

**Legislative Council Subcommittee**  
**to Follow Up Issues Relating to the**  
**Three-Runway System at the Hong Kong International Airport**

**Detailed Funding Plan for the**  
**Three-Runway System Development**

**Airport Authority Hong Kong**

**29 September 2017**



# Three-Runway System is more than building a new runway

**Construction Cost:**  
**HK\$141.5 Billion**  
*(in money-of-the-day prices)*





# 3RS Project Scope



Third Runway Passenger Building

**57** parking stands  

New runway

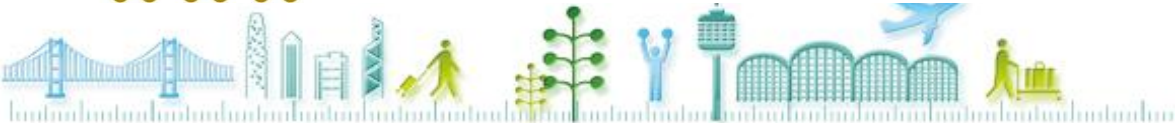
 **3 800 m**

Reclamation



Around **650** hectares of land using non-dredge methods, including deep cement mixing technique

Comprehensive road network and transportation facilities



New Automated People Mover System

Train service every **2.5** minutes on average 



New Baggage Handling System

Hourly handling capacity of

**9 600** bags

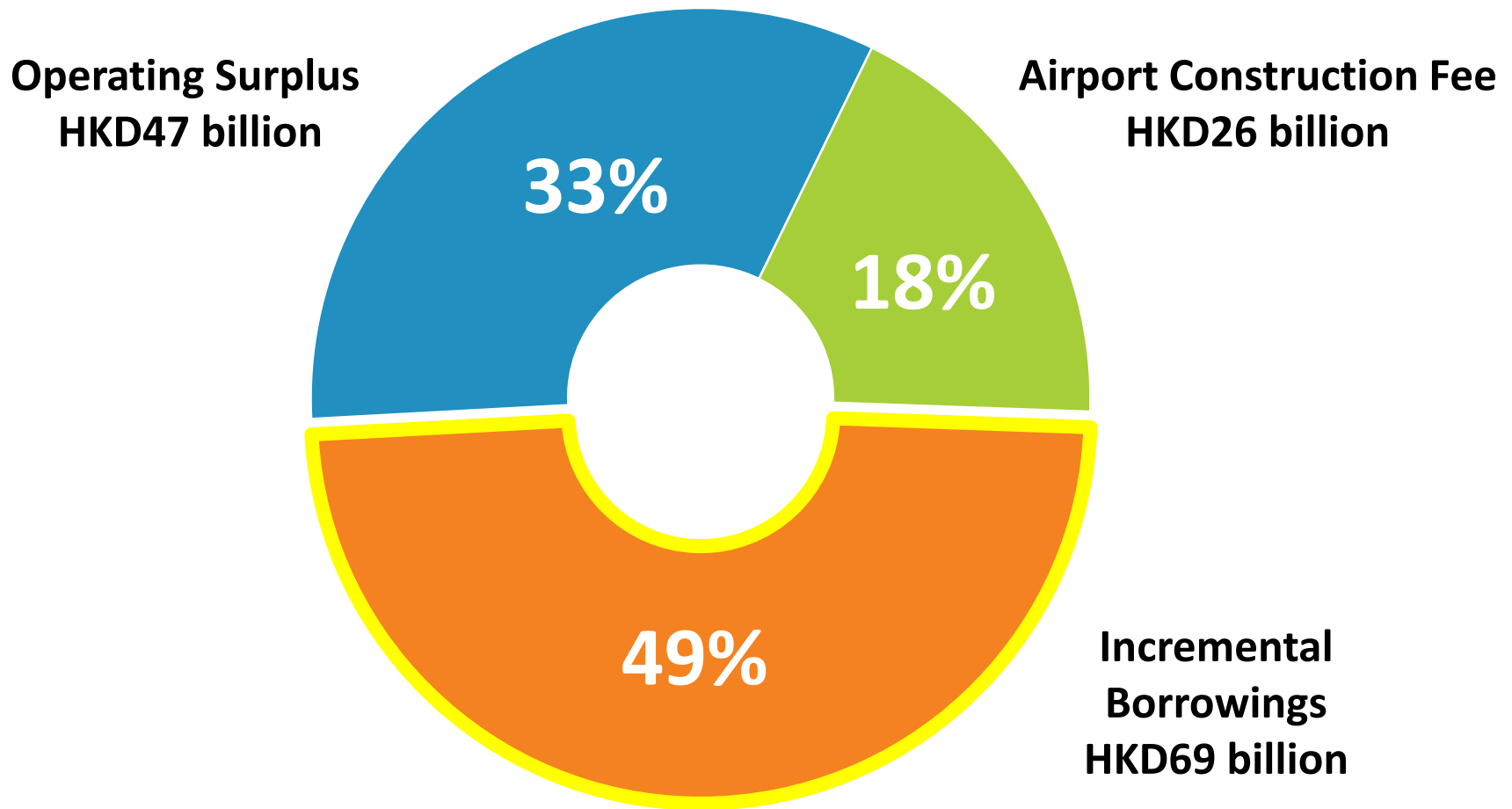


Expansion of Terminal 2

Providing arrivals, departures and full-fledged passenger services



# Three funding sources



Notes : The numbers above are estimated figures and subject to rounding.

Source : AAHK, 3RS Consultancy Study: Financial Arrangement for Three-runway System (3RS) at HKIA – Financial Advisor Report, HSBC (2015)

# HSBC's Detailed Funding Plan for 3RS – Study objective

To implement the detailed arrangements of the HKD69 billion borrowings:

