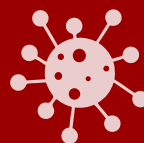




COVID-19 and the airport industry



KPMG in Russia and CIS

kpmg.ru

—
April 2020



Introduction

One day we will wake up, have a shower, take our well-pressed shirts out of the closet, get dressed, and go to the office

And then, a few weeks later, one by one, we'll begin to travel again. But what will travel after the COVID-19 outbreak look like? Will we have to see a doctor every time before we get on a plane? Will there be only one passenger seated per row? What will the ticket price be? Well, in short, I don't know

When will passenger traffic pick up? How many airlines will survive? Are we going to see a return on our investments? There are three scenarios, which is just another way of saying "I don't know"

In this report we don't pretend that we have some magic answer. What we have done is summarised our thoughts and presented them alongside insightful comments from key industry players and investors: the Russian and international airport operators and Moscow aviation hubs, private equity fund managers that invest in airports, our trusted airport sector consultants, and our KPMG colleagues worldwide who are bravely supporting their airport clients

This report would not have been possible without their contributions and I wish to express to them my gratitude for finding the time in their busy schedules to participate and patiently address all our questions

We hope this report will be of interest, not only to industry participants and investors, but also to anyone wishing to keep abreast of the latest impacts of COVID-19 on the airport industry and who can't wait to travel again

Daria Privalova,

Director

M&A in Infrastructure and Transport
and KPMG Airport Team

"This is **the biggest crisis the industry** has ever faced", Alexandre de Juniac, IATA's General Director and CEO

"For sure **2020 will be a lost year for aviation**. But we believe that the effect of COVID-19 will start to ease in summer and **we can reach 2019 passenger traffic level at the end of 2021**. But of course, we will also see how it will evolve in the coming weeks globally", an international airport holding

"**2-3 months is a more or less bearable period** of operating without passengers, but **longer – that would bring substantial damage to the industry**", a Russian airport holding

Russian airport holdings forecast a **25% to 38% drop in 2020 passenger traffic**

A PE fund in Russia **expects to see 2019 PAX levels only in 2022**

Lufthansa is burning 1 million euros an hour: "In total, we therefore lose one million euros of our liquidity reserve every hour: day and night, week after week, and probably month after month" – Lufthansa CEO Carsten Spohr

"We see less and less interest in airport assets. **I cannot see any buyer for the assets for sale these days.** Our discussions with the funds are more in the direction on how to reduce the GDP exposure – stakes in airport assets are under special review. In addition to the Corona impact here also the CO₂ reduction measures and increased requirements regarding ESG measures are not helpful at all. Whether economically now is a good time to buy, is a very, very good question [in the context of question on the circa 40% share price drop of the traded airports]", PE fund in Europe

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COVID-19's crash landing in airports

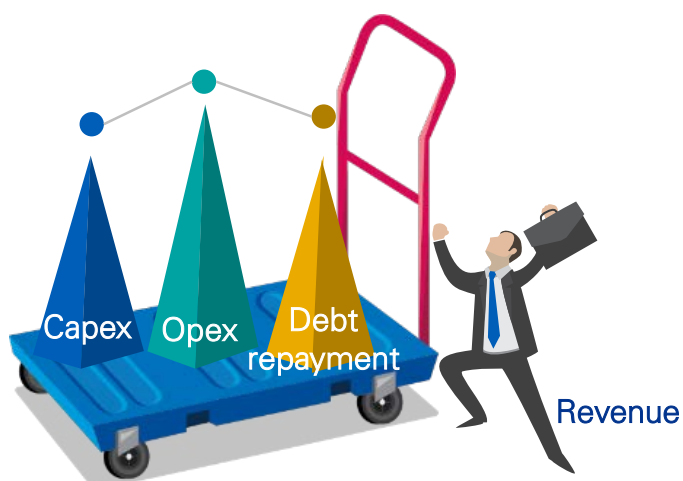
	WORLD	RUSSIA	KAZAKHSTAN
WHAT IS HAPPENING?	Over 110 out of 195 countries, comprising around 98% of the aviation market, have fully banned all incoming travellers, and the rest have imposed other kinds of travel restrictions	Passengers have not been allowed to enter the Russian Federation from 23 March. Over 73 regions, including Moscow and St. Petersburg, are under lockdown	Passengers have not been allowed to enter and exit from/to Kazakhstan from 16 March until further notice. Almaty, Nur-Sultan and several other cities are under lockdown
PASSENGER TRAFFIC DROP, YoY	28% decrease in Q1 2020 and 53% in March	-30% drop in March 2020, -97% YoY drop on 7 April 2020	More than 97% drop for the period of lockdown
FORECAST FOR THE YEAR	-38% drop in PAX, -45% in revenue, compared to baseline	-38% drop in PAX, RUB80 bn revenue, or -72% drop in PAX, RUB155 bn revenue	-50% drop in PAX, -USD96 mln revenue lost

COVID-19 has caused drastic damage to the global economy, and the aviation industry in particular. This is without question **an acutely challenging period for airport operators**

A sharp decline in revenue or its total absence, high costs to keep the business operating, capital costs, and debt servicing **could create huge liquidity problems**

This is exacerbated by **airlines'** inability to pay off creditors; many airlines are **expected to go bankrupt**

Governments all over the world are introducing bailouts to support aviation. Clearly the **Russian market is also in urgent need of a government rescue package**



Two PAX recovery scenarios in Russia: November 2020 or not earlier than 2022

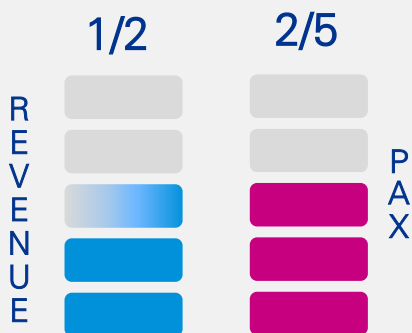
Hitting a flock of black swans

As a worldwide pandemic, COVID-19 impacted not only public health and societies' well-being, but triggered global economic disruption – with the aviation industry being one of the hardest-hit sectors

Before February 2020 COVID-19 impacted mostly the Asia-Pacific Region. However, new outbreaks starting in February 2020 in Italy, South Korea, and Iran escalated the virus from regional to global levels. As at the date of this Report more than 1.2 million cases had been reported globally

All countries around the world are taking rigorous measures in an attempt to restrain COVID-19 spread: over 110 countries have fully banned all incoming travellers, and the rest have imposed other kinds of travel restrictions

“This is the biggest crisis the industry has ever faced”, Alexandre de Juniac, IATA’s General Director and CEO



Forecasts: two-fifths of passenger traffic and almost half of airport revenues will be wiped out in 2020

Passenger traffic

As a result, a shut down of the market generating more than 98% of global airline passenger revenues forced almost all passenger carriers to cease operations and to ground their fleets

Pre-COVID-19, air travel was on the rise and demand was continuously increasing, there was a 5.5% CAGR in PAX in the past decade

In contrast, by the end of March, both supply and demand for air transport recorded one of the highest declines in PAX in history, resulting in a 28% drop in Q1 2020 and 53% in March compared to the same period in 2019

The ACI predicts a 38% global passenger traffic loss vs the pre-COVID-19 forecasts for 12 months of 2020

Revenue

Globally, more than half of airport revenue comes directly from passenger fees; the remainder is generated from non-aeronautical activities

Hence a dramatic decline in passenger traffic impacts not only aeronautical revenue, but non-aeronautical revenue as well (over 60% of which is directly passenger-related). In addition, Chinese passengers are the highest spending travellers; as a result, commercial activities are forced to shut down, either because the low traffic does not generate sufficient revenue to cover operating costs, or due to government decrees. Hub airports are exposed to the severest drops in retail revenue

Although there should be a cushion from the fixed component of real-estate revenue, tenants are suffering from a liquidity crisis as well, and are asking for payment postponements and extraordinary terminations

