

JEM (Southbank) Pty Ltd

30 June 2020

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Issuer Outline

JEM (Southbank) Pty Ltd (Southbank) is the financing vehicle for Axiom Education Queensland Pty Ltd (Axiom Qld). Axiom Qld was contracted by the State of Queensland to design, build and maintain facilities at the Southbank Institute of Technology in Brisbane.

The construction phase involved the construction of four new buildings, the refurbishment of four existing buildings and the demolition of 10 buildings on an operational campus. Construction was completed in October 2008 and the project is now in the low risk operational phase which will continue until 2039. Axiom Qld has subcontracted the majority of its operating phase obligations to Spotless Facility Services Pty Ltd (Spotless).

The revenue stream for the project comes from the highly rated Queensland State Government, is very stable and is matched with the timing of debt payments. In addition, this availability payment stream includes a CPI linked component which matches the CPI linked payments on the indexed annuity bond.

Security
AUD95m 4.98% Jun 2035

ISIN
AU300JEME010

Currency
AUD

Type
Senior secured

Key Terms

Coupon Type	CPI linked	Amount Issued/Outstanding	AUD95m/AUD60.9m
Rate	4.98%	Minimum Amount	AUD10,000
Frequency	Quarterly	Denomination	AUD10,000
Domicile	Australia	AU Withholding Tax Exempt	Yes

Key Dates

Issue Date	19 September 2005	Maturity Date	28 June 2035
Call Dates	n/a		

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Strengths

- The revenue stream for the project comes from the highly rated Queensland State Government, is very stable and is matched with the timing of debt payments. In addition, this availability payment stream includes a CPI linked component which is matched to the CPI linked payments on the indexed annuity bond.
- The project is now in the low risk, operational stage and has had over ten years of operational history. Axiom Qld's stable operating performance is expected to continue supporting low cash flow volatility.
- Axiom Qld has subcontracted a high proportion of its services responsibilities to Spotless. In addition, the risk of poor operational performance is passed onto to Spotless during the project term. This protects Axiom Qld from cost increases and deductions to revenues due to performance issues.
- Spotless has an established history of successful facilities management operations in Australia and is currently the most active facilities management provider in the Australian PPP sector.
- From a liquidity perspective, Axiom Qld has the benefit of:
 1. a performance bond from Spotless,
 2. an equity dividend 'lockup' test which stops equity distributions if the debt service cover ratio (DSCR) falls below 1.10x,
 3. a six month debt service reserve,
 4. a tax reserve, and
 5. a cash reserving mechanism for funding future capital expenditure works.
- A number of dividend distribution tests have been incorporated into the project structure to ensure that dividends are not made to equity Investors which may otherwise be required to service senior bond cashflows.
- The project's cash flows are expected to exhibit a debt service coverage averaging 1.2x over the life of the project, following the refinancing of Southbank's Nominal bonds in 2018. This DCSR provides a buffer in case of cash flow fluctuations.
- The project bonds are fully amortising over the concession period with principal and interest repayments linked to CPI over their duration. The project is therefore not exposed to refinancing risk

Risks

- As with most of its PPP peers, Axiom Qld is highly leveraged with limited ability to withstand unexpected financial or performance stress. It has a limited operating cashflow buffer which is fairly typical of availability based PPP projects. This is mitigated by a contractual structure that transfers the majority of the risks to third parties.
- The project's cashflow is exposed to potential risk exposures such as failure of a major counterparty or contractor, significant ongoing performance issues or higher than expected lifecycle or operating expenditure for the project. However, these are common exposures amongst PPP projects and are considered to be manageable given the strong performance history to date

Other risks

- Call risk: n/a
- Duration risk: n/a
- Interest deferral/cancellation: n/a
- Non-viability trigger: n/a

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Summary

The JEM (Southbank) Pty Ltd 28 February 2035 indexed annuity bond offers investors inflation protection and exposure to an investment grade mature infrastructure asset. The underlying revenues servicing the Southbank bonds are backed by the Queensland State Government.

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