FIIG | Factsheet

Sydney Airport Finance Company

29 March 2022

Disclaimer

This bond or financial product has not been reviewed or recommended by FIIG research nor should this document be considered as credit research. This Factsheet is only a summary document, designed to assist Investors identify the key elements of the company bond or financial product referred to in this document and should be read in conjunction with the other offering documentation available in relation to the financial products. This Factsheet is not complete information concerning any financial product and should not be relied on as such.

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

Issuer Outline

Sydney Airport Finance Company Pty Limited (SAFC) is a wholly owned financing subsidiary of Sydney Airport Corporation (SACL). SACL is the lessee and operator of Sydney's Kingsford Smith Airport (KSA), Australia's largest airport, under a long term lease granted by the Commonwealth Government. KSA underpins the strongest business risk profile of any of the Australian airports as a result of its diverse and reliable cash flows, resilient passenger numbers, quality management and shareholder support.

Sydney Airport shareholders recently approved the acquisition of the company by a consortium led by IFM Investors and Global Infrastructure Partners', which also includes a number of Australian super funds. Following completion of the acquisition (in early-February), Sydney Airport shares was delisted from the ASX. The acquisition valued Sydney Airport's equity at AUD23.6bn.

Key Financials (AUDm)

LTM (31 Dec)	2021
Revenue	620.6
EBITDA	329.6
Net Interest Expense	371.0
Total Assets	11,677.9
Cash	455.9
Adjusted Debt	7,935.1
Net Debt/EBITDA	22.7x
EBITDA/Interest Exp.	0.9x

Source: FIIG Securities, Company Reports

Summary Bond Details

ISIN	Issue Amount	Ranking	Coupon	Coupon Frequency	First Call	Maturity Date
AU3AB0000085	AUD300m	Senior Secured	CPI + 3.12%	Quarterly	N/A	20 November 2030
USQ8809VAH26	USD900m	Senior Secured	3.625%	Semi-Annual	28 January 2026[1]	28 April 2026

[1]Subject to redemption premium using a discount rate equal to the Treasury Rate + 30bp.

The contents of this document are copyright. Other than under the Copyright Act 1968 (Cth), no part of it may be reproduced, distributed or provided to a third party without FIIG's prior written permission other than to the recipient's accountants, tax advisors and lawyers for the purpose of the recipient obtaining advice prior to making any investment decision. FIIG asserts all of its intellectual property rights in relation to this document and reserves its rights to prosecute for breaches of those rights.

Sydney Airport Finance Company

Strengths

- Monopolistic asset: Sydney has Australia's largest airport and remains the key national hub both domestically and internationally. Sydney Airport is also the sole international airport in NSW and serves the country's largest population area. By their nature, the major Australian airports are monopolies or near monopolies as they dominate the aviation market in their respective states, with the added benefit of the lack of viable alternative transport connecting Australia's major cities. While there is some limited ability for substitution, the large domestic/international airport hubs in the capital cities remain a protected species and enjoy steady returns. As a monopoly asset, Sydney Airport's aeronautical related revenues are quasi-regulated which provides some cash flow surety and underpins the financial model.
- Revenue diversification: Sydney Airport enjoys significant revenue diversification, through a number of the revenue streams which are directly correlated to passenger numbers, such as retail, property & car rentals, and car parking. While non-aeronautical revenues are not regulated, they still display highly monopolistic traits. Retail rents, which contribute significantly to total revenues, are underpinned by fixed leases, while retail revenues operate under a 'ratchet' mechanism to increase returns in line with overall terminal performance.

  Like all airports around the world, streams of revenues have been harmed over the past two years because of the COVID-19 pandemic. Earnings, as well as profitability, has taken a significant hit during this period; however, we expect these metrics to recover over the next two-to-three years, in line with the rebound in passenger numbers back towards pre-COVID levels. Property rental revenues have remained quite resilient throughout the period.
- Airline customer diversity: Sydney Airport also gains diversification benefits through the service of 39 airlines, the largest number of any airport in Australia. Further, significant passenger numbers through Sydney Airport are serviced by government owned airlines, such as Singapore Airlines, Emirates, and Air New Zealand, which lessens the risk of a significant airline collapse. Notwithstanding this, the demise of Ansett has shown that Sydney Airport quickly replaces any lost passenger volumes caused by the departure of an airline, as demand for 'landing slots' remains high.
- Strong liquidity and debt profile: Its liquidity position is robust, which primarily reflects its holding of cash balances, solid operating cash flows and its staggered debt maturity profile which will enable the Company to support its credit ratings. Available liquidity at 31 December 2021 was AUD2.8bn, comprised of AUD0.5bn in available cash and AUD2.3bn of undrawn bank debt facilities. Current liquidity will be more than sufficient to meet the airport's cash demands, with only AUD750m of debt maturing during 2022. Sydney Airport maintains a well-diversified debt profile with debt maturities relatively well spread until 2034.
- Commitment to investment grade credit rating: SYD continues to reiterate its commitment to maintaining its solid investment grade credit rating with both S&P and Moody's, noting that both agencies currently have a negative outlook on SYD as a result of the uncertainty regarding the earnings rebound post pandemic.
- Acquisition of Sydney Airport via Schemes of Arrangement and Trust Scheme: On 3 February 2022, Sydney Airport announced the results of the Scheme Meetings in which Sydney Airport security holders had approved the Schemes pursuant to which a consortium of infrastructure investors would acquire 100% of the stapled securities in Sydney Airport. This followed the proposal put forward in September 2021, and as a result, the securities were delisted from the ASX on 10 March 2022. With the company now private, it has the benefit of being exposed to owners that are less focused on ongoing dividend yields which should enable the company more flexibility to reinvest earnings into new investments. We note that the new shareholder group has significant experience in the sector, with participations in airports in Australia, UK and US.

