

European transport infrastructure: flights delayed, recovery on schedule

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- Benefits of the rapid recovery of European airport and toll road volumes far outweigh the operational issues they now face as a result
- European toll roads have a positive role to play in the decarbonisation of the transport sector, providing both societal benefits and investment return upside.

Pent-up demand is driving traffic levels at European airports towards 2019 levels, a surge that has seen the market upgrade earnings forecasts for this year. We believe the multi-year disruption to travel caused by the pandemic has led to a multi-year build up in demand for travel. Whilst the economic environment may present challenges in the months ahead, we believe this pent-up demand bodes well for 2023.

Meanwhile, toll roads continue to see traffic above 2019 levels throughout Europe. This, combined with CPI-linked increases in tolls, is leading to modest earnings upgrades for these companies.

Infrastructure companies on their path to decarbonisation continue to work with regulators to find means to continue investment while protecting affordability. French toll road and airport concessionaire, Vinci, has expressed its openness to work with regulators to re-implement toll freezes, as they did in 2015. This would occur in exchange for concession extensions or deferred toll increases, providing immediate relief to the consumer with no negative impact to the company.

Amidst the rapid recovery of air travel, airports continue to deliver value from their infrastructure despite continued issues with operational efficiency in their service-based activities. Airports with significant commercial developments can achieve a strong and stable earnings stream via long-term rental agreements tied to inflation. An example is Flughafen Zurich's The Circle is a new 180,000 square metre mixed-use development incorporating office space, 540 hotel rooms, ground floor retail, restaurants and Zurich University Hospital. Approximately 50% of the 150,000 airport visitors each day are shoppers, office workers, or Swiss rail commuters, rather than air travellers.

Ultimately, we are confident current airport operational issues are not going to be multi-year constraints on the ability of airports to grow volumes. From a long-term investment perspective, we are focused towards the constraints of airport infrastructure itself – the capacity of the runways and terminals. Zurich Airport recently announced it has started planning for a major refurbishment and expansion project in response to the faster than anticipated demand. German peer Fraport has continued to press ahead with its new Terminal 3 project at Frankfurt. We remain very conscious of the capex needs of airports in coming years as they change gears from pandemic hibernation back to growth.

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