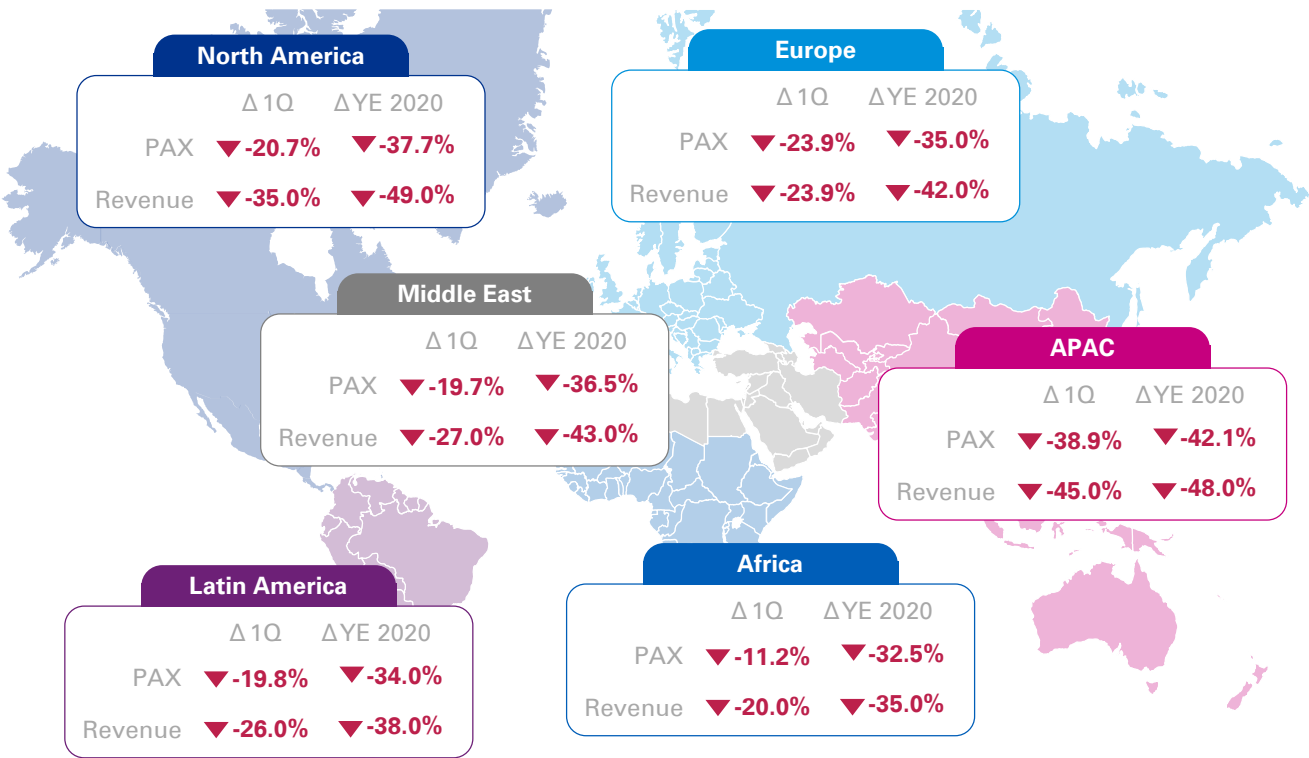
Hence there is a direct correlation between the drastic passenger decline and airports' revenue loss

The only revenue for many airports comes from cargo, Several airlines converted their passenger aircrafts into temporary freighters

The ACI forecasts 33% (USD13 billion) and 45% (USD76 billion) shortfalls in global industry revenue in 1Q and 2020, compared to the initial baseline. The most hard hit are Europe (USD25 billion) and Asia-Pacific (USD24 billion)

The ACI claims even less impacted markets will bear substantial losses proportionate to their size / market position

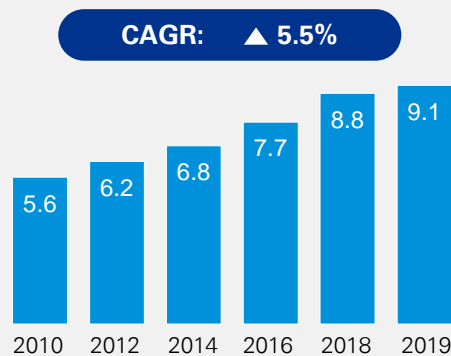
Hitting a flock of black swans



Note: Change from the initial baseline (pre-COVID-19) forecast on 2020
The baseline scenario based on Global Airport Traffic Forecasts (WATF) 2019–2040
Revenues are estimated based on traffic under COVID-19 and constant unit revenues

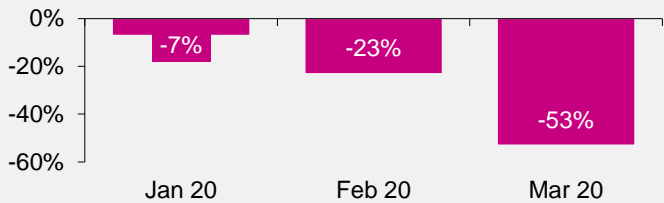
Source: ACI Advisory Bulletin dd 1 April 2020

Global pre-Covid-19 airport PAX dynamics, bn passengers



Source: ACI

YoY change in global passenger traffic in 2020



Air transport recorded one of the highest declines in passenger traffic for its history in March, after a sustained period of growth

Hitting a flock of black swans

The airports' cost structure highly comprised semi-fixed costs necessary for maintaining and operating the infrastructure. The most efficient cost optimisation is employee redundancy, which is not an easy decision to make. This is not a popular decision though as it may be difficult to re-hire the qualified staff when crisis is over



How can airports cope?

The exceptional current circumstances require pushing the envelope and taking decisive actions

In the current circumstances, as revenue is beyond anybody's control, airports are focusing on cost savings, which are very limited to:

- Closing piers and terminals
- Reducing maintenance costs
- Capex postponements
- Dividend cancellations
- Regulatory traffic resets
- Staff reductions
- Reducing 24-hour operation to 8 - 9 hours shifts

As the bulk of operating expenses comprise labour costs, staff cuts could bring a substantial reduction in costs. However, this is an unfavourable solution in social and ethical terms, as the typical airport hub has around 40 thousand employees, making up 6.2 million employees globally

Meanwhile, in order to allow continued operations, airports are being forced to maintain a minimum level of employment, paying the monthly wages of some staff and temporarily laying off the rest

As it is a highly asset-intensive business, over 30% of total expenses comprise capital costs to maintain the service quality and the pre-COVID-19 scale of demand

Many airports have investment obligations under concessions in comprehensive PPP contracts. The execution of these projects is becoming almost impossible without proper financing, which is not always available these days. As a result, it leads to contract breaches and MAC clause triggering, rising big issue for the industry

Lufthansa is burning 1 million euros an hour: "In total, we therefore lose one million euros of our liquidity reserve every hour - day and night, week after week and probably month after month", Lufthansa CEO Carsten Spohr

Lost revenues and still high costs to operate are aggravated by massive liquidity issues faced by airlines, and the risk of non-payment is increasing

The IATA reports that an average airline's two-month stock of cash reserves at the beginning of the year is now exhausted

In the end of March, OAG analysts calculated that the average air carrier is two months from bankruptcy. By now, two months may even sound optimistic. Airlines are incurring huge operating losses, and paying high leasing costs while maintaining grounded aircraft. The next wave of bankruptcy the industry expect is of leasing companies

As airlines and airports are on many levels interconnected, if airlines do not resolve their liquidity issues in the near future, airports will very soon exhaust their cash supplies

Hitting a flock of black swans



Analysts all over the world are confident that it is impossible to overcome the current crisis without state support

All industry participants, including airports, airlines, air navigation service providers, travel retailers, and ground handlers are seeking rescue packages: liquidity support, cost alleviation (taxes / industry charges), regulatory relief, and job retention schemes

To ensure the continuity and sustainability of airports worldwide, the ACI has identified the following policy measures:



Protecting airport revenue

Keep the airport charges in place. As airport charges and commercial revenue are the main source for keeping airports operational, any cancelation of these charges or discounts will make things much more complicated for airports



State assistance

Providing state assistance, e.g. subsidies and grants, including offsetting losses incurred during the current crisis



Waiving airport concession fees



Ensuring access to finance

Governments should assist airports struggling to obtain short-term liquidity using government loan guarantees or supporting loan premia



Tax relief for the aviation sector

Any kind of national, regional, or local taxes, including those levied on airports, should be suspended. This would not only directly positively impact airports costs, but increase consumer confidence and stimulate demand post-COVID-19



Temporary suspension of airport slot usage requirements

The most important thing now is to save connectivity worldwide and ease airline positions, even at the expense of short-term losses



As a response, a number of governments have provided an over USD5 billion fiscal and monetary stimulus, worth on average 11% of annual GDP for each government. This support also includes rescue packages for the airports industry

Canada – relief of up to USD331 million for ground lease rents

USA – a USD58 billion stimulus for aviation, of which USD10 billion is earmarked for airports

