



ASX Release

20 February 2020

## Sydney Airport 2019 full year results and renewed duty-free deal

- Sydney Airport welcomed 44.4 million passengers in 2019, up 0.1%, demonstrating the resilience and diversity of the business in challenging market conditions
- Earnings before interest tax depreciation and amortisation (EBITDA) (excluding other expenses<sup>1</sup>) of \$1,336.3 million, up 4.0% on the prior corresponding period (pcp)
- Net operating receipts (NOR) up 5.2% on the pcp; 2019 distribution paid of 39.0 cents per stapled security, fully covered by NOR across the full year
- Tightly controlled costs; total controllable operating expenses<sup>2</sup> decreased by 1.6% on pcp
- Capital investment of \$300.8 million, delivering aviation capacity, hotel expansion, enhanced customer experience, ground access improvements and retail choice
- Overall customer satisfaction scores increased to record levels across the international and domestic terminals
- Heinemann Australia duty-free contract extension to 31 December 2029 on improved terms per square metre from 1 January 2020

Sydney Airport Chief Executive Officer, Geoff Culbert said, “we are pleased with the result we’ve been able to deliver for 2019 in a year that was characterised by some of the toughest trading conditions we’ve seen since the financial crisis.

“The fact that revenue grew by more than three percent and EBITDA by four percent in a year when passenger traffic was flat speaks to the diversity and resilience of this business, prudent cost control, and the quality and focus of our entire team.”

During 2019 overall passenger traffic increased by 0.1% to 44.4 million people, a result which was driven by international passenger growth of 1.1% and a decline in domestic passengers of 0.5%.

“Underpinning the result was the contribution of our retail and property portfolios,” Mr Culbert said.

Over 2019 we saw the positive impact of a full complement of open stores in our refreshed Terminal 2, an additional 78 rooms at the Ibis Hotel, and new revenue from advertising and valet

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<sup>1</sup> other expenses are Restructuring and redundancy expenses of \$3.2 million (31 December 2018: \$2.4 million), indemnity expenses of \$183.4 million and MALSA expenses \$4.2m taken from the Consolidated Statements of Comprehensive Income in the Sydney Airport Full Year Financial Report as at 31 December 2019 (31 December 2018: nil).

<sup>2</sup> excluding recoverable costs.

### Sydney Airport

services from Terminal 3.

A focus on prudent cost control also saw total controllable operating expenses<sup>3</sup> decrease by 1.6% compared to 2018.

The overall result allowed Sydney Airport to pay a full year 2019 distribution of 39 cents per stapled security.

### Revenue by segment

- **Aeronautical:** up 2.4%<sup>4</sup>, reflecting international passenger growth and continued capital investment in aeronautical infrastructure
- **Retail:** up 5.0%, following the escalation in the Duty Free and other retail contracts, delivery of 12 new stores in Terminal 2 (T2) and the inclusion of Terminal 3 (T3) advertising revenue from 1 July 2019
- **Property and car rental:** up 5.5%, including the delivery of 78 additional Ibis Budget rooms in first half 2019, the renegotiation of the freight leases on improved terms.
- **Car parking and ground transport:** declined by 0.1%, reflecting lower domestic passengers offset by the contribution from T3 valet parking from 1 July 2019.

### Investment in capacity growth

The 2019 capital expenditure of \$300.8 million was focused on projects that deliver capacity and make a real difference to Sydney Airport's customers.

Sydney Airport will continue to invest for capacity growth and enhance our customer offering.

We currently expect to invest between \$350-\$450 million in 2020 and between \$600-800 million over the two-years 2020 and 2021.

This will include investment in the following key infrastructure:

- **Aeronautical capacity:** the capacity pipeline will focus on delivering additional international bays and expanding the number of active bays by up to 27% across several projects. Continuation of the bathroom improvement strategy will see us invest \$20 million over the next three years in upgrading the bathroom facilities for all travellers.
- **Commercial capacity:** ongoing retail upgrades across all terminals and the delivery of Sydney Airport's first arrivals lounge in Terminal 1 (T1). This is complementary to our hotel strategy which will see the construction of a new hotel in the domestic precinct toward the end of 2021. Continued improvement in ground transport access and wayfinding will be made in conjunction with the Sydney Gateway Project construction.

### Balance sheet

Our credit metrics and balance sheet continue to strengthen, with our cashflow cover ratio increasing to 3.3x, from 3.2x at 31 December 2018, and our net debt to EBITDA also remaining at a record low level of 6.6x.

We continued to effectively manage our interest rate risk exposure, with 90% of all debt hedged on a spot basis as at 31 December 2019 and \$2.2 billion of forward starting interest rate swaps executed during 2019. No more than 15% of our debt portfolio matures in any one year. Currency exposure on foreign currency denominated debt remains 100% hedged.

In 2019 we refinanced \$1.4 billion of bank debt by way of a Sustainability Linked Loan, which ties our cost of capital to our sustainability performance. This facility is the first of its kind in Australia,

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<sup>3</sup> excluding security recoverable expenses and other expenses.

<sup>4</sup> excluding aeronautical security recovery revenue.

largest in the region and largest for an airport globally and ensures we are putting our money where our mouth is when it comes to sustainability.

The US private placement, as announced on 17 February 2020, further strengthens our balance sheet and reinforces our sustainability leadership. The bond was approximately AUD600 million across five tranches with maturities spanning 2035 to 2050. One of the 20-year tranches has a sustainability linkage, the tranche coupon will decrease or increase depending on Sydney Airport's sustainability performance over time, as assessed by an independent third party, Sustainalytics. Our success in securing long tenure debt, with tranches of 15, 20 and 30 years, well within our current portfolio cost of debt shows the confidence in Sydney Airport's underlying operating performance and long-term growth.