- Analyse different debt structures;
- Identify suitable forms of financial instruments; and
- Make recommendations on the financial instruments that will enable AAHK to raise funding for the 3RS project in the most optimal manner.



# Key funding objectives and approach

- HSBC recommends the following key objectives and approach in developing the 3RS detailed funding plan:
  - raise debt on cost-effective terms that are consistent with AAHK's investment plans and funding needs;
  - allow flexibility in the timing of market approach;
  - examine all potential forms of financing, including the possibility of allowing public participation;
  - engage closely with relevant rating agencies, investors and banks; and
  - minimize the refinancing risk and manage financial risk exposure at a reasonable cost.







# Available Financial Instruments

- Commercial bank loans
- Institutional bonds
- Green bonds
- Retail bonds
- Revolving credit facilities
- Export credit facilities



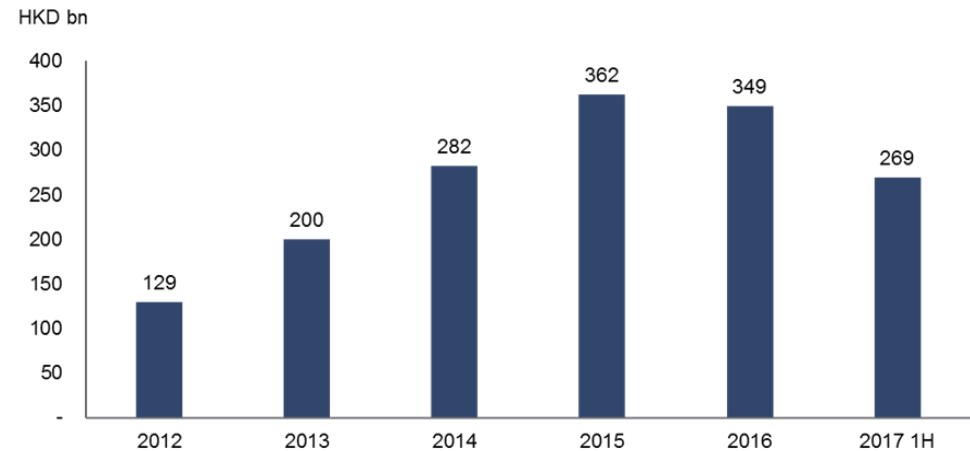


# Commercial Bank Loans

## Market access

- HK loan market has good liquidity currently with HKD349 billion of loans executed in the Hong Kong market in 2016 and HKD269 billion in first half of 2017. Banks are expected to have strong appetite to lend to AAHK.
- Tenor of 5 years remain widely accepted.
- High grade borrowers can tap market with loan size above HKD20 billion in a transaction if needed.

