



## AviaSolutions Report

# Viability of an Airport at Manston

Presentation to  
**Thanet District Council**



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# Introduction

- **AVIASOLUTIONS TEAM**

- Andy Rowsell, Director
- Chris Smith, Associate Director
- Paul Morris, Management Consultant

- **PROJECT OBJECTIVE**

- Determine whether a re-opened Manston Airport could operate as a financially viable, standalone entity.

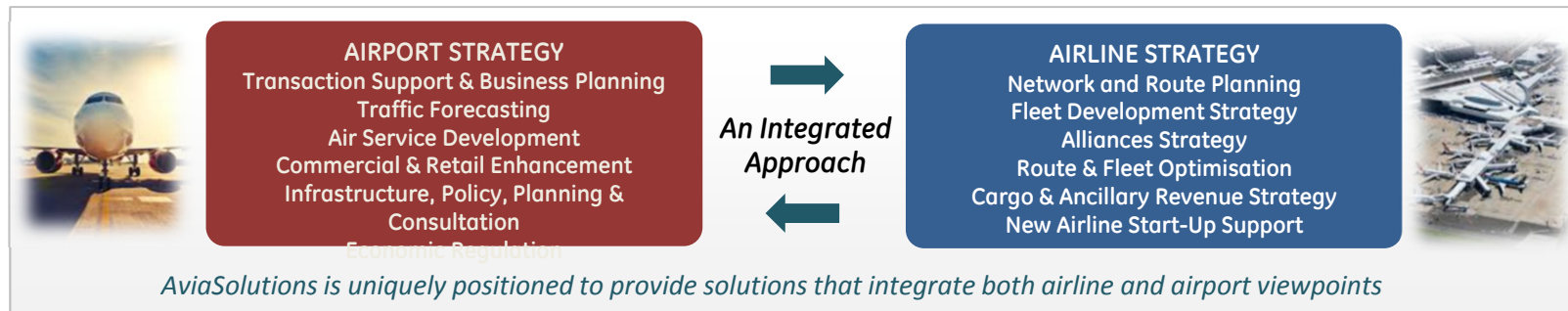
- **PROJECT SCOPE**

- The focus of our research and analysis has been commercial air transport – the core passenger and freight services.
- Ancillary activities such as MRO (maintenance, repair and overhaul), General Aviation (FBO) and air transport related property developments are considered to be a supplementary source of income - but viability is dependent on the strength of the core commercial air traffic business.



# AviaSolutions – Background

- Established in London, 2001
- Provides specialised aviation advisory services to a wide range of airports, airlines, governments and financial investors



- Expert team of ex-airport, airline, financial services and OEM professionals
- Global client base and strong market reputation
- GE Capital Aviation Services acquired 100% ownership of AviaSolutions in October 2012



# AviaSolutions – Global Client Base

A world map with red highlights on several continents, indicating global reach. Surrounding the map are logos of various clients and partners, including:

- Asterion**, **HSBC**, **GLOBAL INFRASTRUCTURE PARTNERS**, **Ireland West Airport Knock**, **The Scottish Government**, **Berliner Flughäfen**, **Brussels Airport**, **LondonCityAirport**, **MACQUARIE**
- EUROPEAN UNION**, **Department of Transport**, **UBS**, **CITYJET**, **Newcastle International**, **BAA Aberdeen**, **flybe.**, **OSL**, **Setur**, **الخطوط الجوية العراقية**, **ETIHAD AIRWAYS**, **BRISTOL INTERNATIONAL**
- Tourism Ireland**, **TAC**, **BRITISH AIRWAYS**, **OSLO AIRPORT**, **RAI**, **AVINOR**, **Kenya Airways**, **Department for Regional Development**
- SCT**, **CCR**, **BAA**, **estafeta**, **myanmar national airlines**, **ascendi**, **THAI**, **Sriwijaya Air**, **Govia**
- AQABA Development Corporation**, **Department for International Development**, **JUNEYAO AIRLINES**, **吉祥航空**, **hia**
- MAG**, **YOUR LONDON AIRPORT**, **Galwick**, **CHICAGO CDA**, **DEPARTMENT OF AVIATION**, **Garuda Indonesia**, **CHANGI AIRPORT SINGAPORE**
- BIMED**, **AÉROPORTS DE PARIS**, **VINCI**, **San Jose International Airport**, **SILICON VALLEY'S AIRPORT**, **Aerolínea Argentina**, **OMA easyJet**
- ARDIAN**, **Brookfield**, **Avianca**, **Strategically located offices Connecticut | London | Dubai**, **Cheung Kong Infrastructure Holdings Limited**, **OMA easyJet**
- IATA**, **ADAC**, **Scottish Enterprise**, **BABCOCK & BROWN**, **SAUDIA**, **QATAR**, **HERMES airports**, **ferrovial aeroportos**
- INVEST AD**, **Brisa**, **HOCHTIEF**, **Scottish Enterprise**, **BABCOCK & BROWN**, **GE Capital Aviation Services**, **Morgan Stanley**, **AIRPORTS COMPANY SOUTH AFRICA**
- MERIDIAN CAPITAL**, **Transport for London**, **Department for Transport**, **HighstarCapital**, **Liverpool John Lennon Airport**, **DP WORLD**, **AerArann**, **VIE**, **BIRMINGHAM INTERNATIONAL AIRPORT**
- REUBEN BROTHERS**, **ERNST & YOUNG**, **Balfour Beatty**, **CORK AIRPORT**, **AIG**, **Currie & Brown**

