

17 February 2023

Mr Geoff Brooke  
Senior Economist  
Commerce Commission

By Email: [im.review@comcom.govt.nz](mailto:im.review@comcom.govt.nz)

Dear Geoff,

**Re: CEPA Report on Aspects of the Cost of Capital Input Methodologies for the 2023 Review**

The Qantas Group (Qantas) thanks the New Zealand Commerce Commission (the Commission) for the opportunity to comment on the report prepared by Cambridge Economic Policy Associates Pty Ltd (CEPA) on aspects of the cost of capital input methodologies (IM) for the 2023 review.

Qantas supports the Board of Airline Representatives NZ (BARNZ) response on this review including its independent expert analysis by TDB Advisory Ltd. Qantas also asks the Commission to re-consider its selection methodology of its applied comparator airport sample (securities basket).

Qantas notes that as part of that review, CEPA was not asked to comment on the reasonableness of the comparator set used in the IM. Qantas disagrees with the IM approach used to select comparable airport securities and proposes a methodology that more closely aligns to regulatory consensus. To make a comparison that is relevant to the New Zealand airport sector, as the Commission for Aviation Regulation (CAR) and the Civil Aviation Authority (CAA) have done, it is necessary to consider a comparator sample that draws on airports similar to those operating in New Zealand.

Qantas believes that airport securities used in the comparator sample should be selected on a stringent principle-based approach, covering the following factors:

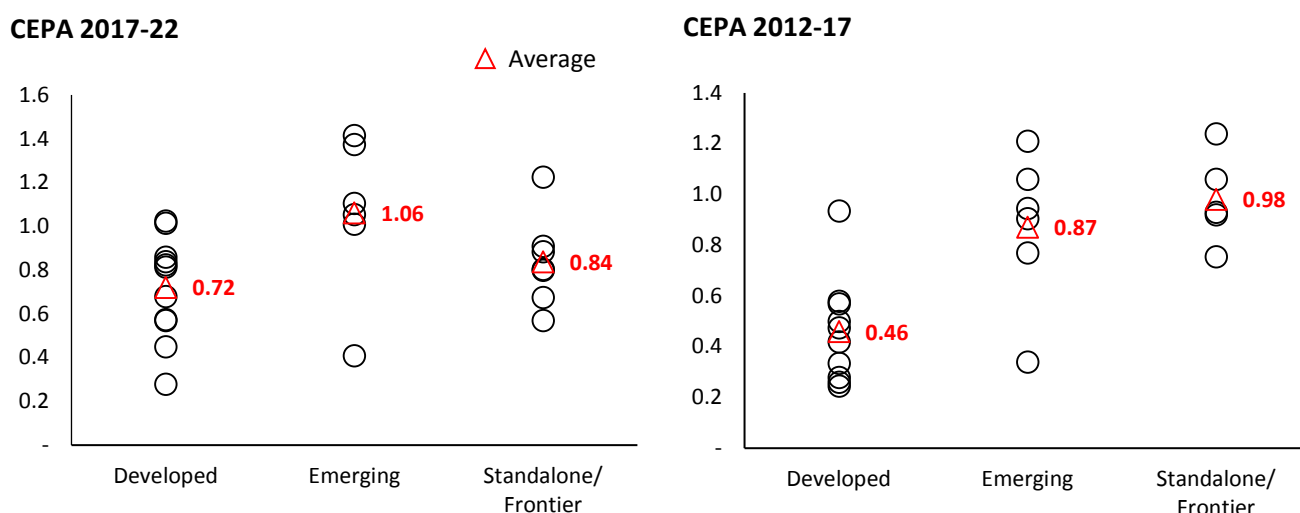
1. **Business Environment:** Comparator airports should operate in a similar economic operating environment to that of a New Zealand airport. For example, Australian (e.g., ERA, IPART, QCA) and overseas regulators (CARR, CAR) apply either an explicit country filter approach or exclude based on market classification system i.e., exclude frontier and standalone markets.
2. **Relative Risk:** Comparator airports should display similar underlying business risk, including similar revenue stream drivers (aeronautical revenue supports a large share of total revenue), involvement of regulators and demand risk.
3. **Robustness:** Comparator airports need to have a reliable empirical beta estimate, whereby distortions driven by illiquidity and limited market index diversification should be considered in the filtering process. For example, as Auckland Airport contributes 6% to the local index, its beta estimate is overrepresented in systematic risk, introducing an upward bias.



A practical example of comparator airports that fail to meet the principles defined above was the inclusion of Chinese A-Shares into the 2016 IM comparator airport basket. The A-shares, which have very tight restrictions on trading/foreign ownership, can only be traded by Chinese citizens and qualified foreign investors with foreign ownership restricted to below <30%. Index providers such as the MSCI, S&P, and FTSE have also recognised the enduring limitations of A-shares and have only started including A-shares in their emerging market indices since 2018/2019, with a limited market capitalisation weighting of 20-25%. This suggests that there are significant differences between the Chinese A shares and the equity markets of New Zealand, warranting the exclusion of China A-shares from the comparison group.

