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Los Angeles Airport Sells Bonds to Buyers Betting on Rebound.

- **Passengers dropped by 75% last year over same period in 2019**
- **LAX seen ‘clearly as one of the winners’ in airport sector**

Los Angeles International Airport increased the size of its bond sale Wednesday to about $900 million, showing investors’ confidence in its ability to weather the turbulence from the pandemic-related shutdowns, as well as their eagerness for yield.

At the airport’s last sale in August, some buyers balked, leaving the underwriter Goldman Sachs saddled with unsold bonds. This time, though, the new administration of President Joe Biden is pledging speedier shipments of coronavirus vaccines — which were authorized for emergency use in December — and investors are clamoring to own debt from issuers poised for a rebound in a post-Covid landscape.

Given its strong balance sheet before the outbreak, Los Angeles’s airport is positioned well to absorb the drops in passengers and revenue, Terry Goode, a senior portfolio manager at Wells Capital Management, said before the sale. He pointed to the airport’s projection that it will have ample resources to cover debt service even if it takes five years for fliers to return to pre-pandemic levels.

“If you’re going to be participating in the airport sector, LAX is one of your strongest credits,” said Goode, who was evaluating the new deal. “I would put LAX clearly as one of the winners.”

The airport offered two series of subordinate tax-exempt bonds and one of subordinate taxable debt. Underscoring investor demand, it increased the size of the tax-exempt portions to $807 million from $664 million and was able to lower the yield on a 5% coupon tax-exempt bond due in 2051 to 1.87% from 1.97% in preliminary guidance, according to wires viewed by Bloomberg.

Investors are anticipating more federal aid may come for municipal governments and services such as commercial airports in particular, which had already received $10 billion from a previous stimulus package. The expectation has helped drive more cash into municipal-bond mutual funds and lower yields.

Airport bonds have paid off for investors in the past, with returns beating the overall market five out of the past seven years, according to ICE Bank of America indexes. Meanwhile, issuance of municipal bonds by U.S. airports plummeted by about 50% in 2020 from the previous year, according to data compiled by Bloomberg.

“In today’s market, there’s a tremendous amount of money flowing into the market, looking for the tax shelters, looking for a higher yield environment and safety that the municipal bond industry offers,” said Ted Galgano, senior municipal strategist at UBS Global Wealth Management. “And there’s not a lot of products, not a lot of supply. Our trader was lamenting that she can’t find airport deals to buy.”

To be sure, the unprecedented decline in airline passengers isn't for the most risk averse. Last year, global air traffic dropped 64%, according to Airports Council International. For the Los Angeles gateway — the world's third-busiest airport in 2019 — passenger volumes declined by 75% in July to November last year from the same period the previous year, according to a presentation to potential investors.

Still, the airport's size distinguishes itself from others. Unlike some hubs, Los Angeles doesn't depend on the fortunes of one or two airlines. No carrier accounted for more than 20% of revenue-generating passengers last year, the presentation showed.

Moody's Investors Service, which has a negative outlook on U.S. airports this year, has a stable outlook on Los Angeles's ratings because of its diverse revenue base. Unlike other U.S. airports, which typically aren't in the top investment grades because of the risk of travel disruptions and reliance on airlines, Los Angeles's rating for senior securities is the company's fourth-highest, Aa2, said Moody's senior analyst Earl Heffintrayer.

"In fact, LA's rating for the senior lien bond at Aa2 is the highest airport rating we have," he said.

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