Brazil – deferring and reducing certain fee payments and taxes

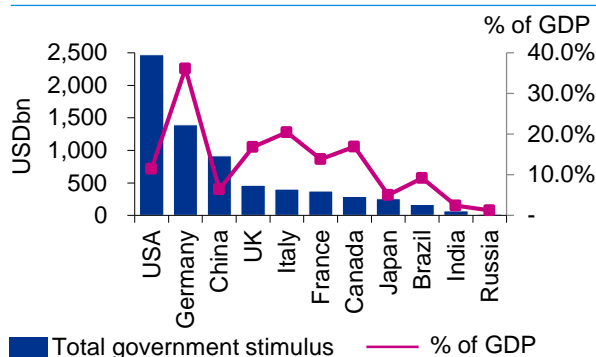
Singapore – USD0.7 billion allocated to aviation and tourism, a rent rebate at Changi airport

Hong Kong – USD0.3 billion relief package

New Zealand – A USD0.4 billion loan facility for the aviation sector

Norway – A USD0.5 billion loan guarantee

Total government stimulus of top-11 markets



Note: includes fiscal and monetary stimulus as of 2 April 2020
Source: International monetary fund, KPMG analysis

Strap in tight, it's going to be a long flight

The timeframe of the current downturn and the pace of any potential recovery is difficult to gauge right now. The global recession caused by COVID-19 adds to the uncertainty

Agencies all over the world have developed different scenarios of the economic impacts and path to recovery. However, rapidly changing circumstances make them outdated very quickly

The COVID-19 crisis, aggravated by the global recession, will wipe out many airlines and impact society's wellbeing. This will unquestionably delay any fast recovery within the industry

Digitalisation, accelerated by COVID-19, has decent chances to reduce the business travel share in air traffic



Main COVID-19 consequences impeding a fast recovery:

Economic recession

Although fiscal stimulus are expected to lift the recession's impact on GDP in terms of depth and duration so as not to not exceed 2008 GFC's figures, the loss of income and rise in unemployment will negatively impact the air travel industry

Consumer confidence to fly safely

It will take time until passengers regain the confidence to travel without fear of contracting COVID-19

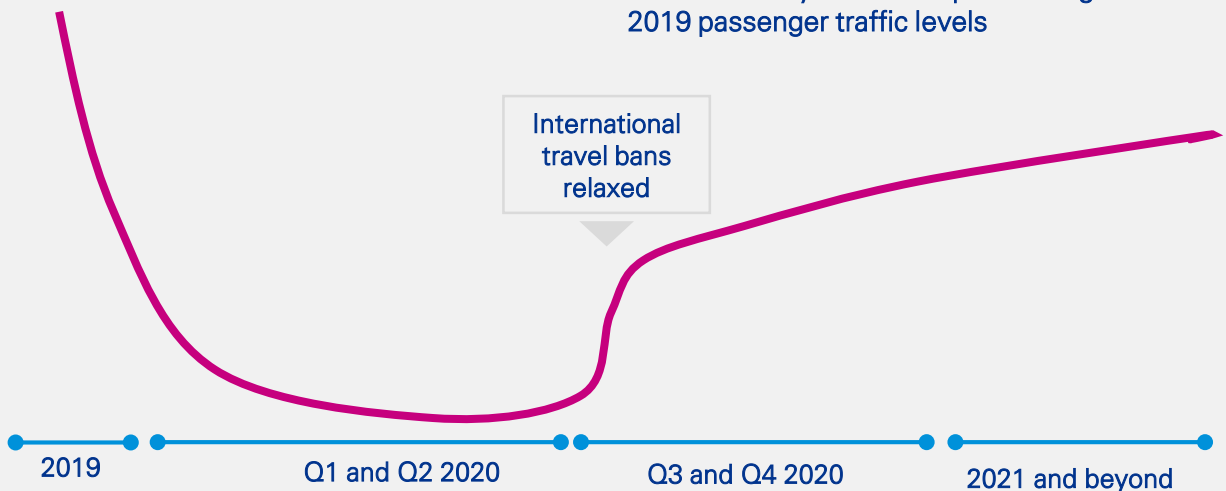
Change in consumer behaviour

Today, under worldwide lockdowns and quarantines, business activities, including meetings, are switching to online mode. Moreover, as companies tend to tighten their travel budgets, it may have long-run effect on travel frequency and overall business passengers' share decrease

9/11 and SARS witnessed a pattern of international travel being substituted by domestic flights: people tend to stay in country instead of travelling abroad

Passenger traffic for COVID-19, ACI scenario

Almost two years is required to get back to 2019 passenger traffic levels



Source: ACI

Strap in tight, it's going to be a long flight

Based on past crises experienced by the aviation industry, there are three different scenarios vis-à-vis how passenger traffic impacted by COVID-19 can evolve:

- 1. V shaped – a sharp downturn and quick recovery (SARS)
- 2. U shaped – a downturn and prolonged recession (2008 global financial crisis)
- 3. L shaped – a sharp downturn and lengthy recovery period in years (9/11 crisis)

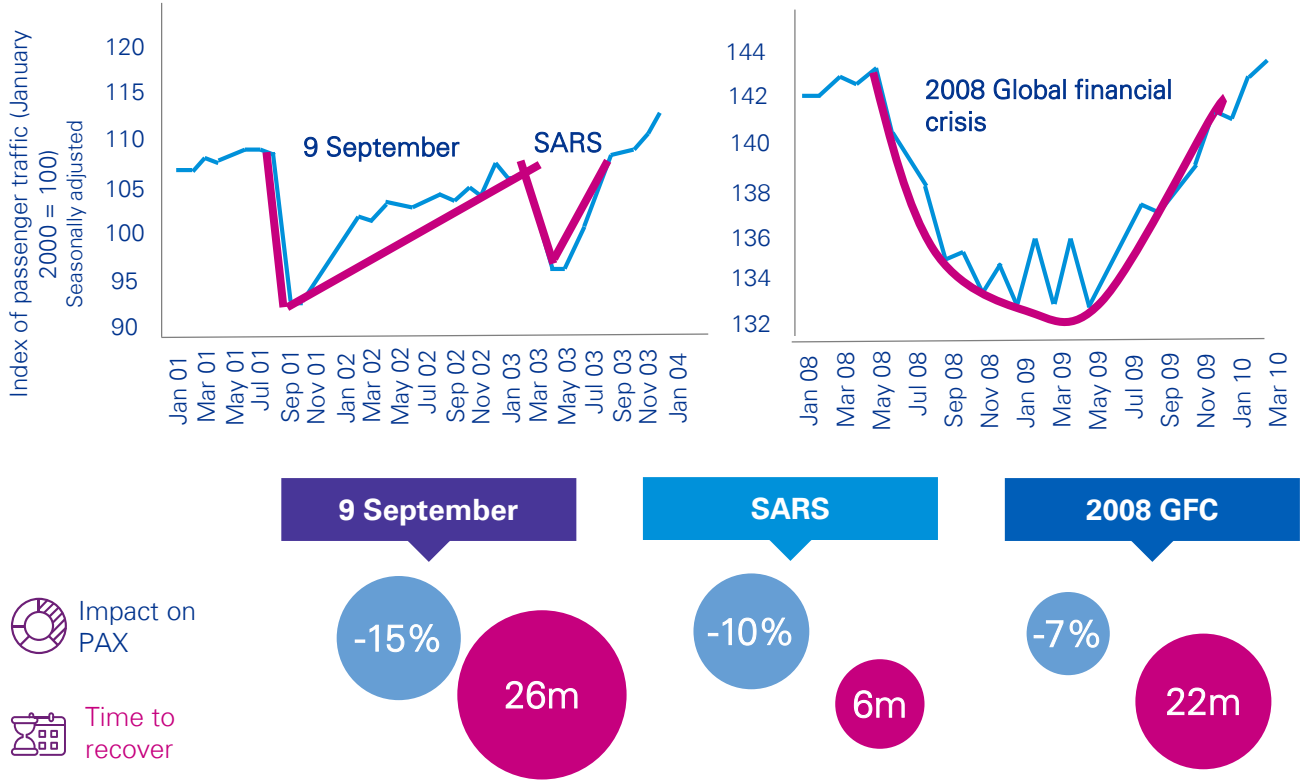
“For sure 2020 will be a lost year for aviation. But we believe that the effect of COVID-19 will start to ease in summer and we can reach 2019 passenger traffic level at the end of 2021. But of course, we will also see how it will evolve in the coming weeks globally”, an international airport holding

The ACI advocate the quasi U- and L-shaped model: COVID-19 is expected to be U-shaped in the near term and L-shaped in the long term. The lifting of international travel bans is expected in Q3 2020, and a full recovery to 2019 PAX levels will take about two years