## **Sustainability**

We aspire to be an industry leader in sustainability and our sustainability strategy is strongly embedded within our broader business strategy. Sydney Airport's sustainability strategy anticipates challenges and ensures we remain flexible, responsive and agile as an organisation.

We are committed to carbon neutrality in 2025 and continue along the pathway to reducing our Scope 1 and 2 emissions while so engaging with our airline partners to be part of the solution in a sustainable aviation industry.

Our 2019 Sustainability Report, also published today, provides a clear account of our performance against our sustainability strategy.

In 2019 we continued to report against our Taskforce on Climate-related Financial Disclosures (TCFD) Roadmap, which included expanding our scenario analyses, updating our climate risk and adaption plan, strengthening internal engagement on climate risk and reviewing our climate-related targets.

We continue to update and enhance the way we manage the use of resources and minimise waste. Total waste generation at the airport reduced by two per cent and we diverted 43 per cent of non-quarantine waste from landfill in 2019. Our onsite water treatment plant supplies recycled water to T1 which is used for toilet flushing and cooling towers. Through this, 30 per cent of our water consumption at T1 is from recycled sources. We also continue to upgrade and add water re-fill stations across all terminals to assist customers in their bid to reduce the use of single-use plastic water bottles. Each station has been refilling an average of 1,400 receptacles a day.

## **Customer Satisfaction**

Our new purpose – to make Sydney proud every day – guides us in improving our experience for all passengers. In 2019 our overall customer satisfaction scores reached an all-time high, increasing by 1.9% and 0.5% across the international and domestic terminals respectively – however we know there is plenty more we can do.

Our customers tell us that an easy, seamless and enjoyable journey is what is most important to them and we are committed to providing facilities which deliver on this for them. To that end, in 2019 we delivered new bathrooms in T1, including the award-winning facility to assist people with profound disabilities, animal companion accessible toilets and a five-star rated parent room<sup>5</sup>. Our new retail and food precinct in T2 has enhanced the retail offering, providing more choice, additional seating for customers and more than 1,000 new charging points across T1 and T2.

## **Community Investment and Contribution**

We reinforced our commitment to be a good neighbour through our community investment program, which saw \$5.2 million in value invested in local charitable initiatives throughout the year.

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<sup>5</sup> Australian Breastfeeding Association.

This investment program is fundamental to us realising our purpose and fulfilling our role as a community asset, rather than simply an infrastructure asset.

A culture of strong corporate governance is incredibly important to Sydney Airport and we are committed to acting, as individuals and as an entity, in a way that is honest, ethical, transparent and cooperative. We believe that developing a strong culture requires ongoing effort and we are constantly seeking to maintain and improve our corporate governance and risk management frameworks.

As part of the centenary celebration CEO Geoff Culbert was proud to announce the launch of the SYD100 scholarship which will see Sydney Airport fund a combined Bachelor of Commerce & Aviation degree at the University of New South Wales for one outstanding students every year for the next 100 years. This represents a \$14 million investment over the next century in the future talent of our industry and we will be directing the scholarship towards groups who are under-represented in aviation.

In a first for a major Australian airport, we established the Sydney Airport Community Panel. The Panel seeks to understand how Sydney Airport can best support its local community. A series of recommendations put forth by the panel in the area of environment, education and employment are currently under consideration by the executive team.

### **Heinemann Australia recommits for next decade**

Sydney Airport and Heinemann Australia are delighted to today announce a renewed duty-free contract, taking the partnership to the end of the decade with a vision to cement Sydney's duty-free offer as the best in Australia.

"We are very pleased with the partnership we have with Heinemann and this new, long-term agreement reflects the significant and ongoing retail growth opportunities at the Airport," Mr Culbert said.

The new deal will see improved terms per square metre from 1 January 2019 and run to 31 December 2029.

Working together to ensure maximum productivity, previously allocated lease space will be returned to Sydney Airport allowing for the operation of an additional five new standalone luxury tenancies.

The hand back of space will trigger the re-development of the entire duty-free precinct, with construction of the revised configuration, including realignment of common walkways and raising of the ceiling to commence in early 2020. Mid-2021 is the targeted opening date for the new boutiques along with an enhanced and optimised layout of the central duty-free stores.

"The enhancements that we are planning with Heinemann are exciting because they will both improve the customer experience and position the duty-free offer for growth," Mr Culbert said.

### **Outlook**

Sydney Airport is a resilient business with a proven ability to recover quickly from one-off disruptions and economic shocks, delivering stable growth over the long-term.

"Between the ongoing bushfire crisis and the emerging novel coronavirus, people, property and travel plans have been impacted.

"Our first priority in any crisis is people, safety and what support we can provide for our local communities. We are working closely with the Federal and NSW Governments on the response to the coronavirus and have raised and contributed funds to the Red Cross Disaster Relief and Recovery fund in response to the bushfires, in addition to providing support to our employees.

"Through our nearly two decades as a listed entity, Sydney Airport has weathered many significant global events. We will continue to put our passengers, employees and local communities first while

delivering strong, stable, and resilient growth. We have a proven history of performance and growth through all economic cycles and disruptions. We will constantly seek ways to raise the bar for our customers in a safe and sustainable way, while looking for growth opportunities across both aeronautical and commercial businesses and spending each dollar prudently.

“We will continue to invest for capacity growth with some exciting projects underway in 2020. Our focus will be on delivering for our customers and we are committed to doing so with a mind to a sustainable future for Sydney,” Mr Culbert said.

**Authorised for release by** the SAL and TTCSAL Boards

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