Since 2001, AviaSolutions has delivered hundreds of consulting projects in circa 50 countries worldwide



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# AviaSolutions – Selected Recent Credentials



CPP  
INVESTMENT  
BOARD



- Nice Côte d'Azur Airport Transaction, Commercial and Strategic Advisor (2016)
  - Traffic forecast
  - Business Plan model
  - Forecasts for aeronautical and commercial revenues

**estafeta**

- Audit of Mexican express cargo airline (2015)
- Extensive review of business practice with recommendations to improve competitive position



- Aerodom (Dom. Republic Airports) Airport Transaction Advisor (2016)
  - Schedule-based and econometric traffic forecasts
  - Extensive stakeholder and market research



**Deutsche Bank**

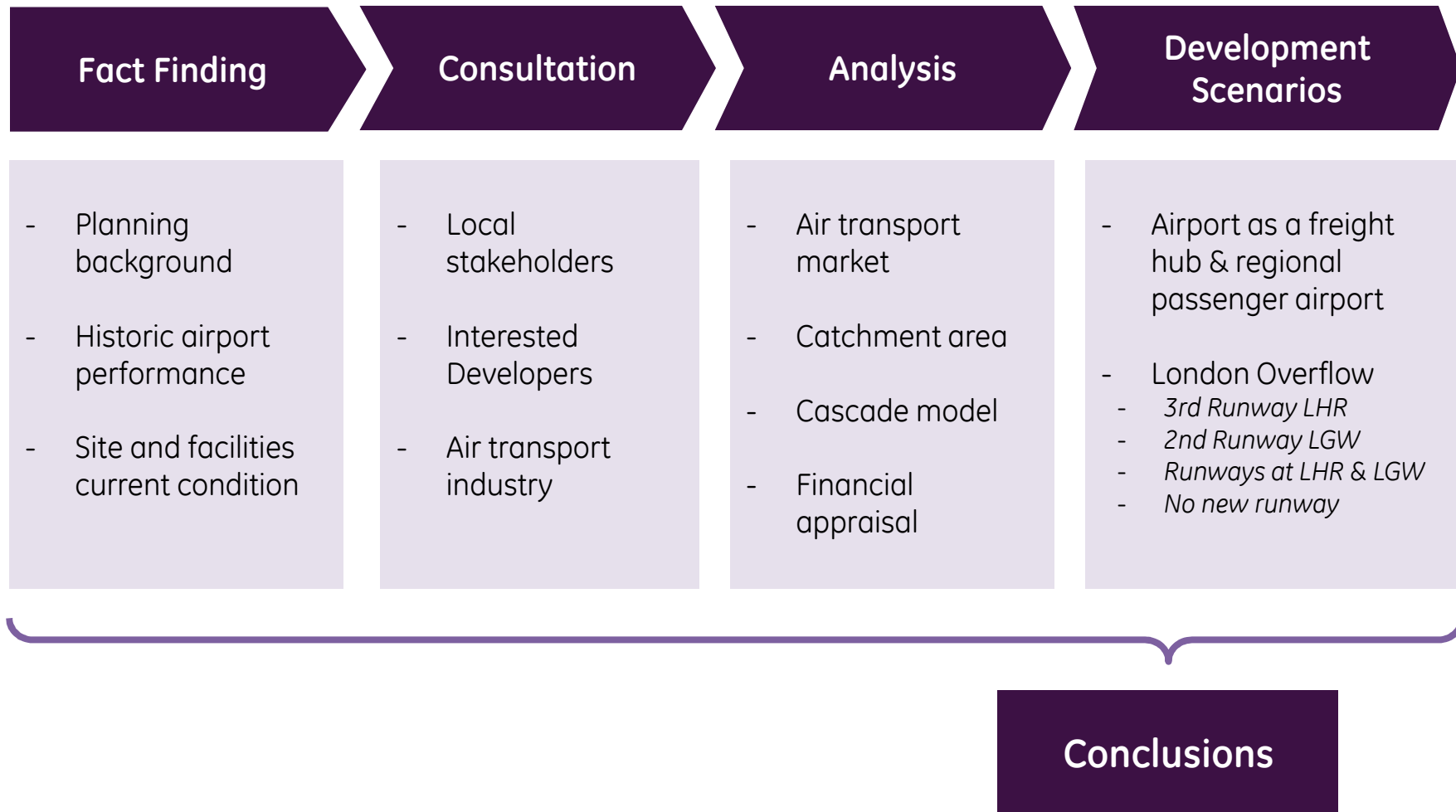
- Supported acquisition of TCR (2016)
- Business Plan for ground handling leasing business



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# Manston Airport Study - Our Approach



# Key Stakeholders Consultation

- **POTENTIAL DEVELOPERS**

- Stone Hill Park
- RiverOak Investment Corp.