McKinsey also believe that, as the aviation industry was hit the most, it will restart by Q3/Q4 of 2021

The S&P Rating agency is forecasting a recovery period of 24 months, though even then any scenario could be below pre-crisis levels as social distancing may still be in force

Passenger traffic in the past crisis



Source: ACI



The market as a mirror of uncertainty

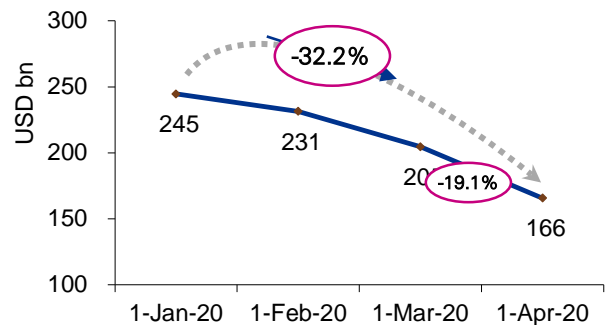
A 32% weighted average total enterprise value drop in the airport industry since the start of the year fully reflects high uncertainty vis-à-vis the consequences of COVID-19 (-36% for market capitalisation)

This is one of the most hit sectors, second only to energy equipment and services (-35% drop)

S&P also revised its ratings. Unlike for airlines, the impact on airports' ratings was less severe, reflecting their infrastructure status. The previous rating headroom, financial flexibility, liquidation cushion, revenue structure, country impact, and mitigating procedures were taken into account

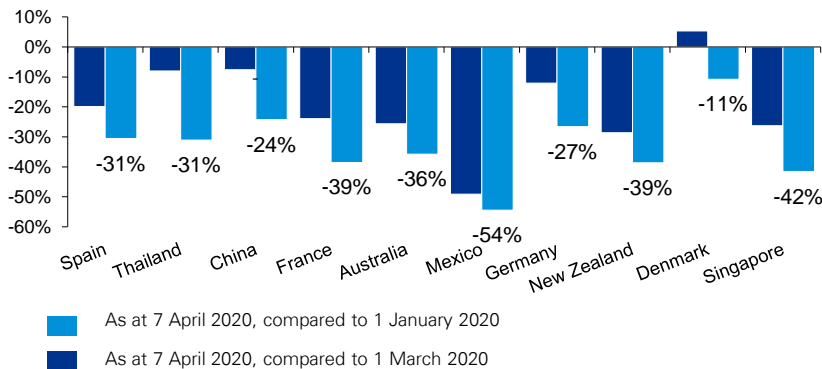
Nevertheless, there are ones who doubt the full stock prices recovery, many industry players believe that this is rather short-term effect and the stock prices will be recovered soon. In our view, the airports sector community will find out its way to reach back 2019 prices, yet the full recovery will not happen very soon

Global airport industry's EV



Note: EV of public companies only
Source: Capital IQ, KPMG analysis

Change in EV of airports for top-10 markets

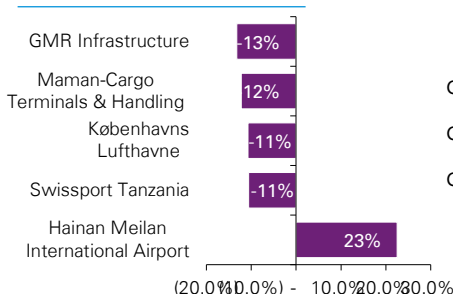


Average decline in top-10 markets

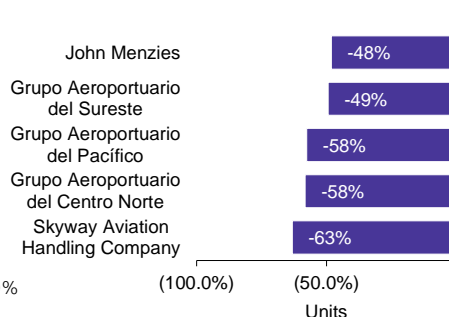
-33% From 1 Jan 2020

-20% From 1 Mar 2020

Least impacted



Most impacted



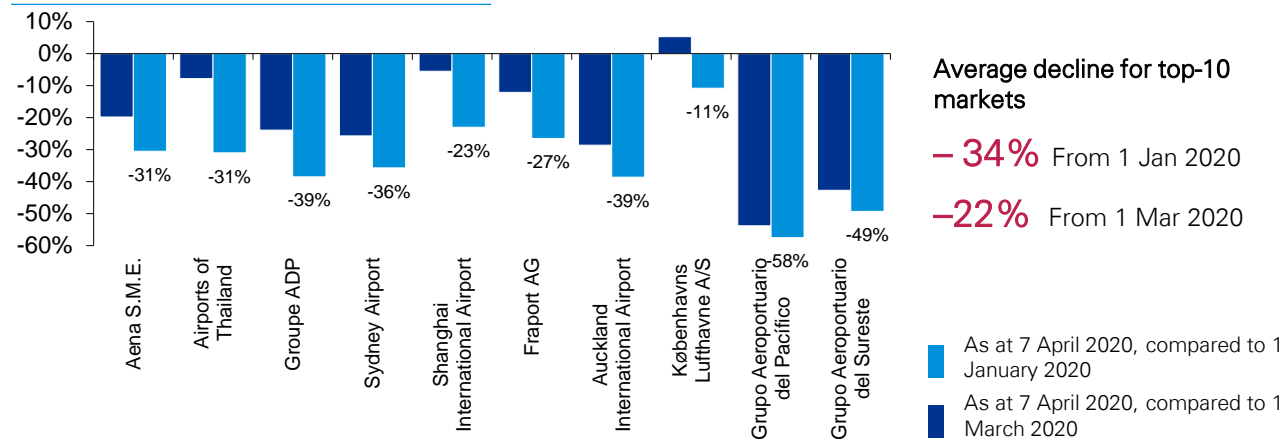
-11% smallest drop

-63% largest drop since 1 January 2020

Note: Top-10 is defined based on EV as at 1 January 2020, other information is presented as at 7 April 2020. The analysis covers public companies only
Source: Capital IQ, KPMG analysis

The market as a mirror of uncertainty

Change in EV of top-10 airports

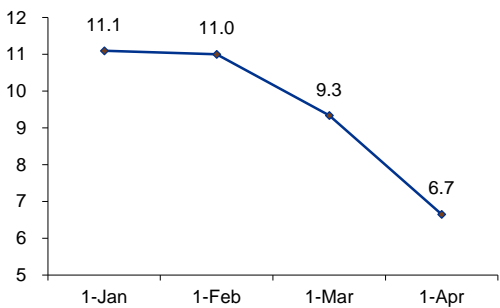


“We see less and less interest in airport assets. I cannot see any buyer for the assets for sale these days. Our discussions with the funds are more in the direction on how to reduce the GDP exposure – stakes in airport assets are under special review. In addition to the Corona impact here also the CO2 reduction measures and increased requirements regarding ESG measures are not helpful at all. Whether economically now is a good time to buy, is a very, very good question [in the context of question on the circa 40% share price drop of the traded airports]”, PE fund in Europe

“I believe that the drop in airports’ share prices is a response to the short-term factors, and, without a question, the stock prices will bounce back once COVID-19 is contained. Airports being infrastructure sites are always necessary for society – people will never stop travelling. Therefore, airports will always be a good decision to invest in”, an airport of the Moscow aviation hub

EV/ EBITDA multiple change

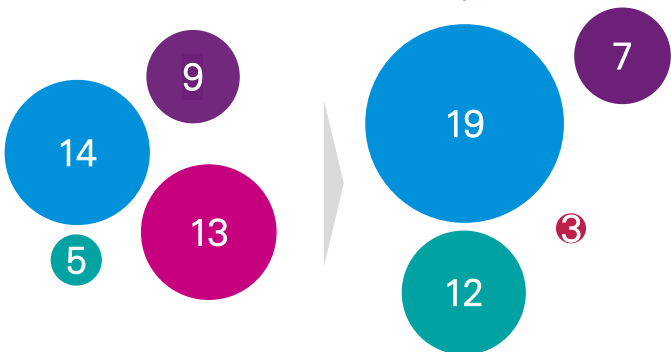
EV/EBITDA, median



Number of companies

1 January 2020

1 April 2020



Note: TEV(LTM)/EBITDA for public companies only
Source: Capital IQ, KPMG analysis



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How was China's flight?

