

LCQ12: Financial situation of the Airport Authority Hong Kong

Following is a question by the Hon Chung Kwok-pan and a written reply by the Secretary for Transport and Housing, Mr Frank Chan Fan, in the Legislative Council today (June 2):

Question:

The Airport Authority Hong Kong (AAHK) has indicated that the Coronavirus Disease 2019 epidemic has made an unprecedented impact on the business of the Hong Kong International Airport (HKIA). In the light of the drop in operating surplus and the income from airport construction fee (ACF) due to air traffic slump, AAHK raised a series of financings in the last financial year for general corporate purposes and to meet its capital expenditure, including that of the Three-Runway System project. In this connection, will the Government inform this Council if it knows:

- (1) whether AAHK has assessed the short-term impacts of the decrease in passenger and cargo throughputs of HKIA due to the outbreak of the epidemic on the operation and financial situation of AAHK; whether AAHK has projected how the passenger and cargo throughputs in the coming three years compare with those in the three years before the epidemic;
- (2) whether AAHK has projected the income from ACF and its percentage in AAHK's total income, in each of the coming three years;
- (3) the measures put in place by AAHK to increase its operating income in the coming three years, so as to compensate for the reduction in income due to the epidemic;
- (4) whether AAHK has assessed if AAHK can achieve a surplus of operating income over expenditure in the coming three years; if AAHK has assessed and the outcome is in the negative, of AAHK's corresponding plans; and
- (5) whether, given the uncertain outlook of the aviation industry amid the epidemic, AAHK has formulated a financing plan for the coming three years?

Reply:

President,

Hong Kong's aviation traffic has been significantly impacted by the Coronavirus Disease 2019 pandemic. In 2020, the Hong Kong International Airport (HKIA) handled a total of 8.8 million passengers and 160 655 flights, which represent year-on-year decreases of 87.7% and 61.7%, respectively. The cargo and air mail throughput remained relatively stable but still registered a year-on-year decline of 7.1% to 4.5 million tonnes.

The financial performance of the Airport Authority Hong Kong (AAHK) depends largely on the HKIA's air traffic volume. The pandemic has seriously impacted the revenue and hence operating surplus of the AAHK. Due to the passenger traffic slump, the Airport Construction Fee (ACF) collected by the AAHK in the first half of 2021-2022 financial year amounted to a mere HK\$56 million, representing a decrease of 97.2% when compared with the same period in 2019-2020 financial year. On the other hand, the HKIA has since the beginning of the pandemic launched several rounds of relief measures for the airport community, including waiver or reduction of rents and fees, thereby drastically reducing the HKIA's income. In response to the uncertain air traffic outlook and market condition, the AAHK has implemented various cost control measures, including re-prioritising capital expenditure, freezing headcounts and pay raise to preserve its liquidity. As for the AAHK's future income, depending on the progress of the control of the pandemic around the world, passenger throughput may gradually recover to pre-pandemic levels in three to four years. However, the pace of resumption of global air traffic still faces many uncertainties. As the AAHK's financial position is largely dependent upon the extent of recovery of the air traffic, it is difficult for the AAHK to make an accurate estimation of the operating surplus, which is largely traffic driven, and the ACF collection.

The AAHK is taking forward the Three-Runway System (3RS) project and other development projects which have commenced according to plan. The AAHK has revisited and updated the 3RS project's financial arrangement, and will continue to adjust the arrangement as and when necessary. The AAHK will continue to finance the 3RS project through retaining its operating surplus, collecting ACF and raising funds from the market. Among these sources, the AAHK projects that the total amount of funds to be raised from the market would include: (i) HK\$89 billion of debt, an increase from the original plan's HK\$69 billion; and (ii) US\$1.5 billion (or HK\$11.6 billion equivalent) of perpetual capital securities (accounted as equity) issued. In view of the traffic slump and the drop in revenue, the contributions from the operating surplus and the ACF collection to finance the 3RS project would be reduced inevitably. So far, the AAHK has maintained a strong credit rating of "AA+" by Standard & Poor's Global Ratings, and its cost of borrowing remains at a low level. The AAHK is confident that it can continue to leverage on its strong credit profile to raise funds from the market at reasonable cost, and does not require any form of financial guarantees from the Government in funding the 3RS project.

We believe that the aviation industry and air traffic will gradually recover as the pandemic subsides. The AAHK will continue to closely monitor the market situation in devising its long-term development strategy in accordance with prudent commercial principles.