

Alpha series: Bankstown Airport

Unlocking the potential

January 2012

Overview

This is the second note in our Alpha Series, which looks at how Colonial First State Global Asset Management (CFSGAM) Infrastructure is delivering alpha in its portfolio companies through active management. The focus of this note is the turnaround strategy for Bankstown Airport, which has faced a number of challenges in recent years.

Bankstown Airport is one of the busiest general aviation airports in Australia.¹ In addition to its aviation operations, one of its biggest assets is its valuable land bank. Located 26 km south-west of the Sydney CBD, Bankstown occupies a total area of 313 hectares. As highlighted, the airport has faced a number of issues in recent years, including:

- **Property market downturn:** Approximately 90% of Bankstown's revenue is generated from property rentals. The wholesale property market began slowing down in 2007, which was further exacerbated as the global financial crisis (GFC) unfolded in 2009. This negatively impacted rental growth.
- **High gearing constraining growth:** The decline in asset values and debt coverage ratios, coupled with tighter lending conditions meant that the business had become restricted in its ability to expand operations, and also return capital to shareholders via distributions.
- **Boeing, Boeing, gone:** In early 2010, Bankstown's largest tenant, Boeing, announced its intention to depart the precinct in 2013.

Figure 1: CFSGAM Infrastructure's turnaround strategy for Bankstown Airport



CFSGAM Infrastructure's strategy to turn-around the business has focused on the three key objectives depicted in Figure 1. The remainder of the note focuses on these, and the progress achieved to date.

Management overhaul

A high priority for the Board was the appointment of a new CEO and CFSGAM was part of the committee which selected Colin Grove for this position in June 2010. Colin's property experience was a key factor in his selection, having previously been in charge of property development at Sydney Airport.² This background and skill-set provides a better match with Bankstown's operational profile.

The CEO appointment was followed by a broader organisational review, which has resulted in role realignments and a more streamlined management structure designed to manage business issues more efficiently. This, in turn, has created cost savings for Bankstown. As an example, the managerial changes resulted in more in-house expertise, reducing the reliance on often-costly external consultants and advisors.

By better aligning managerial skill sets and experience with the airport's priorities, Bankstown is better positioned to take advantage of growth opportunities in a cost-effective manner.

¹ As measured by aircraft movements.

² Colin was previously General Manager Property Development and Commercial Trading, as well as a member of the executive management team

Implementing a sustainable capital structure

A second obstacle to growth was the company's capital structure. Relatively high gearing and tighter market conditions in the wake of the GFC meant that Bankstown faced financing constraints, hampering its ability to grow and putting pressure on shareholder distributions.

As part of the refinancing committee, CFSGAM Infrastructure's Asset Manager played a leading role in determining and implementing a new capital structure providing Bankstown with more flexibility. A new, favourable refinancing package with the banks was successfully negotiated in May 2011.

The new, more sustainable capital structure significantly de-risks the company. The improvement in credit metrics has afforded the business flexibility to resume shareholder distributions and/or retain cash for growth. Bankstown has also retained lender support in the form of debt drawdown facilities to fund new projects, as required.

Revitalising the property portfolio

With the right management and capital structure in place, Bankstown's next priority has been to optimise its property operations. Faced with the potentially crippling departure of its largest tenant, the company worked with Boeing and the NSW Government to swiftly secure a new flagship tenant in Quickstep Holdings (see Box 1).

Bankstown has also focused on upgrading its lease terms to a more commercial basis. The new leases include provisions allowing greater ability for the airport to recover outgoings from its tenants, which minimises the risk of a mismatch between costs and revenues. Receivables collection has also improved, with receivables and bad debt provisions now at a post-privatisation low.

Bankstown has effectively managed to bring its vacancy rate down to zero by working with existing tenants as well as securing new tenants. Colin's property experience has proved invaluable in all respects of the property strategy.

Box 1: Quickstep Holdings

Quickstep Holdings undertakes R&D and manufacturing of aviation-related components. In February 2011, it won a 20 year, \$580 million contract to manufacture parts for the Australian Air Force's F-35 fighter jets. On the back of this, it decided to relocate its operations from Perth to Bankstown. The deal was noteworthy in several respects:

- **Like-for-like replacement:** The substitution of Boeing with Quickstep (both aerospace companies) represented the best use of the existing aerospace facilities, which were specialised in nature. As Quickstep CEO Philippe Odouard pointed out: "The aerospace industry is not extremely widespread in Australia."
- **Job preservation and creation:** The 400 jobs brought by Quickstep more than offset the loss of 350 Boeing positions, and many of the ex-Boeing employees will be offered new positions with Quickstep. The ability to access Boeing's ready-made skilled workforce was a major factor in Quickstep's decision to move interstate.
- **Long-term lease:** The long tenor of its defence contract meant that Quickstep was looking to sign a long-term lease agreement – something Bankstown was able to offer. Quickstep has currently signed up for 10 years, with two additional options to extend for five years each.

Summary: De-risking and positioning for growth

While Bankstown Airport has faced challenges over the past few years, CFSGAM Infrastructure has helped drive changes at the board level which better maximise the potential of the asset. The benefits of these changes have already been evident, with EBITDA for the year to June 2011 14% higher than the previous year and 12% above budget. Significant de-risking has also occurred. The company is now looking to further integrate its property strategy and aviation strategy to further improve value for its investors ahead of its Master Plan submission due in 2013.

Box 2: How the changes at Bankstown Airport create alpha

New management better equipped to seize growth opportunities;
reduced costs from in-house expertise; better property utilisation

New sustainable capital structure; improved property lease structures

excess return

lower risk

α

Disclaimer

Colonial First State Global Asset Management, including First State Investments in the UK, Hong Kong, Singapore, New York, Tokyo and Indonesia (collectively CFSGAM), is the consolidated asset management division of the Commonwealth Bank of Australia group, ABN 48 123 123 124 (the Bank). The Bank does not guarantee or in any way stand behind the performance of CFSGAM or any of its investments. This document is not an offer document. The information contained in this document may not be complete and may be changed, modified or amended at any time by CFSGAM, and is not intended to, and does not, constitute warranties of CFSGAM. The information contained in this document is intended to provide general information only.

Copyright and confidentiality

The copyright in this document is vested in the Commonwealth Bank of Australia. This document should not be copied, reproduced or redistributed without prior consent.