China was hit first with COVID-19 in the middle of January 2020. The city of Wuhan, where the outbreak was first detected, was locked down. 20 days after identifying the 100th case, flights stood at 60% of 2019 levels

Chinese domestic flights began recovering 10 days after a reduction in new cases. International flights are still restrained. However, the fact that the airlines' capacity scheduled for the week of April 13 is even less than for the previous ones can not be a good sign of fast recovery



China's recovery

The recovery in China was in line with a flattening in the number of cases – it began in the third week of February after a month of quarantine in Wuhan

The industrial sector in China recovered first, however, urban traffic, including commercial and consumer activities, were operating at 65% of the normal level at the start of April. Various consumer markets report a 20-50% decline in revenue YoY



Potential risks to slow the recovery

Re-importation of the virus

Coastal cities in China are worried about a re-ignition of infection. If there are no major cases during April, Goldman Sachs specialists believe that full domestic consumption will recover by May

Asynchronous recoveries of countries

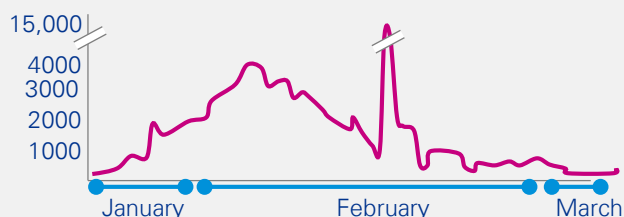
Industrial production in China is relatively normalised, with an almost 80% return to capacity in manufacturing. However, a drop in exports to Europe and the US in Q1 and a forecast drop in the second half of the year, will likely slow the recovery



What it means to aviation

China may give us a glimpse of how aviation might recover across the rest of the world. However, China's economy has notable differences: it is majorly state-owned with different level of state influence and dynamics than other countries. On that grounds together with weaker response other governments imposed against the virus, China's recovery path may significantly differ from the worlds'

New daily cases, China

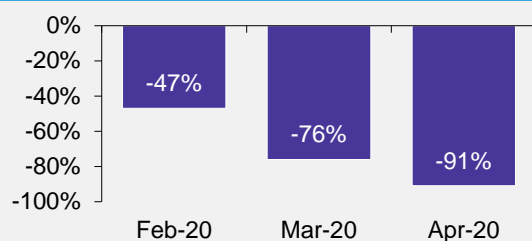


Source: Worldometer

The implications of China's recovery pattern to other countries:

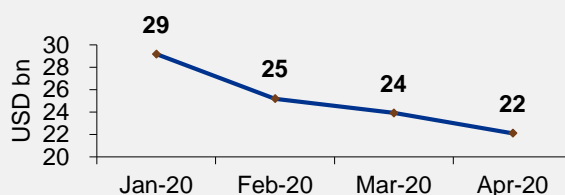
- Recovery for the rest of the world will take longer than for China, as China imposed a more stringent approach to curb COVID-19 and will recover earlier than other countries
- The pattern of recovery from the industrial to consumer sector is not guaranteed to be the same as in China
- The exact timeframe of the slowdown is unknown

Deviation of PAX from the initial forecasts



Source: ICAO

EV of airports, China



Source: Capital IQ, KPMG analysis

A hard landing
for Russia as well

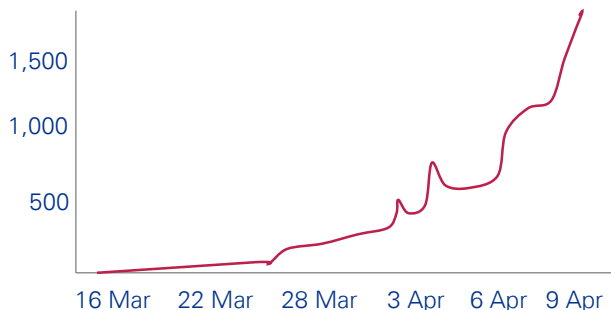


A hard landing for Russia as well

The Russian aviation industry was hit hard starting from the middle of March, when all international flights were cancelled

After travel restrictions came into force, on March 16 for European countries and for the rest of the world on 23 March, there were only charter repatriation flights for Russian citizens. The number of returning passengers was restricted to 500 a day for Sheremetyevo and 200 for other airports

New daily cases, Russia



Source: Worldometer

As a result, **passenger traffic on 31 March 2020 was 75% down** on the same day of the previous year, and continued to fall drastically, ending up with a **93% decline on 7 April**. **The total passenger drop in March 2020 was 30%**

The industry players expect a suspension of domestic flights in April and May as well: only 1-2 flights from regions to Moscow to maintain the minimal connectivity of the country

Based on the Chinese experience, IAA believes it will take **2.5-3 months from now to resume domestic flights**

Commercial revenue is near to zero as all shops, food & beverage spots etc. are closed, and almost all advertisement contracts have been terminated. This occurs not only due to the government decree, but also because of high operating costs against almost a total absence of revenue

PAX Loss

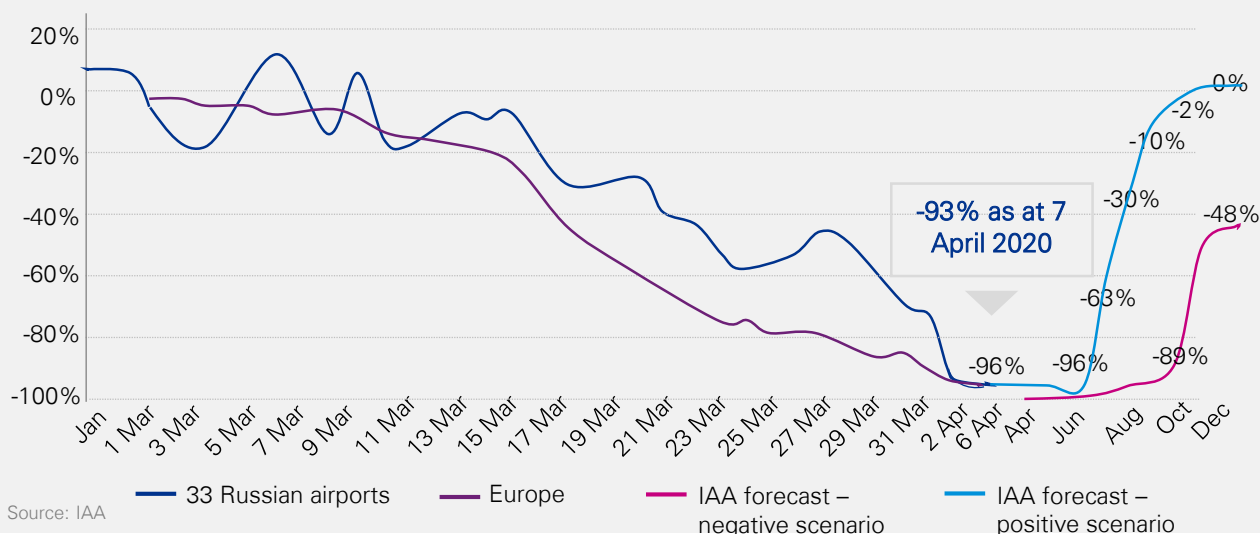


-30%
In March

-93%
On 7 April

"2-3 months is a more or less bearable period of operating without passengers, but longer – that would bring substantial damage to the industry", a Russian airport holding

Airport passenger traffic YoY deviation, based on 33 Russian airports



Source: IAA



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A hard landing for Russia as well

Two scenarios of passenger traffic forecasts exist

POSITIVE SCENARIO

The positive scenario, according to which the strict lockdown will last until June and a full recovery to 2019 passenger traffic levels will be seen in November 2020

The approximate year-end passenger traffic loss for the year is 82.5 million, these would generate over RUB80.4 billion in revenue

IAA forecasts look quite similar: 83% passenger loss, RUB65 billion in revenue and a RUB27 billion total loss in 2Q 2020. However, IAA projects a profitable second half of 2020, which reduces the year-end loss to RUB16 billion

Although the IAA projects a recovery in passenger traffic by the end of 2020, industry players consider this over optimistic

Russian airport holdings forecast a 25% to 38% drop in 2020 passenger traffic



NEGATIVE SCENARIO

The negative scenario is based on assumptions from the Russian Ministry of Economic Development:

- Economic activities will be terminated until September 2020
- A recurrence of COVID-19 will be seen in China and South Korea
- The economic activities of Europe and China will bounce back in 4Q 2020 or 1Q 2021

If this is the case, the industry will lose 159 million passengers (72.3% of 2019) and RUB155 bn revenue in 2020

