High Speed Rail and Airports:

Possible Election X Factor for Infrastructure Investors

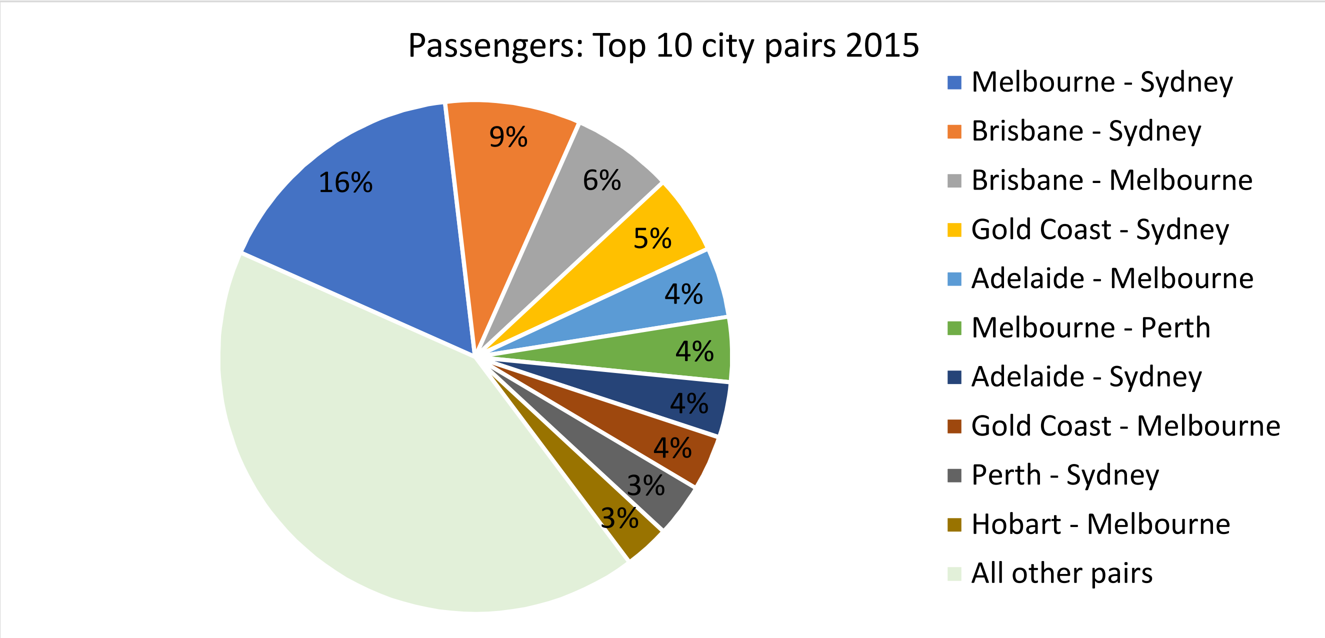
While it is a little late in the year for making forecasts and predictions – we at Infradebt thought we might float a potential "X factor" for Australian infrastructure investors. While most investors are focused on the potential implications of a hard landing in China, fallout from the end of the mining boom, or the potential impact of a rise in long-term interest rates – we wanted to float a risk that perhaps isn't in the forefront of investors' minds.

What if Malcom Turnbull announced a plan for the Commonwealth to fund the construction of high speed rail from Melbourne to Brisbane? At the outset, before we even mention the risk, let us say this is not our base case … but it is possible. What would it mean if it did happen?

Such a project would deliver a massive jobs boost over its entire route, not to mention significant development in a number of regional centres. A narrative could be constructed around addressing the inevitable congestion that arises from a disproportionate share of Australia's population growth occurring in Sydney and Melbourne. It would make regional towns all along the route potential satellite cities to the big state capitals.

The project of course isn't financially viable – but that is why Commonwealth help is needed and is consistent with the precedent set by the NBN.

But what would it mean for infrastructure investors? The routes between Sydney, Melbourne and Brisbane are three of the most travelled airline routes in the world. These routes account for just under 30% of all domestic airline travel in Australia!



A very fast train would be expected to result in a significant fall in airline travel along these routes. While the train wouldn't be quite as fast as a plane – on a door to door basis (i.e. taking into account reduced waiting time at the airport or travel to and from the airport) – the offer would be compelling.

The table below shows the percentage of domestic passengers and aeronautical revenue attributable to Melbourne-Sydney-Brisbane triangle routes. While the affected routes represent over half of domestic passengers – it is important to remember that domestic passengers attract materially lower revenue than international passengers – and aeronautical revenue is only around a third of total revenue. Thus, the overall impact would be much smaller.

	% Domestic Passengers	% Aeronautical revenue
Sydney	56%	27%

Melbourne	54%	29%
Brisbane	52%	25%
Canberra*	94%	94%

*Under 20% of Canberra Airport revenue is related to aeronautical revenue.

The implications of this are most serious for equity investors. For debt investors, there would be a significant period before a train could be built and that would provide ample opportunity for airports to de-lever in advance.

Perversely the greatest casualty could be Badgerys creek – which Tony Abbott selected as the site for Sydney's second airport in 2014. After all, would we really need a second Sydney airport, if high speed rail freed up capacity at Sydney's Kingsford Smith Airport?

Interesting thoughts – but to repeat our disclaimer – not our base case, but possible.