

Luton Airport, UK

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Luton Airport has always struggled to sell its London credentials, sitting as it does 13 miles north of the capital's orbital motorway. This refi of the concession re-fit and extend the existing facility in conjunction with plans to improve connectivity.

The airport's current concession holders AENA (51%) and Ardian (49%) acquired the asset in November 2013 for £394.4 million (\$523 million) and found themselves in possession of a low-cost, low-quality product. If Heathrow was the tenderloin steak of London airports, Luton was the Big Mac.

But much like McDonald's, which has introduced salads and half-decent coffee alongside its more traditional offerings, Luton Airport is reinventing itself as a better-quality (read better than Stansted), better-connected, but still affordable option.

And Londoners are grateful. Still starved of airport capacity while politicians enter the third decade of debates and consultation on the third Heathrow runway, the capital needs any help it can get.

Two refinancings and £150 million later, the new Luton Airport is starting to emerge, with better shops, a more modern passenger experience, and a crucial transport link to bypass the unenviable shuttle journey from Luton Airport Parkway on the cards.

The airport's recent refinancing, which closed mid-August 2017, saw a debt package of £390 million raised, with £270 million provided by institutional investors and £120 million by a club of banks.

Institutional debt was provided by:

- Aviva
- Standard Life
- Voya
- Guardian
- Mutual of Omaha

Meanwhile, the banks were:

- Barclays
- CBA
- DBJ
- ICO
- Mediobanca
- RBC
- RBS

The tenor on the bank debt is five years, with the option to extend for another two years - one year plus one year. Meanwhile, maturity on the institutional debt is thought to be 12 years.

Pricing on the institutional debt is understood to be 175-180bp over relevant gilts.

Meanwhile, pricing margins over Libor for the bank debt in each of the first five years are:

- 135bp
- 140bp
- 150bp
- 160bp
- 175bp

If the option to extend bank debt maturity is exercised, the margins for each of the following two years will be:

- 190bp
- 240bp

This compares favourably to pricing on the April 2015 refinancing that started around 165bp over Libor and stepped up to just under 200bp by mid-2017.

Bank debt under the August 2017 refinancing, which is largely undrawn, is intended for investment in the airport. Meanwhile, institutional debt was used to refinance the airport's previous loans.

The sponsors' legal adviser for the refinancing was Clifford Chance, while RBS and Barclays were joint financial advisers. Meanwhile, Allen & Overy acted as lenders' counsel.

Expansion

Under the £150 million expansion project, Luton's sponsors are improving surface access to the airport, tackling congestion on motorways leading to the facility, reconfiguring arrivals, moving the coach bays outside the airport, changing the entrance, and building a multi-storey car park.

Meanwhile, inside the airport, security lanes have been doubled, security technology has been upgraded, retail space is being doubled, and the Duty Free area has become a walk-through space.

At the same time, nearly all retail franchises have been re-tendered, grouping restaurants in one area, and high-value shops together, with the new stores opening in stages. Further, a new pier is being built to increase aircraft parking stands to 48 from 35, with changes also made to aircraft flows on taxiways.

Finally, in arrivals, upgrades to immigration and baggage reclaim areas are also underway.

At the same time, the council - the airport's freeholder - is tendering the 2km mass passenger transit line connecting Luton Airport Parkway station to the Airport. The £200 million project received planning permission in June 2017, and is expected to be operational in 2021.

Passenger growth

Since late 2013, when the airport changed hands, passenger numbers have grown around 18% per year, twice the forecast growth rate, noted Ardian's managing director Andrew Liau. This brings the expected 2017 figure close to 16 million.

And the airport's expansion will increase capacity to 18 million passengers per year from 12 million before the project started.

The expansion project is now almost half complete, with another 12-18 months of work expected (Q3-Q4 2018), a

timeframe that was impacted by a one-year delay in obtaining planning consent.

London Airports

Growth in passenger numbers at Luton Airport - which has a market share of around 9% among London airports - obviously reflects capacity constraints in the sector.

And capacity will remain a problem until a third runway is built at Heathrow. However, even with this runway, Luton's business model and location will help prevent corrosion of its market share by its competitors.

While Heathrow will retain its position as a long-haul hub, Luton has carved a niche in short-haul, primarily leisure traffic, which means that target markets for the two facilities are unlikely to overlap.

At the same time, while Gatwick Airport's hybrid model means it offers some short-haul travel, its location south of London means its catchment area is different from Luton's. And London City Airport attracts primarily business travellers.

This means that Stansted is probably the only airport that could arguably be considered a direct competitor.

However, Luton mainly serves the areas to the northwest of London, while Stansted is located northeast of the capital. Luton benefits from greater diversity of carriers (Easy Jet, Wiz and Monarch, as well as Ryan Air), while Stansted is largely focused on Ryan Air.

Anyone who has flown with Ryan Air will recognise that this clearly makes Stansted the McDonald's of London Airports, not only because checking in and boarding on Ryan Air can be torturous, but also because the airline often flies to airports so far from the European cities it claims to serve (much like Stansted) that getting to one's final destination can take another hour of travel.

Further expansion

With the wind at their tail, Luton Airport's sponsors are in discussion with the council regarding the possibility of further expansion beyond the current project. However, these negotiations are dependent on extending the airport's concession, which currently runs to 2031. As such, the capacity to be targeted and the work to be undertaken in this potential second phase of enlargement is not yet known.

According to one source, negotiations are underway to add 31 months to the concession. However, this number is subject to change.

"What's most important to us is clearly the desire for the council to continue expansion at the airport. It's just a matter of getting the right terms and conditions," said Ardian's Liau. "If you think through the Brexit debate and the uncertainty that's surrounding the UK, the fact that we - as European investors - are willing to put capital in is a positive sign in the context of Luton and the UK," he added.

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