- **OTHERS**

- Sir Roger Gale, MP
- RiverOak

- **AIR TRANSPORT INDUSTRY**

- Air Cargo Charter Broker, UK
- Ex-DHL Senior Sales Executive
- Executive Director, SASI Cargo
- Senior Executive, Cargo Division, Freighter airline based at STN
- KLM, Press Office
- Head of Networks, FlyBe
- Ex-Director, Network Planning, Major European LCC
- Deputy Director, Route Development, Ryanair
- Flight Ops Manager, Major UK Airline

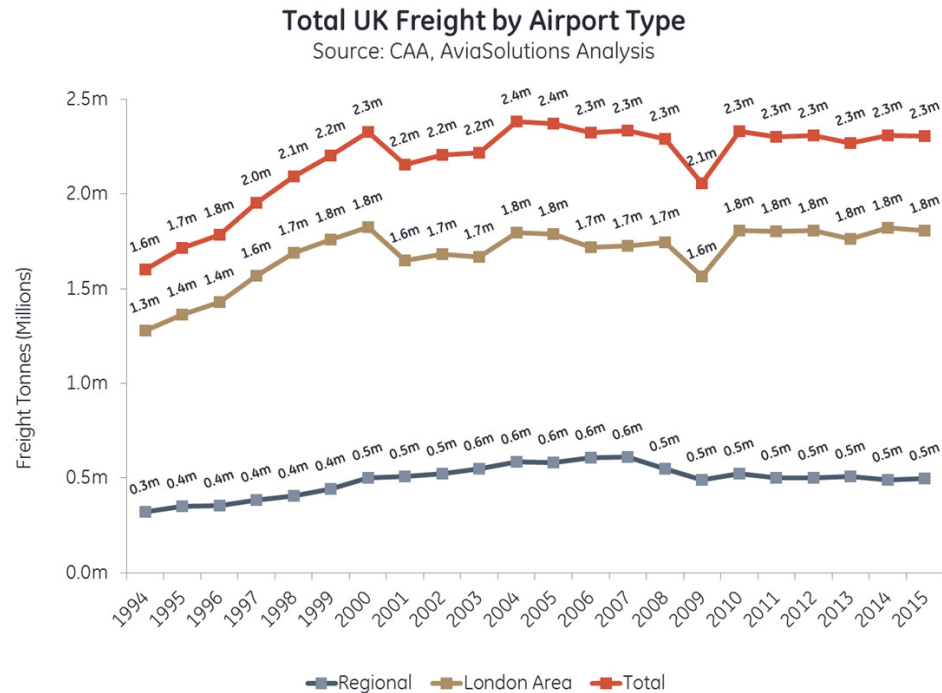




# Background: UK Air Freight Market

- The air freight market has been largely stagnant for the last 10 years.
  - Various hypotheses advanced to explain this trend.*
  - Over this period there has been significant excess freighter capacity in the London market*
- Air freight in the UK is focused on Heathrow, East Midlands and Stansted, collectively handling 87% of UK air freight.
- 70% of UK freight carried in the belly-hold of passenger aircraft.
  - Typical belly-hold rate US \$0.50 per kilo vs US \$2.00 per kilo for freighters.*

- Air freight is mainly international.
- Much road trucking of freight to/from continental European airports.





# Background: Air Freight at Manston

- There was a relatively consistent volume of air freight through Manston (25,000 to 30,000 tonnes per annum) from 2006 to 2013, all on dedicated freighter aircraft.
- The freighters were mainly carrying fresh produce from Africa, with minimal exports.
- Manston was a favourable freight option with shippers as it was quiet and offered good quality handling.
- All our future scenarios assume 30,000 tonnes at Manston