## HKD loan volume in Hong Kong

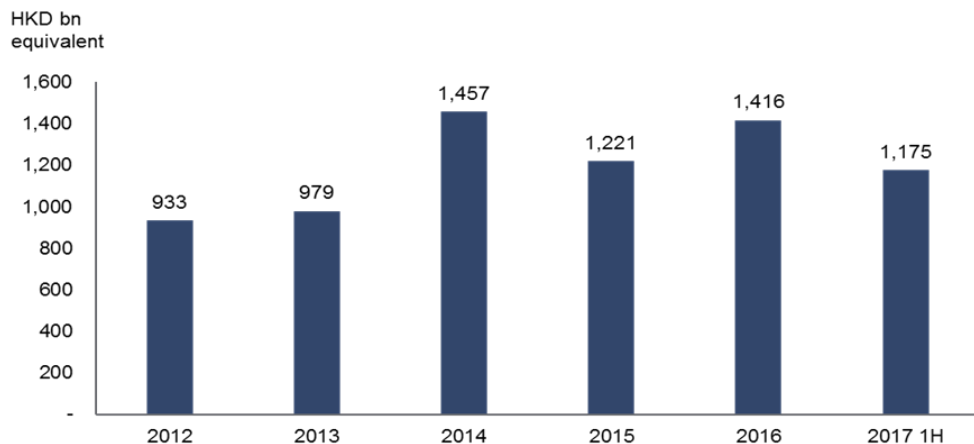


Source: Thomson Reuters, Loanconnector



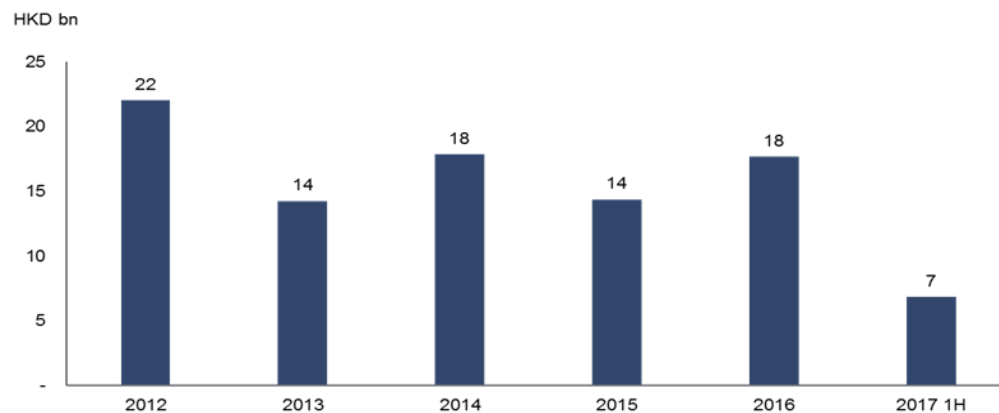
# Institutional Bonds

## USD bond issuance volume in Asia ex-Japan



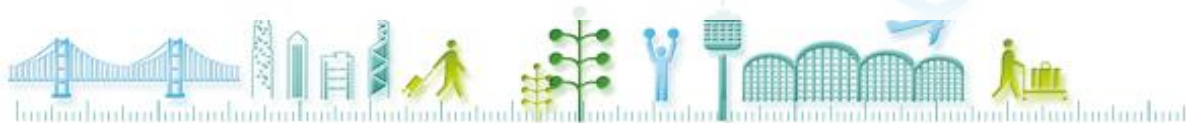
Source: Bloomberg

## HKD bond issuance volume for HK issuers



Source: Bloomberg

- The USD market represents the largest bond market. USD bond issuance in Asia ex-Japan was HKD1,416 billion equivalent in 2016 and is on track to reach a historical high with issuance in first half of 2017 totaling HKD1,175 billion equivalent.
- HKD bond market is also well established, albeit more limited in depth, with volume of HKD18 billion in 2016 and HKD7 billion in the first half of 2017.

