PRIVATISATION OF AENA – SOME INITIAL THOUGHTS

AENA – THE COMPANY

The company comprises three main entities; the ownership and operation of 46 airports and two heliports in Spain (including Balearic and Canary Islands) handling over 187 million passengers in 2013 making it the largest airport operator in the world; the provision of air navigation services (ANS) to the aforementioned airports and all airspace in Spain, and thirdly a collection of holdings and contracts in some fifteen other airports globally including a 10% stake in the entity holding the concession contract for Luton airport.

THE PRIVATISATION PROCESS

This month Spain's Council of Ministers approved a privatisation plan for AENA whereby the government would retain 51%, some 28% would be in free float on the Madrid stock exchange and 21% sold by tender to a stable core of compatible stakeholders selected via a public procedure.

This process is expected to complete by the end of 2014 calendar year, with a new regulatory framework for civil aviation expected in July, a selection of private investors in September, a filing with the Spanish securities regulator in October, and a public listing in November.

COMPARISONS WITH OTHER EU AIRPORT GROUPS

ADP; AENA's proposed organisational structure mirrors that of ADP but the scale and content of AENA is much larger as it has a monopoly of airports and ANS in Spain whereas ADP runs just three Paris airports and is not involved in ANS

Fraport; again, a similar ownership structure but Fraport runs one airport (with stakes in other smaller airports) and is not involved in ANS. Germany is also one of the few contested markets for tower and approach air traffic control..

ANA Portugal; similar to AENA's industrial structure with an airport and ATC monopoly in Portugal; however the privatisation process for ANA was quite different – it was sold 100% in a trade sale to a Vinci led consortium at an attractive multiple.

BAA; this group had only seven airports and no interest in ATM and was 100% sold to a stock market free float in 1986 and made subject to a system of economic regulation. The company has since been broken up on competition grounds.

LFV Sweden; another airport and ATM monopoly which was broken into airports (Swedavia), and ANS (LFV), with limited competition being introduced. There are no current plans for privatisation.

KEY QUESTIONS

Is Ryanair likely to become a tendered stakeholder? With their history of litigation in Spain and as an airline this is very unlikely to happen. The key word here is "compatible"

Should AENA not be broken into an ANS and Airports company? There is a good public policy argument for this – many EU countries already have this split and the two businesses are widely seen as being strategically quite different. ANS is heavily safety regulated, dominated by the Single

European Sky (SES) agenda and is primarily an IT led service. Airports are curtailed by environmental issues and are heavily capital intensive and infrastructure by nature.

Should AENA not be broken up geographically? Again, there is a good public policy case for this, especially when considering Spain's regional political structure; not only are there competition grounds for this eg Malaga vs Alicante vs Valencia but there is also a good case for local businesses having stakes in their local airport(s) as they will understand the marketplace better.

There is already talk about the need to sell Madrid and Barcelona separately for these reasons and also because AENA contains so many assets and businesses that sale multiples and receipts might suffer.

Will AENA suffer from TGV competition? This will undoubtedly put a break on domestic traffic along the Barcelona - Madrid – Seville axis but this exists today and AENA's international and island traffic will not be threatened in this way.

KEY RISKS

1. Continuing industrial action especially by ANS unions
2. Current lack of knowledge of the system of economic regulation
3. The need to manage the SES programme which could lead to huge cost cutting, much lower air navigation charges and disruption throughout Spain.
4. Political interference as regional governments attempt to wrestle control of local infrastructure assets and national governments follow their agendas.
5. Gradual decline of Spain as EU's largest inbound tourist market

KEY OPPORTUNITIES

1. Good quality airport assets
2. Reasonable mixture of airlines from several countries globally
3. Capital city assets of Madrid and Barcelona – tourism, business and government derived aviation
4. Recovery of Spanish economy
5. Local monopolies with island airports many of which are year round destinations