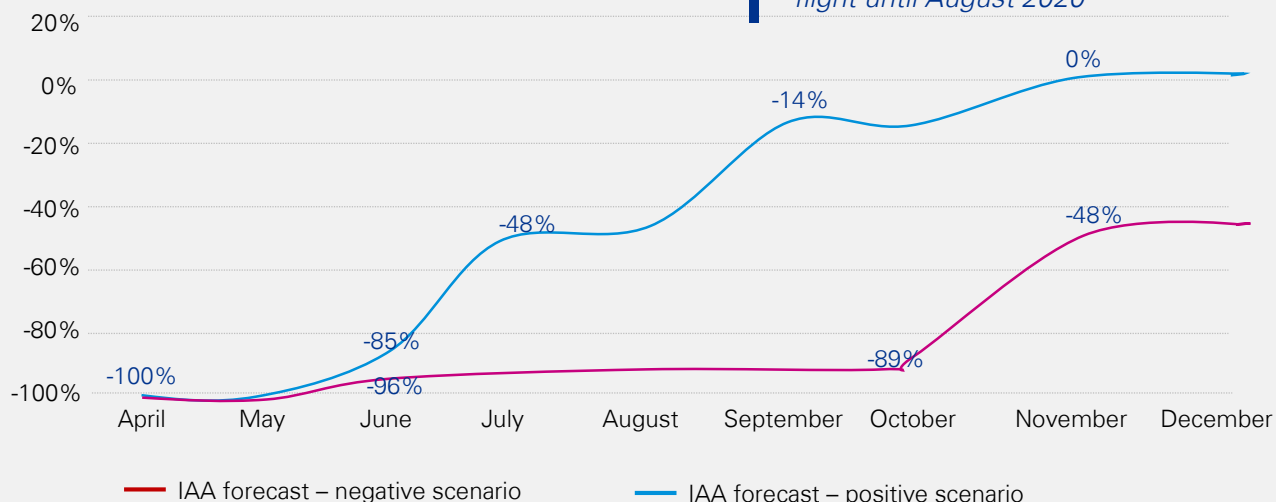
The IAA forecasts a -70% passenger drop, vs 2019 and a RUB149 bn revenue loss. The overall loss is expected to be RUB61 billion. The airport industry will not recover earlier than 2022

A PE fund in Russia expects to see 2019 PAX levels only in 2022



Airport passenger traffic YoY deviation forecast

Aeroflot has canceled its international flight until August 2020



Source: IAA



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A hard landing for Russia as well

As all airports over the world, Russian airports continue to bear costs, 75% of which are semi-fixed in the Russian airports industry. Operating cost optimisation measures include:

- Terminal closures
- Maintaining cost savings
- Labour costs reduction by decreasing working hours
- Potential switches from 24-hour operation to one or two 8-hours shifts
- Temporarily outsourcing its staff to retailers and other companies on the lookout for employees

Labour costs comprise the bulk of operating expenses. The total number of Russian airport headcount is circa 100,000. Hence a temporary suspension of 50% of headcount's work would save up to RUB15 billion a year. This is not an easy decision to make, however, it still provides 2/3 of the regular salary payments to suspended personnel

Laid-off personnel will cost more for companies, due to a one-time payment of up to three monthly wages they are eligible for under labour law

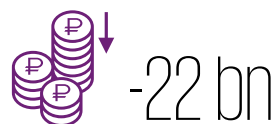
Liquidity shortage is a hot topic

Airports, together with airlines and other industry participants, are experiencing huge liquidity issues: RUB22 billion out of a RUB27 billion total year-end loss is a pure cash outflow

Total loss in 2Q



Liquidity loss in 2Q



Source: IAA

Payroll
RUB12 bn

Interest
RUB5 bn

Other cash
RUB5 bn

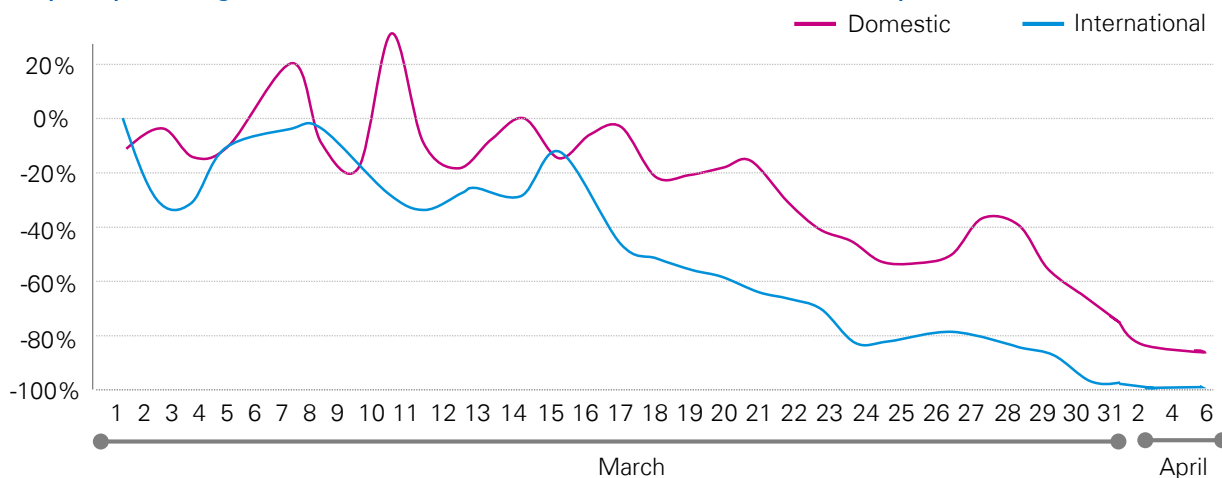
D&A
RUB5 bn

Domodedovo has asked WildBerries to temporarily hire part of its staff, according to RBC

"Airlines has already burned out their cash reserves making it impossible to paying off the creditors. Fuel providers may end up refusing to sell them kerosene any further. As a result, the liquidity shortage loop closing is endangering the whole Russian aviation industry", one of the Russian airport holdings

The going concern of airlines, with the exception of Aeroflot, Rossiya, and Pobeda, is highly dubious: industry players expect a number to go bankrupt

Airport passenger traffic deviation YoY, based on 33 Russian airports



Source: IAA



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A hard landing for Russia as well



Many airports, especially regional ones, have costly investment projects they are committed to under concession agreements or PPP contracts

To mention a few: a new terminal in Novosibirsk (Novoport), in Krasnodar (Basel aero), and in Petropavlovsk-Kamchatsky and Novy Urengoy (Airports of Regions)

Airports face a number of issues with regard to these investment projects:

- The current quarantine restricts construction works
- Airport operators do not have sufficient liquidity to finance Capex and maintain current loans
- High industry uncertainty and poor industry performance will not allow new loans to be obtained if they are not supported by the government

Several Russian airport holdings have no ongoing commitments: most new projects are at the contractor search stage and they did not conclude onerous contracts before the current crisis

One of them has strong intentions to implement its investment projects and to continue its M&A activities

Sheremetyevo has postponed its capital commitments except for a runway construction, according to Forbes

Many industry players suspended their non-committed projects due to high uncertainty over their return rates, due to the consequences of the current downturn and post-crisis passenger traffic

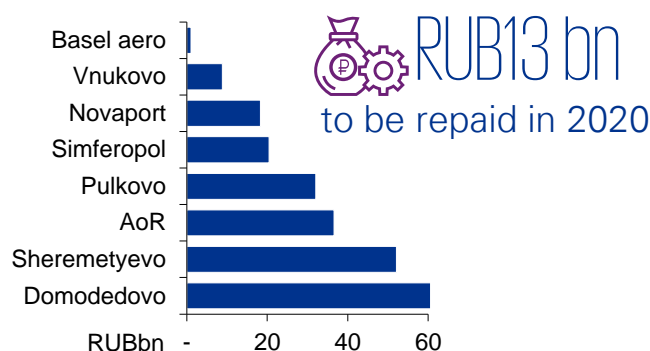
The less lucky ones, with ongoing capital commitments, are considering options to restructure their loans or raise new capital:

One solution is government support vis-à-vis investment project financing under Russian Government Decree No. 1044 dated 11 October 2014. This would allow the refinancing of loans and give access to long-term loan financing, but on competitive terms. The application process however is quite comprehensive and time consuming

M&A activities

Under current conditions of uncertainty, M&A activities have also mostly been postponed as liquidity issues are of most interest

In this regard the IAA has proposed deferring the Blagoveshchensk concession project, as the participants will not be able to make a competitive offer (Novoport, Airports of Regions, and Gazprombank were reported to have created an enterprise for this project)



Note: rough numbers based on 2018 financial statements
Source: SPARK, Rosstat, official web-sites of the airports