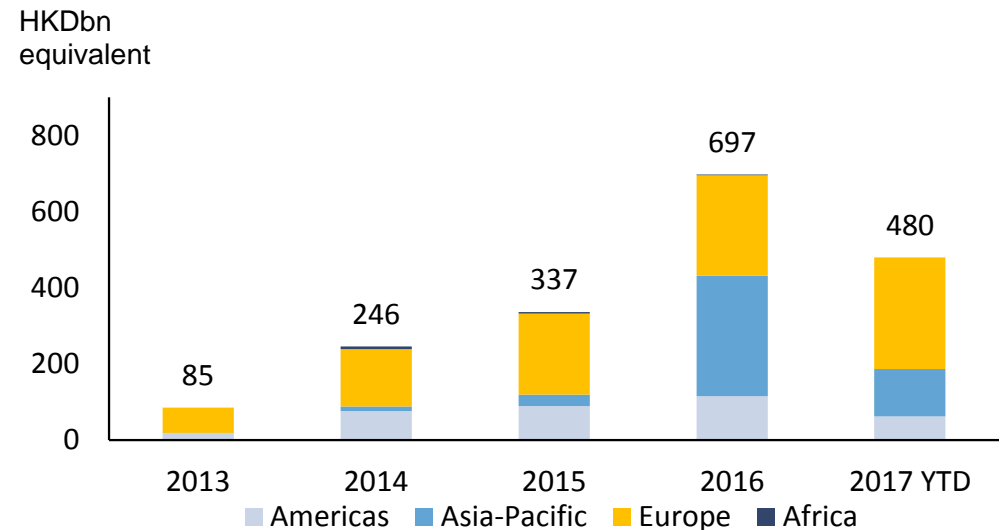


# Green Bonds

## Market access

- Increasing investor appetite for bonds in green format.
- Global issuance of green bonds totaled HKD697 billion equivalent in 2016 and HKD480 billion equivalent in 2017YTD, with Asia Pacific contributing equivalent of HKD316 billion in 2016 and HKD125 billion in 2017YTD.
- Green bonds have been issued by HK corporates (MTR, Link REIT).

## Green bond issuance progression by region



Source: Dealogic, Bloomberg and Climate Bonds Initiative



# Green Bonds

## Key features

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- A Green Bond generally has the same terms and conditions as a conventional bond.
- The Green Bond Principles (“GBP”) set out 4 key pillars:
  - ➔ Proceeds of the bond to be applied to eligible green projects
  - ➔ Issuer to establish a clear process to evaluate and select eligible green projects
  - ➔ Issuer to clearly track or earmark proceeds for eligible green projects
  - ➔ Issuer to provide regular (at least annual) reports to investors summarizing how the proceeds have been applied
- The Third Runway Passenger Building, estimated to cost HKD26 billion, will incorporate a lot of green features and may possibly serve as an eligible green project for the use of proceeds for green bond issuance.





# Retail Bonds

## Market access

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- Likely to be more expensive than other sources of financing such as institutional bonds and bank loans, but it can enhance public engagement.
- HKG has issued retail bonds to the public every year since 2011. HSBC believes a retail bond from AAHK would attract strong demand.

## Key features

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- HSBC recommends AAHK's retail bond to be in the size of HKD3-5 billion
  - ➔ There has not been any non-HKG retail bond issuance in the market for a while
  - ➔ This quantum should be material enough to attract investors' appetite
- HSBC recommends fixed rate coupon.

