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THE IMPACT OF COVID-19 ON GLOBAL AIRPORTS

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It is very clear that infrastructure and global markets are currently behaving in an unprecedented manner. Whilst infrastructure assets typically behave more defensively in a downturn, this sudden sharp correction has not been driven by the macro but instead an infectious disease. The repercussions of society protecting itself from this contagion has ramifications for socialised assets that are used in all of our daily lives – especially airports and to a lesser extent toll roads. These concession infrastructure assets have not fared well during the so-called COVID-19 crisis and are all under varying degrees of stress – both in terms of share prices and passenger volumes. Airlines - and by association, airports – are facing the biggest headwinds, who understandably have been subject to a significant reduction in volumes much of the world moves into various stages of lockdown.

Transportation assets are typically, among other assets, hit hard in times of economic hardship. But this sharp drop in global travel is particularly troublesome for airports, where volumes in some places may soon approach zero. Whilst historically speaking, the impact of exogenous events on airports have typically proven to short-lived (e.g. 9/11, SARS, Swine Flu, Global Financial Crisis, Eurozone Crisis) with a subsequent bounce back to trend growth, there is a growing risk that this time will be different.

The risk to the aviation industry is unprecedented – never in recent times has air travel been so limited, with so many countries in unison having all but grounded international and in some cases domestic flights. Even in the depths of the Global Financial Crisis, passengers still flew. Today that is barely the case. In our view, smaller airports will be the hardest hit – those without balance sheet capacity and those that aren't major hubs for airlines to shelter in this crisis. We own a stake in Fraport, the operator of Frankfurt Airport, which is still open as the only cargo hub in Germany and still has very limited passenger volumes. Conversely, many German airports have closed down. Other big hubs – Charles de Gaulle in Paris, Heathrow in London, Madrid in Spain, have all been scaling back operations and closing terminal downs. In the UK, we note the Airport Operators Association has warned that some smaller airports will be out of business in the coming weeks.

The most obvious question that we have been doing a lot of analysis on has been when and how might traffic return, given the punitive impact the global shutdown will have on balance sheets. We don't believe it is being catastrophic to suggest that some airlines may cease to exist when we get through this crisis, particularly private operators that might have lesser prospect of explicit, or implicit, government support. At present, we believe that state aid is a necessity for even the largest of airlines, which face an unprecedented liquidity crunch that dwarfs that of 2008-2009. Some governments around the world have already stepped in, or indicated future support.

Even beyond this crisis, the historical rule that "volumes return to trend" could possibly be broken. Important for airports is that the airlines remain solvent so they can return passengers to the skies as we exit this crisis. We don't think all will, or at least in their current form. Lesser competition amongst airlines post-bankruptcies or restructurings and changing consumer behaviours could put an end to that. On the latter, the global take-up of videoconference technology to facilitate working-from-home has been tremendous to observe. The efficiencies gained may potentially put a strain on the future level of business travel going forward. Similarly, in countries where it's possible, the trend we have observed over recent years of an increasing normalisation of business and leisure travel by rail, not to mention the growing environmental benefits (or headwinds for air travel), is likely to gain faster traction the longer the crisis drags on. Thus we expect that “normalised” valuations will take a leg-down.

In terms of process, we have been stress-testing our assumptions with a strong focus on the liquidity of balance sheets of airports and more importantly their airline customers. Over the coming days and weeks, we have a significant number of meetings (via video conferencing) coordinated up with global airport operators and airlines to continue to stress the assumptions. The meetings to date have not necessarily delivered a lot of confidence, although the focus has been on the short term, rather than the recovery. Passenger volumes to date are looking extremely negative and we do expect will approach zero at some airports in April. We will be in a position to provide further updates on this in due course.