# Airports – a folly by any other NAIM

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The worst thing any country with ambitions to drive an infrastructure investment programme can do is to cancel a headline project when it's well on the way through construction.

Behold Nuevo Aeropuerto Internacional de México (NAIM) – the controversial, $13.3 billion, Norman Foster airport that is 31% through construction and has been ritually sacrificed by president-elect Andrés Manuel López Obrador (AMLO), who assumes office on 1 December.

For a nation with a burgeoning pipeline of transactions and the infrastructure community lined up to support investments across multiple sectors, the timing couldn't be worse.

Compounding this, Mexico teeters on the brink of infamy for the greatest infra folly of recent times, wresting the title from Spain where Ciudad Real – an airport that will never see a single passenger – has long reigned.

AMLO called a referendum at the end of last month to decide the fate of the new airport – opening up the vote to one million of Mexico's 129 million population – with two options on the table:

- continue construction on NAIM in the dried-up lakebed at Texcoco, retiring ageing facilities that are sinking towards the planet's core, or
- tarting up local airports and adding two runways to the military air base at Santa Lucia, Toluca… which will also involve considerable plug-in infrastructure upgrades

The vote went the wrong way and the construction team – Grupo Aeroportuario de la Ciudad de México (GACM) comprising Acciona, FCC, Grupo Carso, GIA, Prodomex, La Penninsular and ICA – was ordered to down tools and walk away from the enormous foundations (though work continues).

## The paper trail

As it stands, there is $7.6 billion of debt associated with NAIM, but it's not all bad news for the bondholders as it is covered by a clever financing structure.

Mexico City Airport Trust (MEXCAT) – a government-owned private entity – was created around a decade ago to collect passenger charges from Mexico City airports and NAIM (once operational).

Passenger taxes are fed into the trust which disperses them through a waterfall structure, paying the debt service first (interest or principal) and flowing through to pay operating costs for existing facilities.

It was first used to finance terminal construction and in 2016 issued $6 billion in senior secured notes, borrowing against this income stream (which shows no sign of letting up as Mexican passenger figures continue to sky-rocket), to finance the new airport:

- $1 billion – 4.25% due 2026
- $1 billion – 3.875% due 2028
- $1 billion – 5.5% due 2046
- $3 billion – 5.5% due 2047

These bonds have already been downgraded by Moody's to Baa3 from Baa1, a downward trend that looks set to continue due to ratings agency fears over higher risks of default.

This has had a material impact on the bonds and we hear they are trading at 78-79 cents in the dollar.

However, sources close to the airport financing insist the downgrade is unwarranted (not an unusual insistence) and that the investment is bulletproof.

This is not unreasonable as the bondholders are not taking construction risk on the new airport. Even if the new airport were not to be built, they will be paid out from the passenger tax receipts at existing airports.

However, the ratings agencies have (understandably) taken fright at the decision-making processes of the new government which resulted in the downgrade, with a negative outlook.

The greatest fear over continued downgrades is that bondholders that require investment grade or higher will be forced to sell (should it dip below investment grade). Even worse, the potential occurrence of an event of default that will lead to an acceleration in the payment of all bonds outstanding.

One senior source uncomfortably close to the deal says: "It was designed so that in the event that there was a problem with the new airport, the bondholders still get their money. They might not be happy with the risk profile, but the bonds were not designed around the new airport traffic – but on existing passenger numbers."

And then the $6 billion bond issue was followed earlier this year (March) by GACM raising Ps30 billion ($1.6 billion) through an IPO of Fibra E shares to finance the continued construction work.

The Fibra E interests – in which Carlos Slim is rumoured to be heavily invested – issued by GACM (the current holder of the airport concessions) are severely impacted by the referendum.

As one source on the ground says: "Those securities have a stipulated interest rate like bonds, but are hybrid securities with an equity component. The equity value would be drastically slashed if there is no new airport to support the equity valuation of those instruments.

"While one might argue, based on the copious risk factors in all of the offering materials, that investors should have been aware of the risk of this cancellation occurring, it is fair to say that none of the investors in the new airport counted on this cancellation."

He adds: "Cancellation of the new airport will likely have a disastrous effect on the value of the bonds and Fibra E instruments."

## What's in a NAIM?

Some have been unkind enough to draw a parallel between AMLO and his counterpart to the north, saying his approach to the new airport is the Mexican equivalent of the border wall.

According to one source: "Both concepts have popular appeal, but fly in the face of practical realities."

Most people fear that international developers will be loath to chance their arm in a market where the future of their projects lie in the hands of less than 1% of the population.

In the meantime, the reputation of Mexico as a destination for infrastructure investment hangs in the balance and its ramifications have already been felt on a wider footing. The impact of the decision to cancel the new airport was immediate on the peso (28 October) as it fell by more than 3% against the dollar, with the interbank rate settling at 20.06 pesos to $1.

As another source on the ground says: “To the extent that investors equate this disastrous decision to other economic objectives undertaken by Mexico in recent years – particularly the energy reforms – there could be a severe and possibly long-term effect on Mexico's ability to attract foreign investments.”

Yet another adds: “You could take the view that this airport is too expensive for Mexico, but cancelling it halfway through… while that is a solution – is it the right one? I don’t think so.”

It might prove wiser for AMLO to allow work to proceed on the airport and then privatise it, handing the infra folly crown back to Spain where its airport sits in solitary splendour, reviving Mexico’s global standing as a destination for international infrastructure investment.