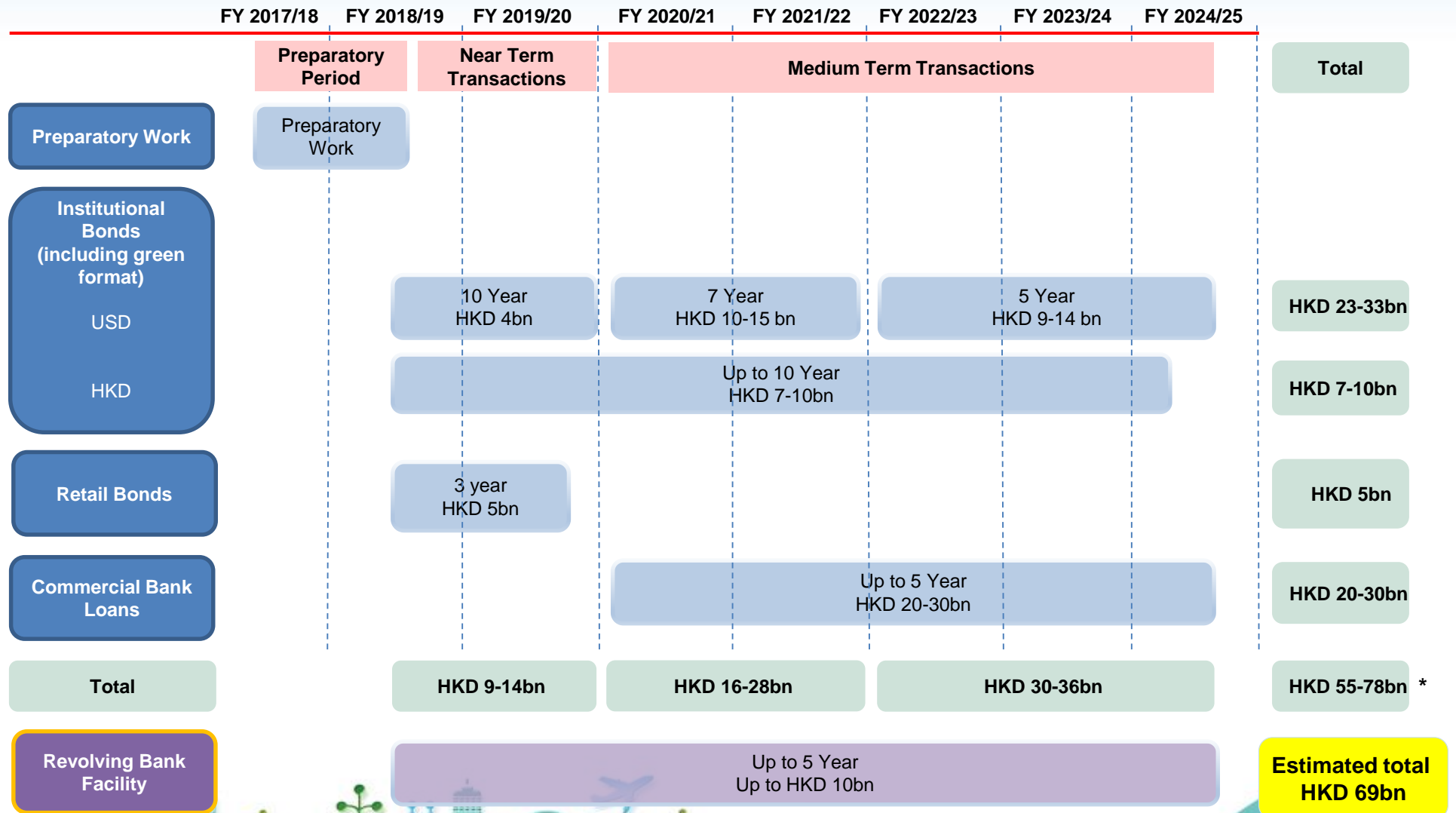


# General principles of the detailed funding plan

- HSBC laid out general principles for governing the selection and mix of financial instruments:
  - Bonds should represent a significant component of the detailed funding plan. AAHK should consider issuing long-tenor USD bonds (e.g. 10 years) in earlier years of the detailed funding plan such that the interest expenses can be locked by fixed rate.
  - A retail bond offering towards the start of the funding timeline to allow the general public to participate in and take home financial benefits arising from investment in the 3RS project.
  - Revolving bank facilities be maintained to meet potential unexpected liquidity requirements.
  - Shorter-dated USD, HKD or other foreign currencies bonds (5 to 7 years) and HKD bank loans (up to 5 years) for later years.



