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Australia Pacific Airports (Melbourne) Pty Ltd

25 August 2022

Sector: Infrastructure
Sub-sector: Airports
Country: Australia
Ownership: Private

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Issuer Outline

Australia Pacific Airports (Melbourne) Pty Limited (APAM) operates Melbourne Airport in Victoria. APAM is owned by Australia Pacific Airports Corporation Limited (APAC), which also owns and operates the Launceston Airport in Tasmania.

Melbourne Airport is Australia's second largest airport in terms of passenger traffic and located 22km north-west of Melbourne's CBD. APAC holds a 90% stake in Launceston Airport. APAM operates both assets under a fully-prepaid 50 year lease from the Australian Government (commencing from 1997), with a zero cost option to renew for a further 49-year term.

APAM is owned by infrastructure funds, with no shareholder having majority control: AMP Capital (27%), the state of New South Wales government (19%), Utilities of Australia (managed by HRL Morrison & Co Ltd, 9%), IFM Investors Pty Ltd (25%), and Future Fund (Australia's sovereign fund 20%).

Key Financials (AUDm)

LTM (30 Jun)	2021
Revenue	325.3
EBITDA	159.1
Net Interest Expense	(165.1)
Total Assets	6,790.8
Debt	5,096.6
Cash	27.7
Net Debt/EBITDA	31.9x
EBITDA/Interest Expense	1.0x

Source: S&P Capital IQ, Company, FIIG Estimates

Summary Bond Details

ISIN	Issue Amount	Ranking	Coupon	Coupon Frequency	First Call[1]	Maturity Date
AU3CB0284735	AUD 700m	Senior Secured	3.763%	Semi-Annual	25 Aug 2031	25 Nov 2031

[1]*Excludes potential terms that would allow the issuer to redeem prior to the maturity date through a make-whole call.*

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Strengths

- Monopolistic asset: By their nature, the major Australian airports are monopolies or near monopolies as they dominate the aviation market in their respective states. While there is some limited ability for substitution, the large domestic and international airport hubs in the capital cities remain a protected species and enjoy steady returns. Avalon Airport (located approximately 55km from Melbourne's CBD and 65km from Melbourne Airport) will not attract the critical mass of airlines required to pose a competitive threat to Melbourne Airport and will likely remain a complementary offering to the Victorian market. Melbourne also does not compete with Sydney in terms of international traffic, but rather complement each other.
- Revenue diversification: APAM benefits from significant revenue diversification, through a number of the revenue streams, some of which directly correlated to passenger numbers. While non-aeronautical revenues are not regulated, they still display highly monopolistic traits. Although reported on a consolidated basis (i.e. results for both Melbourne Airport and Launceston Airport), aeronautical revenues accounted for 26% of APAM's total revenues, with ground transport contributing 17%, and retail and investment properties attributing 5% and 33% respectively in FY21. In FY19 (pre-pandemic), the contributions from the above segments were 41%, 20%, 17% and 12% respectively. Melbourne Airport's large land bank, which is more than three times larger than Sydney Airport's (the largest airport in Australia by passenger numbers) provides scope for further property development opportunities, which will further diversify and grow its earnings.
- Limited regulation: The current light-handed regulatory regime is a credit strength for the Australian airports, because it allows airlines and airports to negotiate tariffs for the airlines' use and enhancement of airport infrastructure without external regulatory intervention. Such a framework therefore promotes commercial outcomes, particularly with respect to capital expenditures necessary to accommodate projected long term passenger growth, and minimise the likelihood of unforeseen step changes in airports' aeronautical revenue. Both factors underpin the predictability of a large portion of the airports' cash flows.
- Debt maturity profile and solid liquidity: Melbourne Airport maintains a well-diversified debt profile with debt maturities ranging to 2045. Its liquidity position is robust, which primarily reflects its holding of cash balances of AUD85m and undrawn term debt facilities of AUD1.73bn, as of 28 February 2022. This is more than enough to cover upcoming capital expenditures (approximately AUD350m) and debt maturities (approximately AUD475m).
- Rebound post COVID-19: COVID-19 caused the vast majority of domestic and international flights to/from Australia to be suspended, but has begun to pick up significantly which will help boost earnings to pre-pandemic levels. While FY22 passenger numbers were only 17% and 42% of FY19 international and domestic passenger numbers respectively, it is due to a weak start of the FY22 year due to continued restrictions in Victoria. In July 2022, passenger traffic was 58% and 85% of FY19 international and domestic numbers respectively with scope to improve rapidly.

Risks

- Airline customer concentration: APAM's business and results of operations could be materially adversely affected if it does not continue to generate comparable aeronautical revenues from key airline customers. We note that the exposure to Australian airlines is broadly consistent with the market share of these airlines domestically, and failure of one airline would likely result in a transfer of the majority of these passenger movements to the remaining airlines, given the criticality of air transport, in particular domestically and regionally.
- Exposure to general economic conditions: APAM's results of operations and financial condition are affected by the general economic conditions existing in Australia and internationally (particularly in areas serviced by the airport). A deterioration in general economic conditions is likely to have an impact on the propensity of passengers to fly, as well as their retail spending behaviour. Given APAM's aeronautical revenues are generally derived on the basis of per passenger fees and some of retail tenants pay rent the rates of which are based on passenger spending, this may have a material adverse effect on the Company's operating and financial results.

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Summary Financials

The financial summary below represents the consolidated operations of APAM (AUDm, FYE 30 June).

Income Statement	FY17	FY18	FY19	FY20	FY21
Revenue	927.2	986.5	1,019.6	795.8	325.3
EBITDA	685.1	719.2	753.8	520.3	159.1
Net Interest Expense	(168.0)	(169.3)	(171.2)	(185.9)	(165.1)
Depreciation & amortisation	154.0	167.7	175.7	249.1	270.0
Net income	291.7	309.0	383.1	98.4	60.0
Balance Sheet	FY17	FY18	FY19	FY20	FY21
Cash	25.4	18.5	23.3	132.7	27.7
Total assets	5,138.7	5,436.7	6,232.2	6,650.0	6,790.8
Total debt	3,479.0	3,743.0	4,424.0	4,999.6	5,096.6
Total equity	976.0	1,010.5	1,058.1	873.6	951.4
Cash Flow Statement	FY17	FY18	FY19	FY20	FY21
Cash flow from operating activities	443.3	377.8	446.3	340.9	8.1
Cash flow from investing activities	(209.5)	(281.4)	(648.4)	(455.7)	(346.0)
Cash flow from financing activities	(211.9)	(103.4)	206.9	224.3	232.9
Credit Metrics	FY17	FY18	FY19	FY20	FY21
Net Debt/EBITDA	5.0x	5.2x	5.8x	9.4x	31.9x
EBITDA/Net Interest Expense	4.1x	4.2x	4.4x	2.8x	1.0x

Source: S&P Capital IQ, Company, FIIG estimates.

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