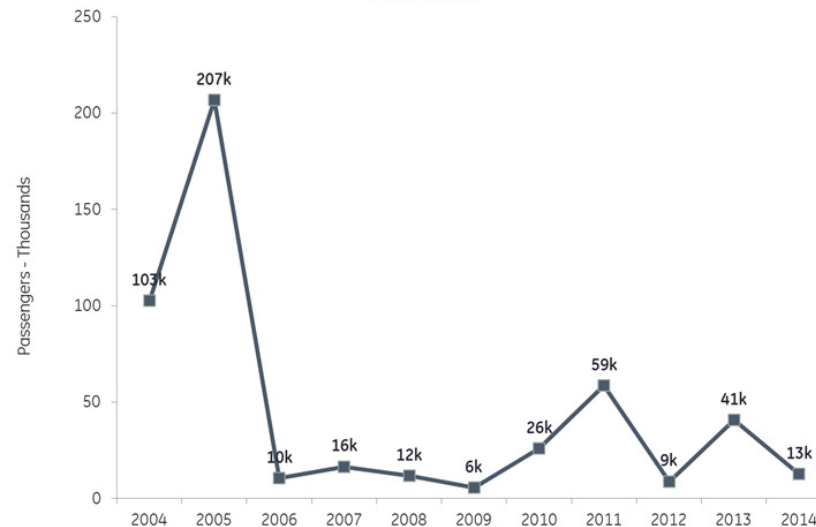


# Background: Passenger Traffic at Manston

- Passenger traffic peaked at 209,000 in 2005, with the airport-funded EUJet operating short haul EU services. This peak demand was significantly higher than traffic volumes before or since.
- KLM twice daily service to/from Amsterdam carried nearly 36,000 passengers in 2013.
- In the same year, more than 48,000 passengers from Manston's catchment area travelled to Amsterdam from other London area airports



Passenger Traffic at Manston Airport 2004-2014  
Source: CAA



# Manston as a Regional Airport – Southend Comparison

- Southend Airport's traffic increased greatly with an easyJet base from 2012: throughput of 1.1 mppa in 2014.
- Southend's catchment area generated ~1.5 million air journeys in 2013 to easyJet's short-haul destinations. This catchment is almost 3x Manston's (530,000).
- On this basis, we estimate an LCC base at Manston could generate a volume of ~330,000 passengers per annum.
- A Ryanair base for two B737 aircraft (possible but far from certain) would more than double this to 800,000.
- Future scenarios assume a base load of 800,000 passengers per annum at Manston until new runway capacity comes online in the South East **plus** overflow from the London System

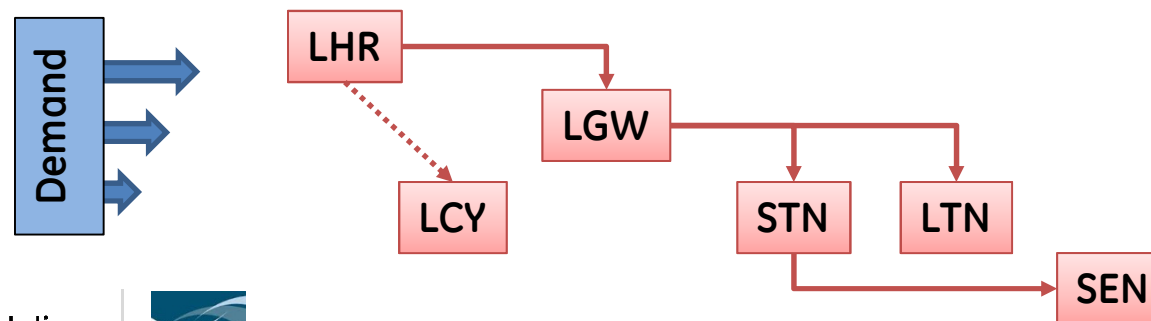


# Manston: A London Overflow Airport

- It is widely recognised that the SE of England lacks airport capacity.
- The Davies Commission investigated this at length, and in 2015 recommended a 3<sup>rd</sup> runway at Heathrow (LHR), as better than a 2<sup>nd</sup> runway at Gatwick (LGW).
- UK Government announced its support for a 3<sup>rd</sup> runway in October 2016. The scheme will be taken forward in the form of a draft National Policy Statement for consultation.

## Flow of Passenger Traffic around London Airports System

- If passenger demand at one airport exceeds available airport capacity, demand will 'spill':
  - Some passengers making connections will move to continental European airports
  - Some passengers will choose not to travel by air
  - The remainder will use less convenient airports either in the London area or the UK regions
- There is a hierarchy of demand within the London airport system.



# Overflow Forecasting Assumptions

## Passenger Traffic

- Passenger demand grown at highest Davies Commission rate.
- Passengers per flight assumed to increase at 0.5% per annum.

Passengers per flight*	Value
Growth, 2011 to 2015	+ 2.2% pa
Average number, 2015	156.2
Growth, 2015 to 2050	+0.5% pa
Average number, 2050	186.5

\* LHR, LGW, STN, LTN

## Freight Traffic

- Freight demand grown at mid-point of Oxford Economics projections for TfL.
- Increase in pure freighter flights only at Stansted (to legal cap).
- Increase in loads carried.

