

## **For Information**

# **Legislative Council Subcommittee to Follow Up Issues Relating to the Three-Runway System at the Hong Kong International Airport Follow-Up to Members' Joint Letter**

## **Introduction**

Two Members submitted a joint letter (vide LC Paper No. CB(4)1170/16-17(01)) to the Chairman of this Subcommittee on 4 June 2017, requesting further information relating to Airport Authority Hong Kong's ("AAHK") credit rating and the financial arrangement plan of the Three-Runway System ("3RS"). This paper sets out the information pursuant to AAHK.

## **Credit Ratings of AAHK**

2. AAHK is currently given a credit rating of "AAA" by Standard and Poor's ("S&P"), the same as the current sovereign rating of Hong Kong. According to the financial adviser of AAHK, the Hongkong and Shanghai Banking Corporation Limited ("HSBC"), and based on the current rating methodology of S&P, AAHK's actual credit rating is expected to be the same as that of the Government throughout the 3RS construction period under the Working Case of 3RS<sup>1</sup> as long as AAHK remains wholly owned by the Government.

3. The above assessment on AAHK's credit rating is based on S&P's prevailing rating methodology. Neither HSBC nor AAHK can predict the rating action of S&P, or any change to S&P's future rating methodology.

4. HSBC's opinion is that AAHK's ability to raise debt at a competitive cost is based on a whole host of factors, such as AAHK's

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<sup>1</sup> In order to create a set of financial projections for the 3RS, a set of working case assumptions on traffic forecast, revenue, operating expenditure, capital expenditure, etc. were developed. For details of the working case assumptions, please refer to section 1.3 of the "3RS Consultancy Study, Financial Arrangement for 3RS at HKIA – Financial Advisor Report".

actual credit rating and the prevailing market sentiment at the time of borrowing.

5. According to the “3RS Consultancy Study, Financial Arrangement for 3RS at HKIA – Financial Advisor Report” (“2015 Report”), AAHK does not require any form of financial guarantees from the Government in the financing of 3RS. Given the expected strong actual rating, it will stand AAHK in good stead to raise the required funding on reasonable terms.

### **Downside Scenarios**

6. In the 2015 Report, the financial adviser has designed five hypothetical downside scenarios. The financial projections in these scenarios were calculated using the financial model described in the 2015 Report. The purpose of considering those scenarios is to test the robustness of the recommended financial arrangement plan for 3RS and to confirm that the additional debts raised to meet the consequential funding shortfall arising from such downside scenarios can still fulfil the requirement of financial prudence. These hypothetical cases do not reflect HSBC’s expectation of possible outcomes.

7. As explained in our earlier reply to similar questions raised by Members previously (vide LC Paper No. CB (4) 788/16-17(02)), AAHK’s ability to raise debt at a competitive cost is determined by its “actual” rating, rather than its “underlying” rating. This is fully in line with the market practice. In paragraph 6.2.7 of the 2015 Report, the financial adviser has concluded that based on its financial analysis, including the new revenue stream (e.g. the levy of the Airport Construction Fee), AAHK is expected to be able to retain a strong actual rating and to raise the additional debts on reasonable terms for the five hypothetical downside scenarios. The 2015 Report has not discussed the underlying rating of the five hypothetical downside scenarios. The study also has not sought any credit rating from the credit rating agency in respect of the five hypothetical downside scenarios because it is not the agency’s practice to do so.

## **Moody's Downgrade of Hong Kong Sovereign Rating**

8. Currently, AAHK is not rated by Moody's. According to HSBC, Moody's downgrading of Hong Kong's sovereign rating has minimal impact on the financial market, as evidenced by nil to a-few-basis-point tightening in the spreads of the investment-grade credit on the day following Moody's downgrade action on 24 May 2017.

## **Advice Sought**

9. Members are invited to note the supplementary information set out in this paper.

**Airport Authority Hong Kong  
June 2017**