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

- **New runway**: 3,800 m
- **Reclamation**: Around 650 hectares of land using non-dredge methods, including deep cement mixing technique
- **57 parking stands**
- **Comprehensive road network and transportation facilities**

**Additional Features**
- **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

- Operating Surplus: HKD47 billion (33%)
- Airport Construction Fee: HKD26 billion (18%)
- Incremental Borrowings: HKD69 billion (49%)

Notes: The numbers above are estimated figures and subject to rounding.
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.
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.
Analysis of available financial instruments

• HSBC conducted a comprehensive analysis of the debt market conditions and a broad spectrum of financial instruments available.

• In summary, HSBC is confident that AAHK will be able to raise the required debt on competitive terms, on two major considerations:
  1) Debt market capacity is substantially in excess of AAHK’s funding needs.
  2) Operating on prudent commercial principles under the Airport Authority Ordinance, AAHK has a good track record of raising debts to finance its operation and enjoyed access to a wide range of financing options, including bank loan and bond markets.
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
• 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

- 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

• 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

• 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

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Preparatory Work</td>
<td>Preparatory Transactions</td>
<td>Near Term Transactions</td>
<td>Medium Term Transactions</td>
<td>Total</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Preparatory Work</td>
<td>Preparatory Work</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Institutional Bonds (including green format)</td>
<td>Institutional Bonds (including green format)</td>
<td>Institutional Bonds (including green format)</td>
<td>Institutional Bonds (including green format)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>USD</td>
<td>USD</td>
<td>USD</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>HKD</td>
<td>HKD</td>
<td>HKD</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Retail Bonds</td>
<td>Retail Bonds</td>
<td>Retail Bonds</td>
<td>Retail Bonds</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commercial Bank Loans</td>
<td>Commercial Bank Loans</td>
<td>Commercial Bank Loans</td>
<td>Commercial Bank Loans</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>Total</td>
<td>Total</td>
<td>Total</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revolving Bank Facility</td>
<td>Revolving Bank Facility</td>
<td>Revolving Bank Facility</td>
<td>Revolving Bank Facility</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>HKD 9-14bn</td>
<td>HKD 16-28bn</td>
<td>HKD 30-36bn</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Up to 5 Year HKD 20-30bn</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Up to 5 Year Up to HKD 10bn</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>* HKD 55 – 78 billion represents the summation of the lowest and highest range of each debt instrument type.</td>
<td>* HKD 55 – 78 billion represents the summation of the lowest and highest range of each debt instrument type.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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