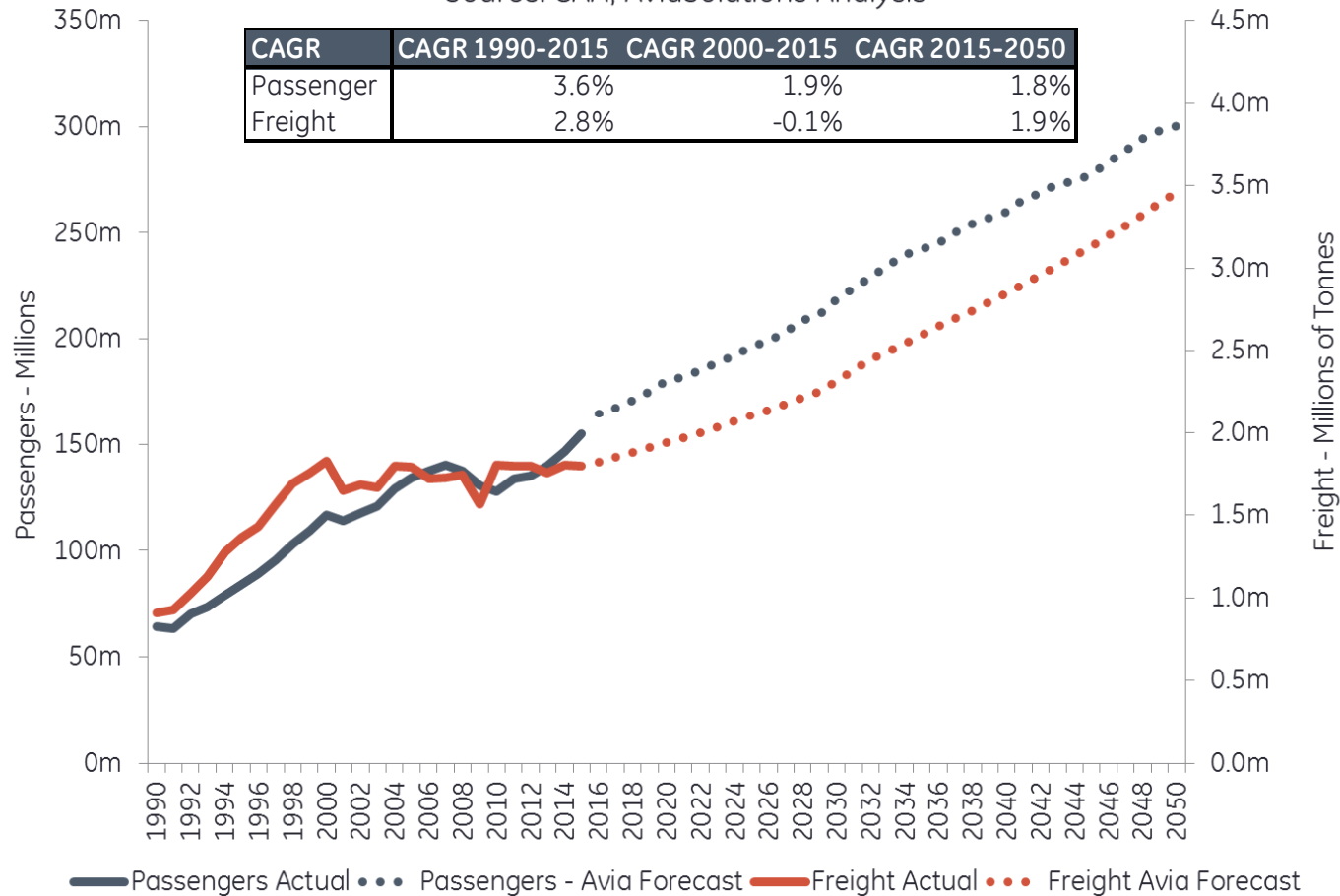
Freight Tonnes per flight	LHR	STN
Belly-Hold Load, 2015	3.0	-
Belly-Hold Capacity	7	-
Belly-Hold Load, 2050	4.3	-
Freighter Load, 2015	32.9	31.7
Freighter Capacity	83	80
Freighter Load, 2050	55	53



# Total Demand – London Area

## London Area - Historic and Forecast Passenger and Freight

Source: CAA, AviaSolutions Analysis



# Unaccommodated Demand – London Area

- We have estimated passenger and freight demand that cannot be accommodated at the six London airports, for each of the possible runway scenarios

Scenario	2020	2025	2030	2035	2040	2045	2050
<b>Passengers (mppa)</b>							
LHR R3	5	11	17	9	16	27	44
LGW R2	5	9	6	9	16	27	40
Both	5	9	2	0	0	0	0
Neither	5	11	25	36	49	61	79
<b>Freight (tonnes x 1000)</b>							
LHR R3	0	0	0	0	0	0	173
LGW R2	0	0	0	0	0	35	178
Both	0	0	0	0	0	0	62
Neither	0	0	0	0	0	123	278