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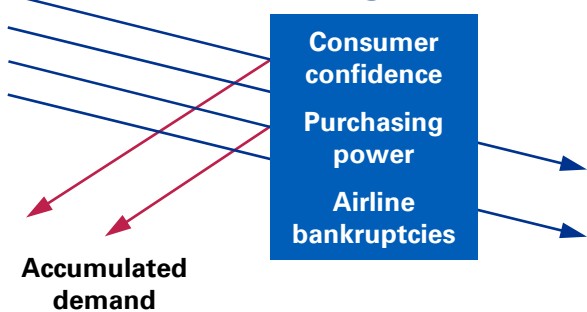
The total amount of debts over the industry was **RUB250 billion** by the end of 2019 and the industry leverage was **2.8xEBITDA**

The average annual interest payments are about **10% of gross margin**

Airports are in the middle of negotiations on loans restructuring as a short-term measure against shortage in liquidity

IAA reported that the preliminary **prolongation period is 2 years**

A hard landing for Russia as well



Given the decline in the purchasing power of the public, as a result of a slowdown in the economy and the currency devaluation, accumulated demand, partially driven by lockdown savings, may not be sufficient after the reopening of air services



Industry players share the global analysts' view that the current COVID-19 crisis cannot be resolved without state support

The IAA has developed and asked the government for several incentives to address the aviation industry's main issues. Industry players have called for immediate actions to be taken by the government

1 Provide all suppliers of the airlines, including airports, fuel complexes, handling companies etc., with **state guarantees for fulfillment by the 10-largest airlines of their obligations** for the period 1 April – 31 December 2020, (around RUB76 bn, out of which RUB45 bn is for fuel providers), or Provide **full or partial subsidies** for the full or partial cost of airport services and fuel complexes (around RUB27 bn for airports). The most efficient mean is decreasing the social tax rate to 7.6% for the forthcoming 3 years

2 **Waive rent fees** for the use of **state airfield infrastructure** for 2020

3 Introduce **profit tax relief** for 2020 in an amount equal to **investments under concession or PPP** agreements, if applicable

4 **Deferral of taxes and insurance contributions and concession payments** from the period of 12 months from 1 March 2020 (around RUB7.6 bn)

5 Reimbursement of fixed costs

6 Restrain early demand for loans

7 Staff retention financing

8 Suspend dividends for the state, if applicable

9 **Measures to support airports with ongoing investment projects:**

1. A loan interest rate reduction or subsidisation
2. Accelerated VAT refunds
3. Increasing the share of financing to 100% by the Far East Development Fund or development bank
4. Capital grants to cover additional costs subject to currency devaluations
5. Insurance premiums to the entire headcount of TOSED resident companies
6. Amending concession agreements to raise the investment limit for projects, if applicable

The First Deputy Prime Minister, Andrey Belousov, has tasked the Ministry of Transport to address the measures

The Federal Agency of Air Transport has amended the measures, making them less efficient. The IAA has filed additional request as of 7 April 2020

COVID-19 may force
Kazakhstan to change
its flight route



Kazakhstan may change its flight route

Kazakhstan imposed a blanket shut down of its borders on 16 March 2020 before total COVID-19 cases numbered 100. A number of cities, including the two largest, Almaty and Nur-Sultan, have been locked down since 19 March 2020.

The passenger traffic in Almaty and Nur-Sultan airports together accounts for 70% of the country's PAX: 6.4 and 5.1 million passengers, each, respectively

From 29 March almost all flights, including domestic and flights with returnees, are terminated. The few flights still operating are transit, cargo, or occasional humanitarian aid

Revenue and PAX

As of 10 April 2020, over 95-97% of airlines and airport revenue had vanished for the period of lockdown. There was no commercial revenue as terminals were closed. For Almaty, Nur-Sultan and Karaganda airports the only source of revenue is cargo

The Minister of Industry and Infrastructure Development, Kairbek Uskenbaev, expects a 50% loss in passenger traffic in the coming six months

How are airports coping?

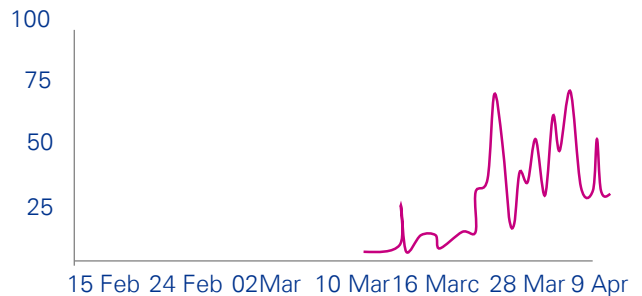
Airports in Kazakhstan, as other airports all over the globe, face the same liquidity difficulties and are incurring losses. airports are coping by optimising costs through reducing working hours, maintenance costs, and postponing capital expenditures

However, unlike other airports, Almaty and Nur-Sultan airports are taking advantage of the lack of passengers by repairing terminals, runways, and parking areas

Airports created a list of measures they are seeking from the government, which includes tax, rent fees, dividend relief schemes, postponements of capital commitments, refinancing schemes, subsidies of airport services provided to airlines, and guarantees on airports' liabilities to creditors

A number of requests have been addressed, such as personnel wages compensation. The government has signed a memorandum with aviation companies to not lay off staff

New daily cases, Kazakhstan



Source: Worldometer

Year-end effect



PAX LOSS

9 mln



REVENUE LOSS

USD96 mln

In view of the near total absence of flights for two months and the even longer recovery time, this is the severest crisis the Kazakh aviation industry has faced. It will take time to recover 2019 passenger traffic levels, even for domestic flights

The currency devaluation will significantly impact people's travelling ability. Not all airlines will be able to survive the crisis, which will negatively affect the industry, given the already huge presence of Air Astana

In addition, the current uncertainty delays M&A activity, including some ongoing deals, which could significantly fortify the negotiating position of the airport investors

It will also delay some potential investment projects related to terminal and runway constructions – an urgent matter for the Kazakhstani airport industry

Thus, the current crisis may hamper the development of the airport sector by postponing the execution of investment projects, causing airline bankruptcies, stunting passenger growth, and delaying the entry of international players

KPMG has life jackets
and oxygen masks



KPMG has life jackets and oxygen masks

HOW TO RAPIDLY TURN THINGS AROUND



The first priority is to quickly stabilise cash and liquidity and take a realistic view of current options:

Identify options: quickly and effectively assess your options

Stabilisation: steady the business and assess its financial position

Turnaround strategy: calculate financial paybacks of various options

Execution: ensure full delivery of the turnaround plan

Value realization: ascertain risks and the costs of each option, including contingency plans



HOW TO OVERCOME FINANCIAL DIFFICULTIES



Assess short-term liquidity requirements and find ways to quickly preserve value and address potential risks to stability

Corporate restructuring:

Appraisal and stabilisation: Do I have sufficient liquidity to keep operating?

Options assessment: Do I know what has gone wrong and how to fix it?

Intra-stakeholder negotiations: How do I keep everyone engaged in negotiations?

Development of options: What sustainable capital structure offers the best prospect of success?

Implementation: How can I reconcile all stakeholder positions to implement the new capital structure?

Ongoing monitoring: How do I ensure that the business is supported through its recovery?

M&A and new opportunities:

A crisis opens up opportunities for profitable investments. It is also possible to attract an investor to your business or to gain new market positions



Identify the path to maximise available value, assess the impact and risks of various options, identify the right filing jurisdiction, and prepare a detailed insolvency plan that optimises stakeholder positions

Five key recovery scenarios:

Distressed corporates: ascertain the extent of the problem

Insolvency planning: identify the options open to you

Commencing insolvency: understand what happens in a formal protection process

Implementation: find ways to maximise value

Exiting a formal process: plot a path back to 'normal'

