

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

Financial Arrangement Plan of the 3RS Project

5 January 2016



The need and urgency to expand HKIA into a 3-Runway System are indisputable



New Passenger Concourse
and 57 parking positions
Floor area: **283,000** sq m



New runway
← **3,800m**



Reclamation
650 hectares of land
Using non-dredged methods,
including deep cement mixing
technique

Comprehensive road network and
transportation facilities



New Automated
People Mover system

Top speed: **80** km/h



New Baggage
Handling System

Baggage transport
speed: **25-36** km/h



Expansion of
Terminal 2

Providing arrivals, departures and full-fledged
passenger services



3RS Construction Cost

Three-Runway System	(HK\$)
Money-of-the-day (MOD)	\$141.5 bn*



* MP2030 Financial Feasibility Study in 2011: HK\$136.2 bn



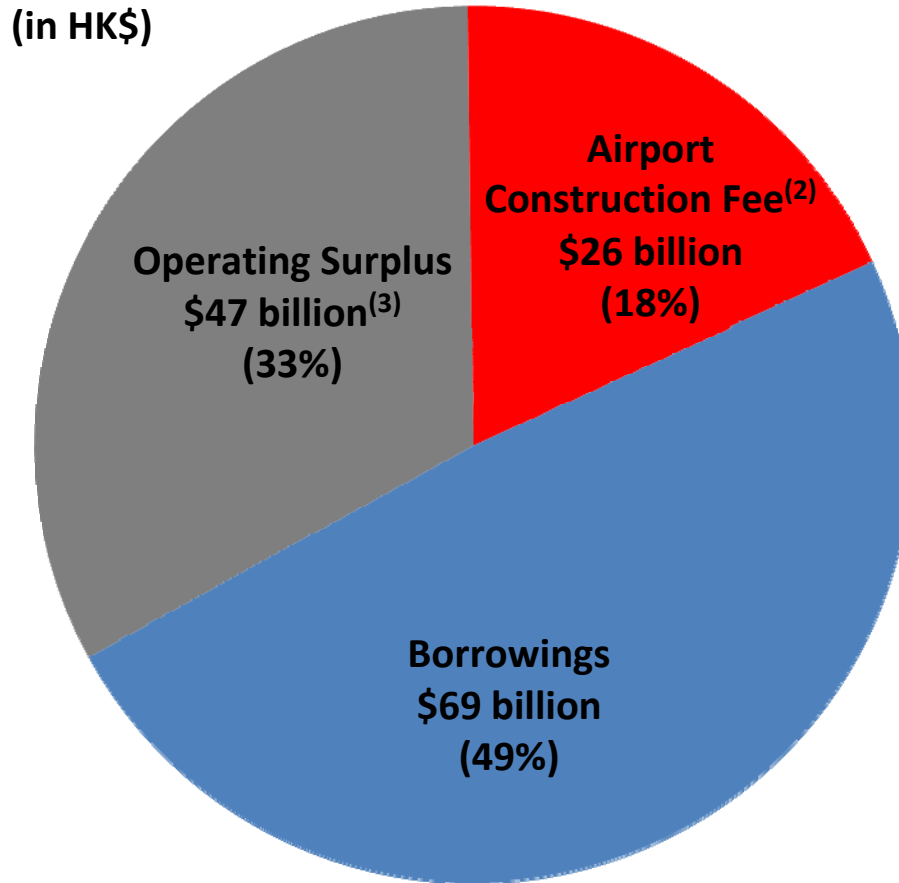
Joint Contribution and User-Pay Principle

From three major sources:

- 1. Operating surplus after reviewing and adjusting existing fees and charges;**
- 2. Introduction of a new Airport Construction Fee (“ACF”); and**
- 3. Third party debts raised from the market leveraging on AAHK’s financial capability and credit rating**



Financial Arrangement



Notes:

(1) Subject to rounding.

(2)Net of tax

(3)The operating surplus has incorporated revenue from Airport Charges



1. Sources of Funds: Operating Surplus (HK\$47 Billion)

Major Parameters	Assumptions
Traffic Growth	IATA traffic forecast
CPI	3% p.a.
Airport Charges	To be brought back to the level in year 2000 starting 2016/17 and subsequent increases in line with inflation.
Retail Revenue	In line with passenger growth and CPI.
Opex	Grow in line with CPI / traffic forecast / new facilities / new operations under 3RS.
New capital expenditure (non-3RS) and replacement capital expenditure	AAHK will continue to invest in non-3RS capital expenditure and replacement capital expenditure, amounting to over HK\$40 billion for the period until completion of 3RS.