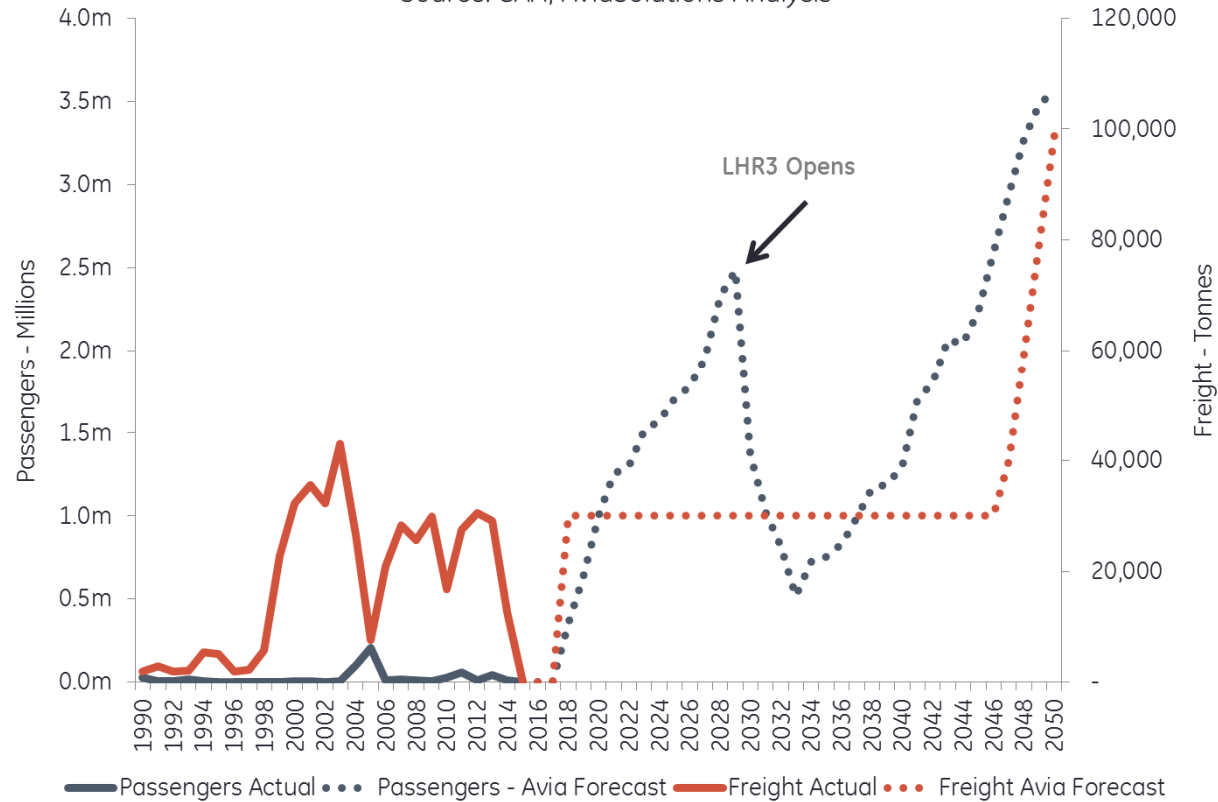




# Manston Demand – Avia Forecast

Manston - Historic and Forecast Passenger and Freight, LHR3

Source: CAA, AviaSolutions Analysis



- With favourable assumptions, we estimate that Manston might take 8% of the unaccommodated passenger demand, and 50% of the freight demand in addition to the 2x Ryanair based aircraft.



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# Financial Analysis: Key Assumptions

- Initial Equity injection: £50m
- Airport Purchase Price: £10m
- Refurbishment Capex: £27m
- Depreciation: Standard airport assumptions by asset type - straight line
- 100% equity funding to reduce cash outflows
- Re-financed if required by either liquidity or expansion needs
- No dividend payments assumed, so WACC = 0%
- Aeronautical revenue per passenger: £3.50 for LCCs, £7.00 for others
- Commercial revenue per passenger: £5.00
- Revenue per tonne of freight (including handling): £50
- Operating costs per passenger: £12 reducing to £5
- Overheads: £5.3m per annum

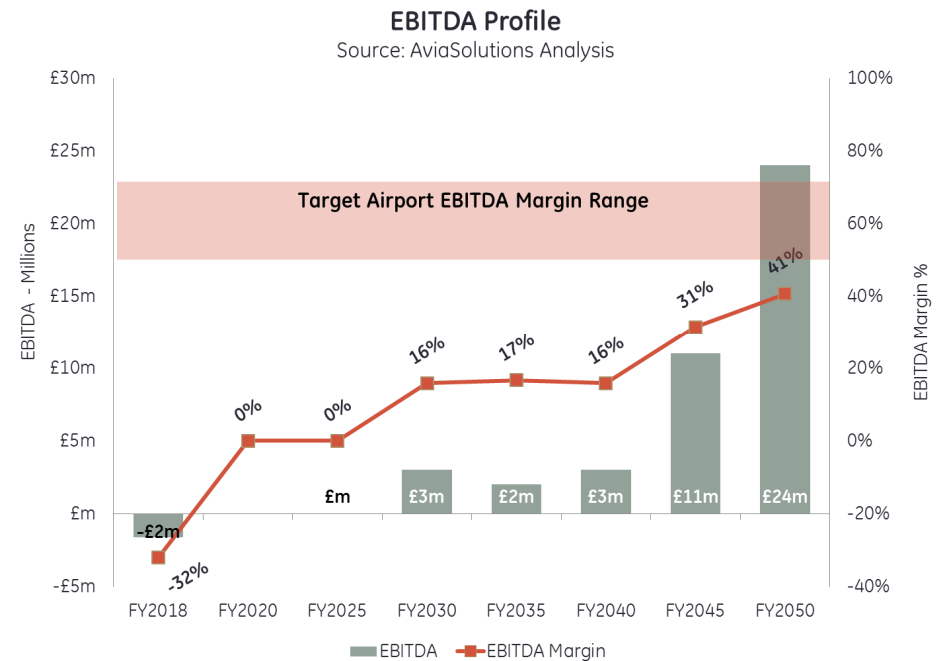


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# Summary Results: Scenario LHR R3