Another way of illustrating the impact of market classification (business environment factor) is shown below in Figure 1. When applying the Commission’s 2016 methodology to CEPA’s 5-year airport sample in Appendix B of their report to developed markets only, the raw asset beta drops from 0.79 to 0.60 (0.59 when including Sydney Airport). This would reduce to 0.55 after the 0.05 downward adjustment applied under the 2016 IM’s. Market classifications used in this assessment can be found in Appendix A. Figure 1 also shows the ‘riskiness’ of securities listed in non-developed markets which can be seen as substantially higher than those in developed markets.

**Figure 1: CEPA 5-year raw asset betas by Security and Market Classification (including Sydney Airport)**



While the examples in this submission have focused primarily on business environment and market classification factors, further details on specific relative risk and robustness factors and their application to creating Qantas’ recommended comparator basket is provided at Appendix B.

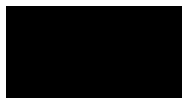
Finally, Qantas notes that Sydney Airport remains a relevant comparison point for airports in New Zealand. We do not consider that its delisting in March 2022 is a reason to exclude or partly exclude it from the comparison set. Instead, its asset beta for the period until de-listing should be used as a reasonable proxy for its asset beta throughout the review period.

Based on this approach, **Qantas recommends** the below narrower sample of **eight comparator airports**:

- AENA (Spain)
- Aeroporto Guglielmo Marconi di Bologna (pre-covid only due to high bid-ask spread and low free float)
- Aeroports de Paris
- Beijing Capital International Airport
- Flughafen Wien
- Flughafen Zürich
- Fraport (Frankfurt)
- Sydney Airport

We would be pleased to respond to any queries the Commission has on the above.

Yours sincerely,



Seb Mackinnon  
Head of Commercial Airports

## COMPARATOR CLASSIFICATIONS

Ticker	Security Name	Economic Conditions
000089 CH Equity	Shenzhen Airport	Standalone/Frontier
357 HK Equity	Hainan Meilan International Airport	Developed
600004 CH Equity	Guangzhou Baiyun International Airport	Standalone/Frontier
600009 CH Equity	Shanghai International Airport	Standalone/Frontier
600897 CH Equity	Xiamen International Airport Co.	Standalone/Frontier
694 HK Equity	Beijing Capital International Airport	Developed
ADP FP Equity	Aeroports de Paris	Developed
AIA NZ Equity	Auckland International Airport	Developed
AOT TB Equity	Airports of Thailand	Advanced Emerging
ASURB MM Equity	Grupo Aeroportuario del Sureste	Advanced Emerging
FHZN SW Equity	Flughafen Zürich	Developed
FLU AV Equity	Flughafen Wien	Developed
FRA GR Equity	Fraport	Developed
GAPB MM Equity	Grupo Aeroportuario del Pacífico	Advanced Emerging
GMRI IN Equity	GMR Infrastructure	Secondary Emerging
KBHL DC Equity	Københavns Lufthavne	Developed
MAHB MK Equity	Malaysia Airports Holdings	Advanced Emerging
MIA MV Equity	Malta International Airport	Standalone/Frontier
OMAB MM Equity	Grupo Aeroportuario del Centro Norte	Advanced Emerging
TYA IM Equity	Toscana Aeroporti	Developed
AENA SM Equity	AENA	Developed
ACV VN Equity	Airports Corporation of Vietnam	Standalone/Frontier
ADB IM Equity	Aeroporto G. Marconi di Bologna	Standalone/Frontier
SYD AU Equity	Sydney Airport	Developed

## COMPARATOR AIRPORT FILTER APPLICATION

Filters Applied	Airports Excluded	Commentary
<b>1. Exclude Emerging / Frontier / Standalone Markets</b>	Malaysia Airports Holdings Bhd	
	TAV Havalimanlari Holding AS	- Overall methodology aligned with CAA, CAR methodology
	Shenzhen Airport Co	
	Guangzhou Baiyun International	- Used MSCI, S&P, Russel and FTSE benchmark definition
	Shanghai International Airport	
Xiamen International Airport Co		
<b>2. Exclude illiquid traded airports</b>	HNA Infrastructure Company Ltd	- High bid-ask spread > 1%
	Kobenhavns Lufthavne	- Non-trading days > 20%
	SAVE SpA/Tessera	- Low free float < 20% and small market capitalisation (\$150m USD)
	Airports Corporation of Vietnam JSC *	
<b>3. Exclude high portion of benchmark</b>	Auckland International Airport	
	Airports of Thailand PCL*	
	Grupo Aeroportuario del Surest *	- Securities with > 5% of the benchmark
	Grupo Aeroportuario del Pacifico *	
	Grupo Aeroportuario del Centro Norte *	
<b>4. Business Risk / Operating Leverage</b>	Japan Airport Terminal Co Ltd	- Less than 30% of revenue from aeronautical services
	GMR Infrastructure Ltd *	
<i>*also in emerging / frontier markets</i>		