KPMG has life jackets and oxygen masks

5,500

professionals

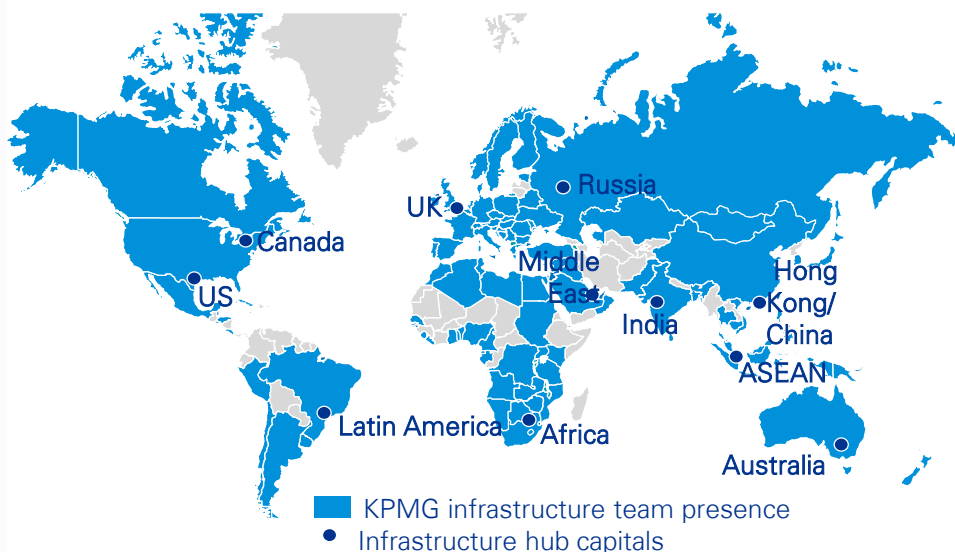
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years in Russia
and CIS

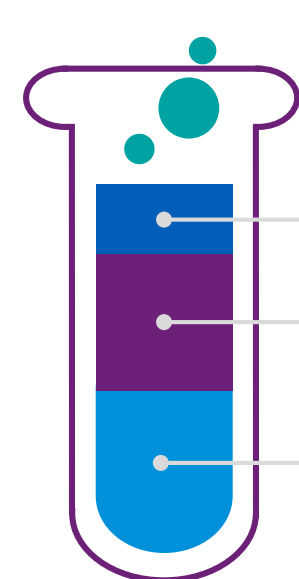
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offices in Russia
and CIS

We help our clients move into new markets, and bring global capabilities to a domestic problem



Our advisory experience and capacities provide a distinct base of services to support clients during a crisis



COVID-19 pill



OPERATIONAL AND FINANCIAL ADVISORY

- Operational improvements
- Financing
- Valuation
- HR management
- M&A
- Financial restructuring
- Strategic consultancy
- Technologies
- Forensic
- Risk consulting



TAX ADVISORY

- Anti-crisis taxation measures and relief
- Restructuring to reduce negative tax effects
- Tax risk management
- Tax reserves and assets
- Tax restructuring
- Support during tax inspections / claims



LEGAL ADVISORY

- Debt restructuring
- Financing
- Legal risk diagnostics
- Bankruptcy
- Dispute support
- Contracting
- HR
- M&A
- Protection of assets
- Regulatory issues

KPMG has life jackets and oxygen masks

KPMG possesses a wide range of market capabilities, consisting of both specialised crisis management and restructuring professionals and experts in all necessary industrial and functional areas

Since 2008 the **KPMG Restructuring and turnaround practice** has participated in **over 170 projects**, with a total debt value of **over USD70 billion**

We have assisted on the largest restructurings in the CIS, including **Mechel, Rusal, DTEK, ChelPipe, and Utair**

We frequently work with major Russian and international banks and financial institutions, such as **Sberbank, VTB, Gazprombank, IFC, IBRD, EABR, ING, and UniCredit**



Maxim Filippov
M&A

Our **M&A airport team**, which led the largest number of deals, is the strongest in the market and includes **both international professionals and experts** of the airport industry of **CIS countries**. The KPMG team has knowledge of **best industry practices, unique airports deal structuring experience, and understanding of key risks**

We have **immediate access** to and well-established personal relationships with **key international and local investors**, allowing for the fastest and fullest coverage of investor universe during the marketing stage. **KPMG** is aware of potential investors' strategy, requirements, and expectations and **is able to structure negotiations in order to get the best deal terms possible**

Andrei Mitrofanov
Restructuring

Stepan Svetankov
Industry leader

Daria Privalova
M&A, Industry expert

Artem Kirillov
Turnaround

Operational improvements	Restructuring
Financing	Strategic consulting
Valuation	Technology
Tax advisory	Forensic
M&A	Risk consulting

ADVISORY

TAX & LEGAL

AUDIT

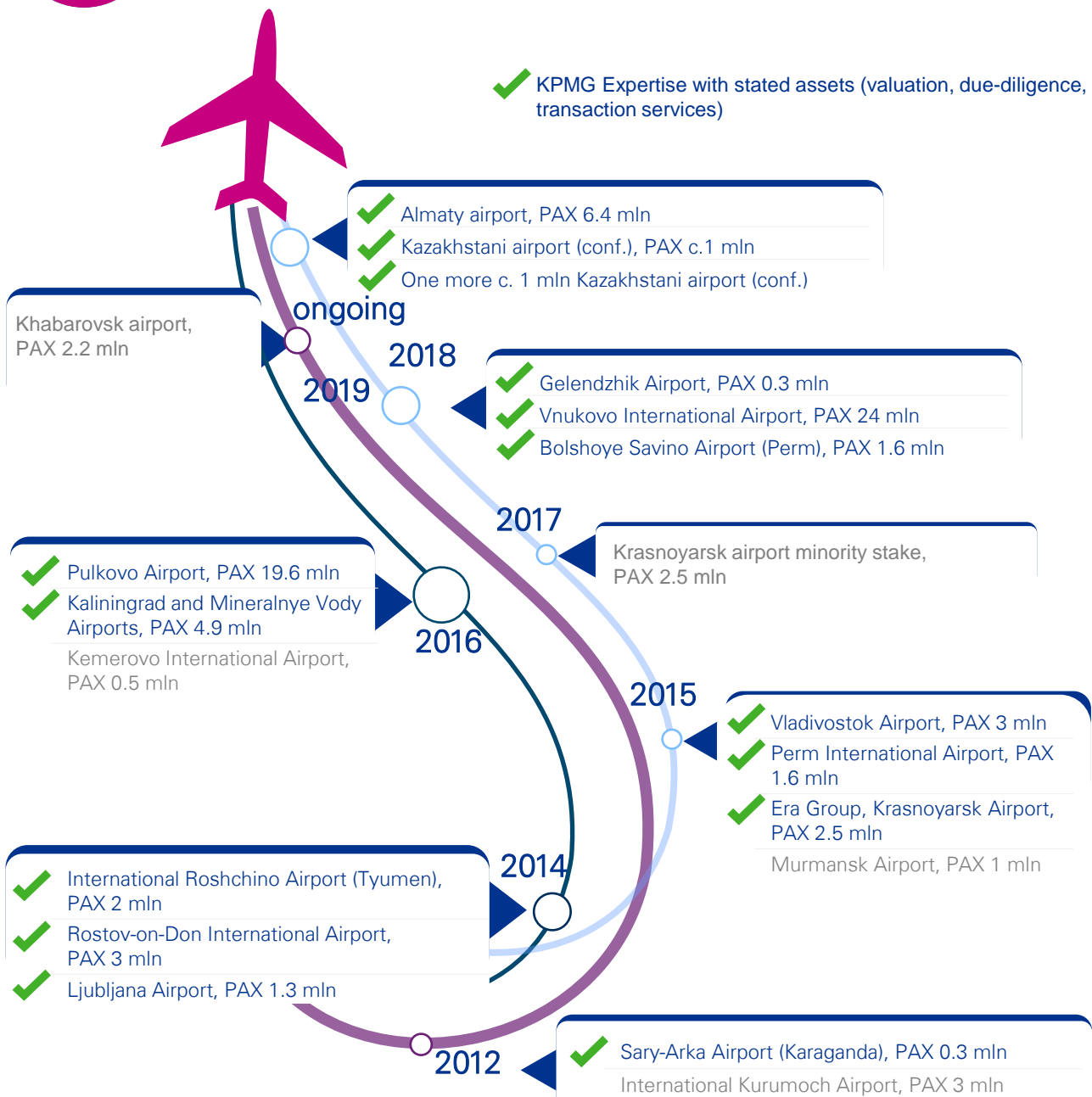
KPMG has life jackets and oxygen masks

We are the #1 advisor to the airport sector working on the major part of recent deals in the industry



We have knowledge of best industry practices, unique airports deal structuring experience, understanding of key risks and relevant deal multiples of the sector

✓ KPMG Expertise with stated assets (valuation, due-diligence, transaction services)



Special thanks to Zhansaya Mussabekova who contributed a lot into this research and without whom it wouldn't be possible

Our analysis was performed based on the information available as of 7 April 2020. The analysis of the global passenger traffic deviation, forecasts and revenue implications were mainly derived from ACI, IATA, and ICAO data. The analysis of the Russian market was made using Rosaviatsiya and IAA data and data obtained during inquiries with several of industry players. We also used consultancy of our KPMG Global Infrastructure sector practice together with KPMG desktop research of other sources

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation

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