom are from our own neighbourhood in South Auckland.

We have set a target to reduce direct emissions by 90% from 2019 levels by 2030 and we are already delivering some significant cuts, with a 25% reduction to our direct carbon emissions in comparison to our 2019 baseline.

We operate New Zealand's largest air-conditioning system, and our most significant decarbonisation initiative involves phasing out gas-powered boilers in favour of energy-efficient heat pumps within the terminal. This is well underway. We have also initiated generating onsite renewable energy with new rooftop solar systems on top of two of our newest buildings, Mānawa Bay and the Transport Hub.

As an airport, we are a relatively low carbon emitter but we recognise the impact that aviation has and we have a role to play in the wider decarbonisation of the sector. Like a lot of things, this also begins with infrastructure.

Airports need to ensure the right infrastructure is in the right place and at the right time to allow our airline partners to trial and adopt new technology. We have provided ground power units at our gates for aircraft to connect to and charging facilities for electric ground servicing equipment. The new integrated terminal provides more of this infrastructure, as well as reducing embodied carbon through design and delivering a 30% reduction in operational emissions.

We continue to work with the Government and airlines on how we decarbonise aviation into the future, and a lot of work is underway across the sector in this space. For long-haul travel, which New Zealand is so reliant on, sustainable aviation fuel will be the key decarbonisation tool for the future. Auckland Airport supports the Government's efforts to work together with Australia to work on a regional approach to increase the production and uptake of SAF.

With so much going on across the span of airport development and operations - metaphorically building the plane while flying it – we have refreshed and strengthened our executive team.

Susana Fueyo Suarez joined in February as Chief Infrastructure Officer and Stewart Reynolds was appointed Chief Financial Officer in July 2024 after acting in the role since December 2023. Susana and Stewart join a strong management team overseeing multiple projects in a development period that is incomparable in our almost-60-year history.

I am pleased with the high level of female participation in our business, including at management and senior management levels. However, we are still working to redress imbalances in remuneration and this year saw the gender pay gap reduced a further 6% to 21%, compared to 27% the previous year.

The success of the airport and delivering to our customers and ambitions relies on the leadership, capability, and passion of our people and partners. I want to acknowledge the Auckland Airport team for their commitment and effort each and every day – they are an extraordinary group of people who care about what they do and the positive impact they can have for our customers and the New Zealand economy.

I'd also like to take the opportunity to thank the Board, and in particular, Patrick, for his support and steadfast stewardship as Chair.

If this were a rugby game – the commentator would say we have everything to play for. We have a strong board and reinforced executive team. After decades of planning, and with capital secured, we are well into the execution phase of a significant regeneration of the airport.

The onus is now on us to deliver, while doing everything we can to minimise the impact on our customers and airline partners; while keeping all our people and contractors safe in a live operational environment. And we will continue to be very active in growing airline connectivity over the next year.

We are passionate about the role of the airport in keeping our great country strong and connected for decades to come; and we are proud to be the team delivering this for New Zealand.

Nga mihi nui. Thank you.

ENDS

For further information, please contact:

Investors:

Stewart Reynolds

Chief Financial officer

+64 27 511 9632

stewart.reynolds@aucklandairport.co.nz

Media:

Libby Middlebrook

Head of Corporate Affairs

+64 21 989 908

libby.middlebrook@aucklandairport.co.nz