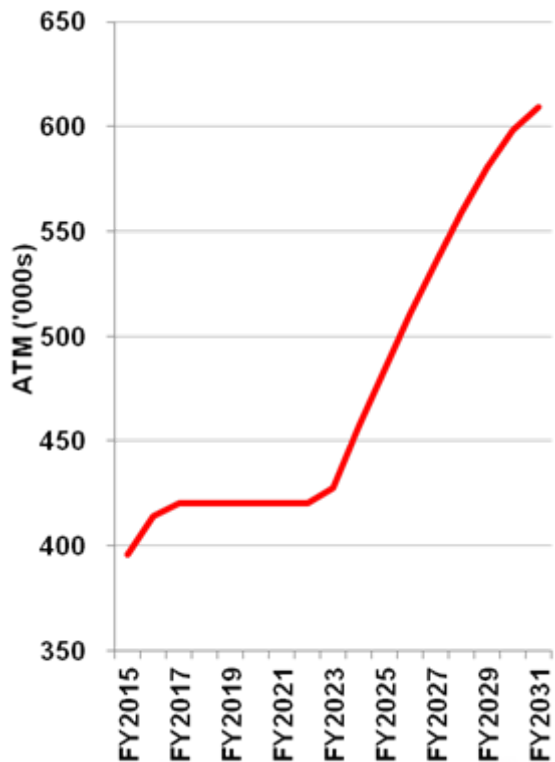
Note: 2014/15 to 2018/19 follow AAHK five-year plan.



Assumption - Traffic Growth

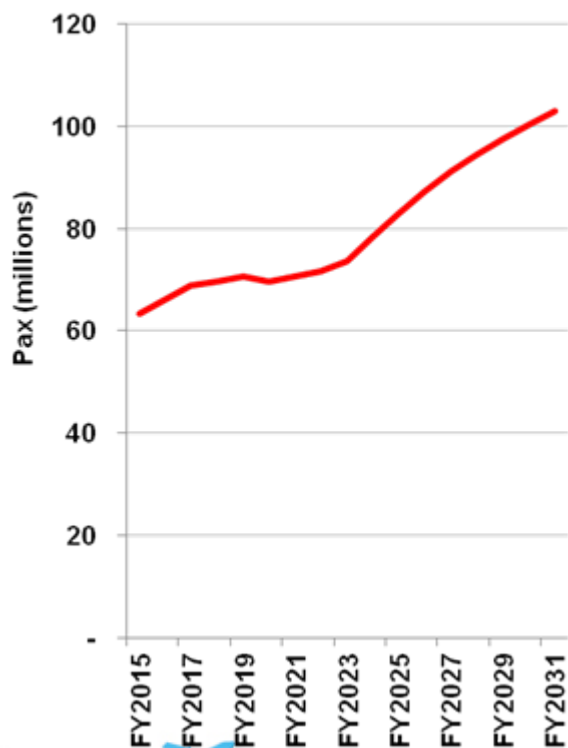
ATM

CAGR	Before 3RS	After 3RS
ATM	1.0%	4.5%



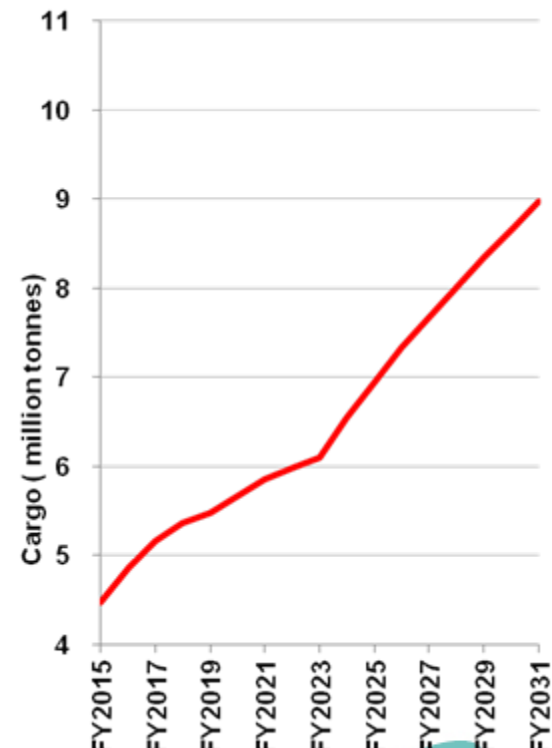
Passenger

CAGR	Before 3RS	After 3RS
Pax	1.9%	4.3%



Cargo

CAGR	Before 3RS	After 3RS
Cargo	3.9%	4.9%



Notes:

Before 3RS: 2014/15 to 2022/23

After 3RS: 2022/23 to 2030/31

Source: 2014/15 to 2018/19 follow AAHK five-year plan,
remaining years follow IATA traffic forecast

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Note: 2014/15 to 2018/19 follow AAHK five-year plan.



