

## Holland Views: Aena (€112) Beijing Airport (HK\$5.30): Both Buys

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### Toll roads for 50 cents

*“The time to buy a road toll is when there is no one using it”*

We feel no need to explain the toll-road business model or its attraction as an investment. Collecting money, as a monopolist with very little daily effort, is as close to a ‘money tree’ as we are ever likely to find. The attraction of this model means that many such companies are almost always highly valued due to their predictable growth and prodigious cash generation...almost always. One of your authors was analysing airports, and their road toll characteristics, a mere 25years ago; We conclude in this piece that in the last two and half decades there has never been a better time to buy shares in an airport operator than in 2020. You can put us down as buyers of them all, but our focus and preferred picks are Spain’s **Aena** and China’s **Beijing Capital International Airport (BCIA)**.

#### What did you do yesterday?

Last week we took a break from balance sheet stress testing and daily Government briefings to read the annual report of Aena (monopoly owner of all airports in Spain and the Balearics). After that we poured ourselves a strong coffee and read DORA. For those of you stuck at home with young children this is not a story about an adventurous 7-year-old with a backpack, but the regulatory accounts/regime of Aena for the period 2017-2021. As with all regulated companies this is an area critical to understand. We will not yet claim to be Aena regulatory experts, but we like much of what we found and see the shares as very cheap. In addition, we have been looking again at Beijing Capital International Airport (BCIA) adding to the knowledge we started building in a piece published in May 2018 (re-attached). Those of you that look for super cheap, hard assets will love Beijing Airport.

#### **Aena – Reach for bucket not a thimble**

For these that know what they seek, this is, to paraphrase Buffett ‘a time for buckets not thimbles’. It is also a time to focus on the analysis needed to assess a company rather than the long-hand write ups. As such we have studied a number of documents related to Aena airports. These we have marked up, highlighting the most relevant areas we think investors should be focused on (see attached). We highlight below the impressive combination of factors that we are pleased to have found in Aena. We then expand a little on regulation.

#### In Summary, Aena:

- owns all the airports in Spain and on the Balearic islands, so it and its regulator can have a sensible joined up way to think about future planning for capital and expansion on a national scale
- carries c.275m passengers annually
- makes high EBITDA Margins (c.65%)
- has high Free Cash generation
- has low leverage (2.3 x EBITDA) vs. airport peers – many of which have 5x leverage
- has the lowest landing fees in Europe (by a wide margin)

- and the lowest operating costs per passenger (also by a wide margin)
- unlike many other airports in Europe, Aena is not overly reliant on one airline group such as say Swiss or Lufthansa
  - It also has a high exposure to those airlines that are likely to emerge intact and will be strong growers post the Covid-19 crisis (Ryanair, IAG and EasyJet)
  - 158m of its passengers are from low cost carriers (LCC's)
- is also well positioned in two regards:
  - Spain is a country that attracts the second highest number of visitors globally
  - Spain is also positioned in a geographically advantageous location – i.e. it is a natural westerly transit point for travellers to either North or South America.
- has a sensible and favourable regulatory framework under which it operates
- ...and in 2018/9 had an 80% dividend pay-out ratio (current dividend yield = 6.8%)

Prior to Covid-19, Aena shares (when changing hands for €170) traded on an undemanding 11x EV/EBITDA and a PE of 17x. **Today at €112 these multiples are 8x and 11x respectively.**

#### Traffic and economic growth

Attached to this note is a variety of documents that will aide readers understanding of this company and the airport industry.

Separately from these there is significant data on this industry (i.e. airlines and airport travel) made available by IATA. If we chose to super-simplify the main findings of almost all IATA studies for the last 30 years, the consistent conclusions would be:

1. That any major set-back that has ever occurred which has significantly reduced global air travel (recessions, 9/11 attacks, Icelandic ash cloud) have all been recovered from and in most cases quite quickly.
  - a. See appendix chart showing US Airline travel pre and post September 11<sup>th</sup> attacks and 1990 gulf war
  - b. Also reference our argument in our recent *Perfect Storm* research piece – today's crisis is importantly not about the safeness of flying per se.

#### Fig.1: GDP vs. Traffic

To view the remainder of this in-depth report, please contact Andrew Hollingworth, [Andrew@hollandadvisors.co.uk](mailto:Andrew@hollandadvisors.co.uk) for a complete PDF copy.

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