- Although the airport generates positive EBITDA from 2030, EBITDA margin never reaches investment grade levels.
- Retained earnings do not become positive until 2035, preventing any cash distribution (dividends) before that year.
- Investors would have no return on equity for more than 15 years.
- This is despite the scenario including various favourable assumptions about freight and passenger traffic volumes and operating performance.



# Conclusions

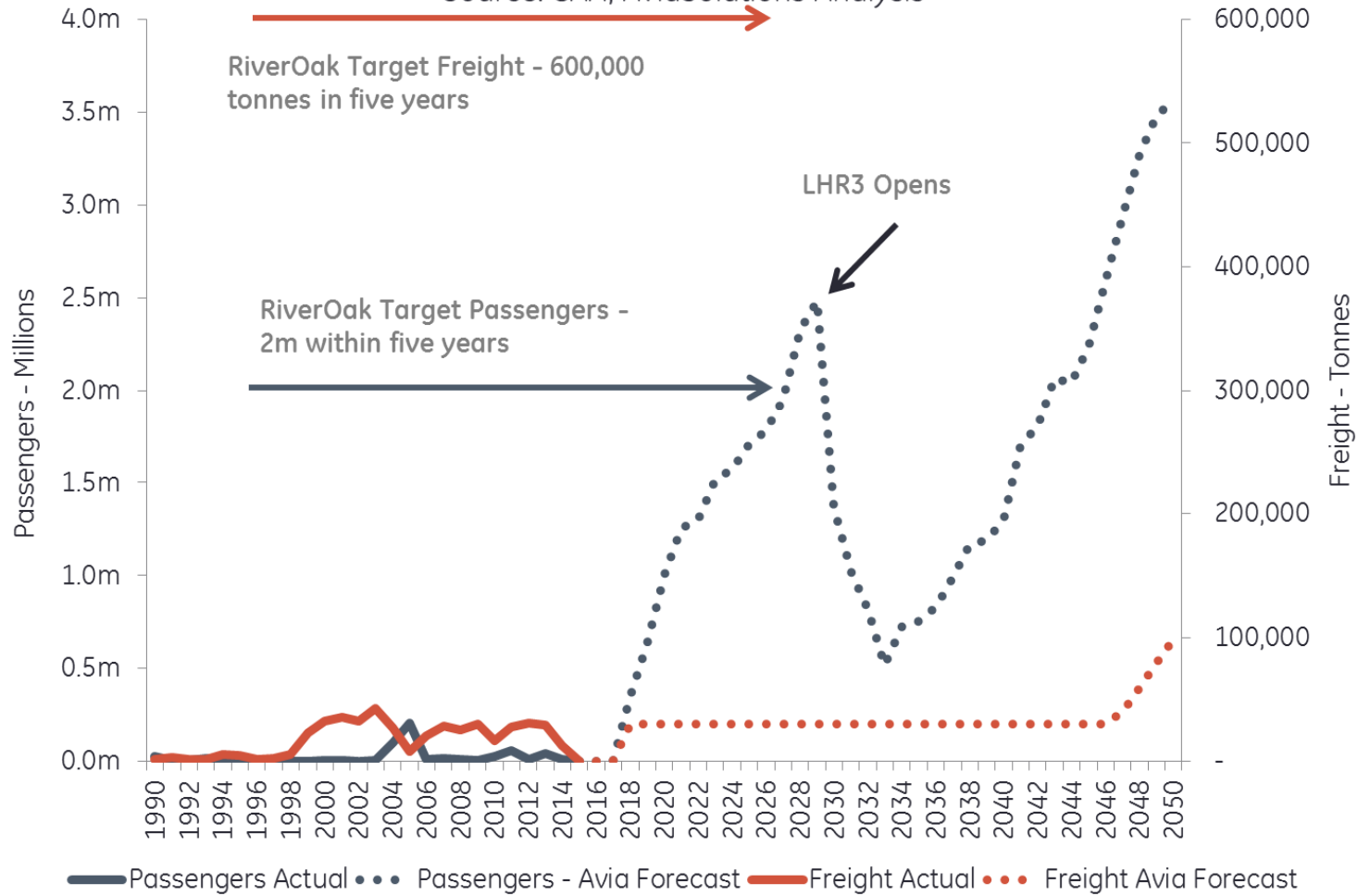
- A re-opened Manston Airport might attract similar volumes of passenger and freight traffic as it has done in the past.
- It is unlikely that this would produce a financially viable airport or represent an attractive investment proposition.
- Manston's traffic might be boosted by a shortage of capacity at London airports, but it would lose this as and when new runway capacity became available.
- If R3 is provided at Heathrow as recommended, Manston would fail to reach investment grade returns by 2050, even with the benefit of 'free' financing until 2035.
- If no runway were provided, Manston might generate an acceptable return by 2045, but this would be a high risk investment.
- These conclusions are based on a series of assumptions which favour Manston Airport, and are more positive than a typical "Base Case" scenario for investors.
- In AviaSolutions' experience, Manston Airport is unlikely to attract private investors.
- This analytical assessment is consistent with the historic empirical evidence.