2. Sources of Funds:

Airport Construction Fee (HK\$26 Billion)

- AAHK will levy once all 3RS statutory gazettal processes completed.
- ACF will be in effect until all the 3RS-related borrowings have been repaid.
- The charging levels of ACF will remain unchanged throughout the collection period.

All Departing Passengers (OD and TT)		
Per departing Pax (HK\$)	First / Business Class	Economy Class
Long haul	\$180	\$160
Short haul	\$160	\$90*

*To maintain the competitiveness of HKIA's hub status, ACF for short haul economy TT passengers is set at HK\$70.



3. Sources of Funds: Borrowings (HK\$69 Billion)

- By phases, subject to 3RS capex phasing plan
- Leverage on AA's superb credit rating (AAA)
- Explore all sources of financing including tenor, investor base, currency, interest rate, etc.
- Encourage public participation
- Cost of borrowings assumed at 5%p.a. throughout the period



3. Sources of Funds: Borrowings (HK\$69 Billion)

- **Issuing bonds:**
 - Bonds to institutional investors
 - Islamic bonds
 - Retail bonds
- **Borrowings from banks:**
 - Bank loans and revolving credit facilities
 - Syndicated or bilateral



Risk Management

Comprehensive assessment to identify potential risks, for avoidance / mitigation and contingent actions

- **Detailed and comprehensive ground investigation** – over 600 no. investigation locations for ground conditions, to minimize the risk during construction period.
- **Pragmatic design** – ensure design is fit-for-purpose and value-for-money, avoiding extravagant or unnecessary features.
- **Detailed design** – Detailed design to confirm project scope. Design will be frozen once sign-off. This will help avoid, minimize and manage changes during construction.
- **Thorough testing on reclamation technology** – 3 rounds of trial have been conducted on Deep Cement Mixing Method.
- **Reasonable budget estimates & financial proposal, and vetted by multiple parties to control the financial risks** – Project budget estimates reviewed by AAHK's Project Team, financial proposal verified by independent consultant and stress test conducted. Report submitted to the Government.



Financial Stress Test

- Financial Advisor had tested the following downside scenarios:
 - (i) Revenue shortfall
 - (ii) Cost overrun
 - (iii) Borrowing cost increase
- Conclusions :
 - (i) Robust financial arrangement.
 - (ii) In the event that these downside scenarios occur, AAHK would be able to raise additional debt to fund the consequential funding shortfall.



Economic Benefits of 3RS Project

- **Economic benefits to the wider Hong Kong economy as a whole**: Compared with Two-Runway System (“2RS”), the 3RS will bring additional economic benefits of \$455 billion (2012 dollars) over the 50-year period and additional employment opportunities of 80,000 direct and indirect/induced jobs, which represent substantial incremental economic contribution to Hong Kong in the long term.
- **Financial IRR**: Based on Financial Advisor report, 3RS Project generate a financial IRR of about 8%.

(Latest Weighted Average Cost of Capital (WACC) of AA is approximately 8%)



THANK YOU



Studies in 2011 and 2015 Serve Different Purposes



Studies in 2011 and 2015 Serve Different Purposes

	MP2030 Financial Feasibility Assessment	3RS Financial Arrangement Plan
Report Date	2011	2015
Study Purpose	Financial feasibility for both 2RS and 3RS as a development option.	Financial Arrangements for 3RS
Study Scope	<p>Assess the financial viability for both 2RS and 3RS such as IRR, net present value (“NPV”), WACC assessments, etc.</p> <p>Determine the size of funding gap (but not the source of funding).</p>	<p>Determine the size of funding gap and study the detailed source of funding (include updating IRR).</p>
Conclusion	<p>Size of funding gap was calculated.</p> <p>Source of funding was yet to be concluded.</p> <p>Incremental external borrowing could be one of the funding sources.</p>	<p>Source of funding includes retaining operating surplus, levying of ACF and external borrowing.</p> <p>In the event of downside scenarios tested by AAHK’s financial advisor, AAHK can raise additional debt to meet the funding shortfall if such arises.</p>