# Detailed funding plan and indicative implementation timeline

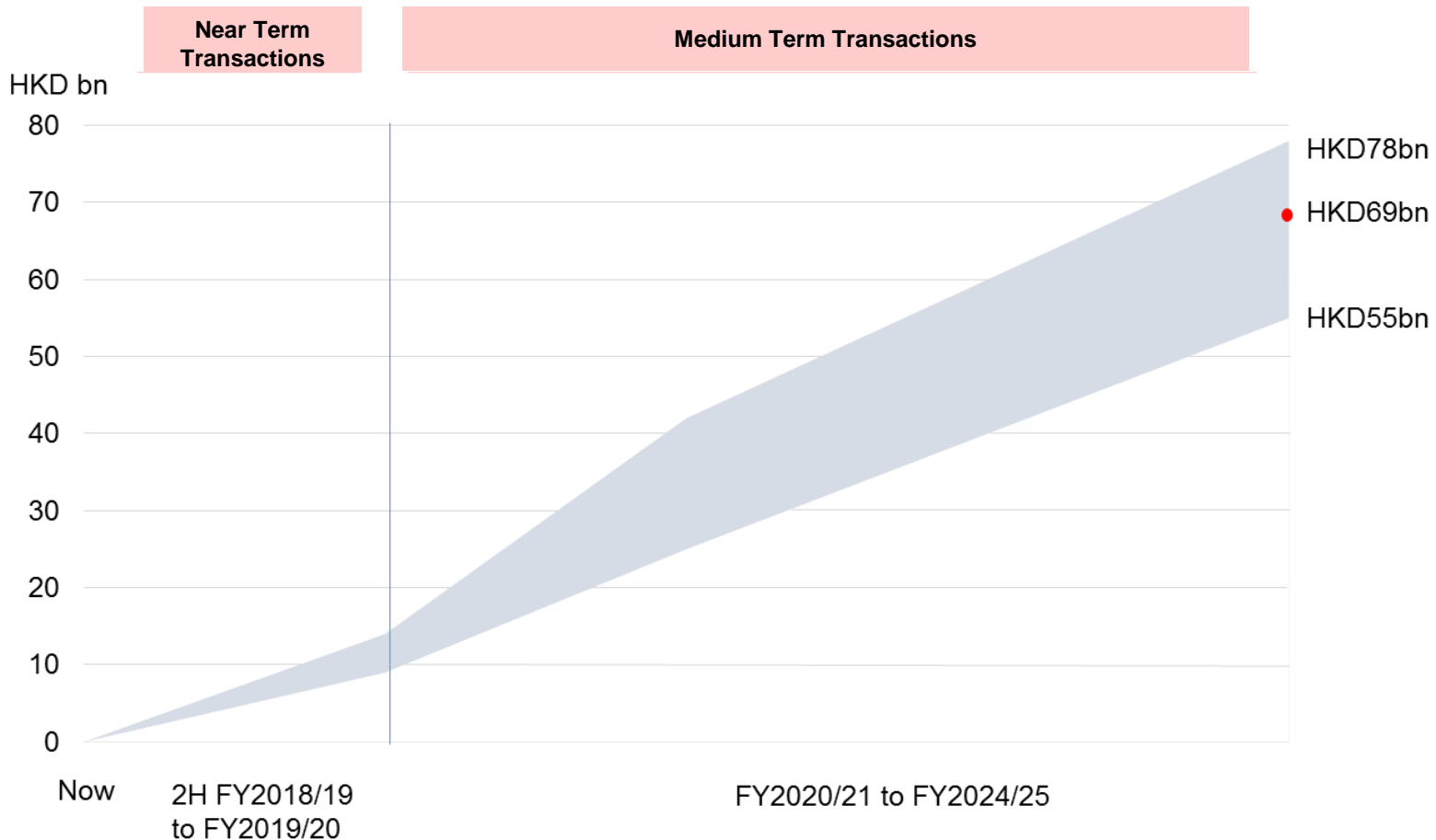


Source: AAHK, 3RS Consultancy Study: Detailed Funding Plan for Three-runway System (3RS) at HKIA – Financial Advisor Report, HSBC (2017)

\* HKD 55 – 78 billion represents the summation of the lowest and highest range of each debt instrument type.

# Indicative range of cumulative incremental debt balance

- The graph below shows the cumulative incremental debt balance according to the schematic graph of the previous slide.
- HKD55 – HKD78 billion represents the summation of the lowest and highest range of each debt instrument type in the previous slide.





# Financial advisor's opinion

- AAHK has strong access to debt markets.
- Confident that AAHK will be able to raise the required incremental debt on reasonable terms.
- The recommended detailed funding plan is robust and practicable.
- AAHK does not require any form of financial backing or guarantee from the Government.



# Way forward

- AAHK will review the 3RS detailed funding plan according to the market conditions during the course of the 3RS project.
- AAHK will execute the plan in accordance with its prudent financial management principles and as market allows.



# THANK YOU