# Conclusions

## Manston - Historic and Forecast Passenger and Freight, LHR3

Source: CAA, AviaSolutions Analysis



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# RiverOak's Proposal

- Acquire Manston Airport and re-open as a commercial airport.
- Finance the necessary investment in facilities to acquire CAA operating licence.
- Develop primarily as a cargo airport.
- Un-named cargo airline / logistics company interested in using the re-opened airport as a base.
- Some passenger potential with notional interest from Ryanair.
- Freight traffic to grow to 10,000 international freighter movements per annum by 2023-2024 - equivalent to 33% of UK total in 2015.
- Freight traffic to grow to 500,000 – 600,000 tonnes per annum by 2023-2024 - equivalent to 33% of UK total in 2015.
- Passenger traffic ~ 2 million per annum (mppa) by 2022-2023 – equivalent to Southampton Airport in 2015 (18<sup>th</sup> busiest airport in the UK).



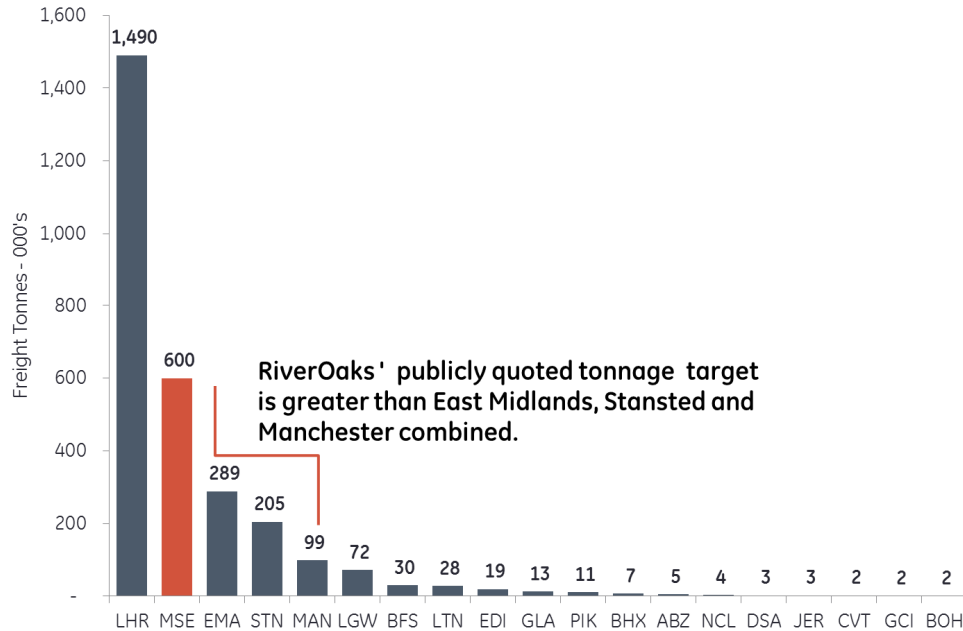
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# RiverOak's Proposal – In Context

UK Airports by Total Freight Tonnes 2015

Source: CAA, AviaSolutions Analysis



- Average Freighter Tonnes per Movement (Source: CAA data 12 months to March 2016)

- LHR 33 tonnes
- EMA 22 tonnes
- STN 31 tonnes
- **MSE 60 tonnes** (600k tonnes in 10,000 movements, RiverOak press releases)

- **RiverOak's proposal:**
  - 2.0 million passengers
  - 500-600k tonnes on 10,000 freight ATM
- 2m passengers places MSE as the 18<sup>th</sup> busiest UK airport, busier than SOU and SEN (2015)\*
- Freight at EMA and STN is almost exclusively carried on freighters, with 35,000\* freighter movements carrying 500k tonnes (Source CAA 2015). RiverOak plan 500-600k tonnes on 10,000 movements.
- MSE would be the 53<sup>rd</sup> busiest freight airport **in the world** by freighter ATM\*
- MSE would be the 31<sup>st</sup> busiest freight airport **in the world** by international freight tonnes\*
- MSE would be the 3<sup>rd</sup> busiest freight-led airport **in the world by international freight tonnes\***



\*Source: Airports Council International 2015 Report