

---

## Up and Away for MAp

Back when I worked on the Sydney Airport bid for Macquarie, I picked up an interesting nugget of information about traffic growth. There are going to be ups and downs, the traffic gurus told me, but once the slump is over, passenger numbers will line back up with the *original* trend line. So, if you expect passenger numbers to grow at 4% per year, and you have a year where there is no growth, the next year will show 8% growth to compensate. If there are two years of no growth, you'll get 12% growth out of the slump to compensate (yes, I know compounding doesn't work exactly like that, but it's close enough).

December figures for Sydney Airport show this effect playing out in practice. There is a very strong correlation between passenger growth and GDP growth; passenger numbers grow at 1-1.5 times GDP. It's historically been higher than GDP growth because disposable income has grown faster than the overall economy and air travel has become cheaper. I expect both trends to continue and, therefore, long-term passenger growth of 3-5% at Sydney Airport.

In December 2008, at the height of the global economic meltdown, international passenger numbers were down 2.6% on the previous December and domestics grew only 0.6%. Roll forward 12 months and international is up 11.4% and domestic passenger numbers are up 6.5%, giving an average growth rate from two years ago of 4.9% and 3.5% per year.

That's almost exactly what the gurus would have predicted and very good news for MAp securityholders (MAp, the old Macquarie Airports now with its own internal management team, owns 74% of Sydney Airport). More people means more landing charges, but it also means more retail spend and more car parking fees. With a mostly fixed cost base and a leveraged balance sheet, earnings growth should substantially exceed passenger growth and mean a lot more cash available for distributions.

The European airports, Brussels and Copenhagen, are still a worry for MAp. But my downgrade from Long Term Buy to Hold, one of the last pieces of research I wrote for [The Intelligent Investor](#) before starting the Value Fund, is going to be a mistake.

If you want to understand the airport business better, I'd suggest [Treasure MAp](#), a research piece I wrote back in February 09. And to the member who issued me with the 'please explain', you were right.