Risks

- Financial profile: Sydney Airport retains a relatively aggressive financial profile. However this is largely offset by: its position as the premier airport hub in Australia, its revenue diversification from a passenger type, carrier and revenue stream perspective and the regulated nature of its key aeronautical revenues. The AUD2bn equity raising in mid-2020 has enabled the company to end 2021 with an adjusted debt position that was about AUD1,1bn lower than its debt levels at the end of 2019 (i.e. pre pandemic).

The contents of this document are copyright. Other than under the Copyright Act 1968 (Cth), no part of it may be reproduced, distributed or provided to a third party without FIIG's prior written permission other than to the recipient's accountants, tax advisors and lawyers for the purpose of the recipient obtaining advice prior to making any investment decision. FIIG asserts all of its intellectual property rights in relation to this document and reserves its rights to prosecute for breaches of those rights.

FIIG | The fixed income experts

Sydney Airport Finance Company

- Western Sydney Airport: The proposed new airport in Western Sydney is viewed as a very low risk for holders of the 2030 notes. While the proposed new airport is scheduled to open around 2026 (or four years ahead of the bond maturity), it is expected that Sydney's second airport would have comparatively low passenger numbers in the early years (about 3 to 4 million, or about 10% of current passenger levels at KSA, based on pre-pandemic levels and projections). We believe that the Western Sydney airport will only gain a strong foothold from 2040 onward and even then, it is likely the two airports will be complementary, with Western Sydney Airport primarily servicing the Western Sydney population centres.
- Rebound post COVID-19: COVID-19 has resulted in the vast majority of international flights to/from Australia to be suspended. International and domestic passengers were down 95.5% and 74.0% respectively in 2021 when compared to the comparative period in 2019, which is prior to any impact of pandemic. The lack of international traffic affects Australian airports not only due to the loss of passengers (as revenue is charged to airlines on a per passenger basis), but also because international passengers are a lot more valuable to Australian airports (due to typically higher charges but also duty free shopping).

  Australia has recently reopened to all fully vaccinated visa holders, including tourists, business travellers, and other visitors, from 21 February 2022, which will allow Sydney Airport to recover revenue streams, earnings, cash flows, and credit metrics. Although it is very early days, signs are promising, with international and domestic traffic during February 2022 only 83% and 52% down respectively on February 2019 and 12 of the 21 international airlines that stopped flying to Sydney during the pandemic having restarted regular services.
- Exposure to general economic conditions: SYD'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 SYD'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.
- Currency exposure: Both the bond and the credit profile of Sydney Airport are adversely exposed to the risk a strengthening Australian dollar (AUD). Inbound international passenger growth (and associated tourism spend) would be expected to weak in a strengthening AUD environment. However, this would be partially offset by an expected increase in outbound international passengers taking advantage of a stronger AUD.

The contents of this document are copyright. Other than under the Copyright Act 1968 (Cth), no part of it may be reproduced, distributed or provided to a third party without FIIG's prior written permission other than to the recipient's accountants, tax advisors and lawyers for the purpose of the recipient obtaining advice prior to making any investment decision. FIIG asserts all of its intellectual property rights in relation to this document and reserves its rights to prosecute for breaches of those rights.

Sydney Airport Finance Company

The contents of this document are copyright. Other than under the Copyright Act 1968 (Cth), no part of it may be reproduced or distributed to a third party without FIIG's prior written permission other than to the recipient's accountants, tax advisors and lawyers for the purpose of the recipient obtaining advice prior to making any investment decision. FIIG asserts all of its intellectual property rights in relation to this document and reserves its rights to prosecute for breaches of those rights.

Certain statements contained in the information may be statements of future expectations and other forward-looking statements. These statements involve subjective judgement and analysis and may be based on third party sources and are subject to significant known and unknown uncertainties, risks and contingencies outside the control of the company which may cause actual results to vary materially from those expressed or implied by these forward looking statements. Forward-looking statements contained in the information regarding past trends or activities should not be taken as a representation that such trends or activities will continue in the future. You should not place undue reliance on forward-looking statements, which speak only as of the date of this report. Opinions expressed are present opinions only and are subject to change without further notice.

No representation or warranty is given as to the accuracy or completeness of the information contained herein. There is no obligation to update, modify or amend the information or to otherwise notify the recipient if information, opinion, projection, forward-looking statement, forecast or estimate set forth herein, changes or subsequently becomes inaccurate.

FIIG shall not have any liability, contingent or otherwise, to any user of the information or to third parties, or any responsibility whatsoever, for the correctness, quality, accuracy, timeliness, pricing, reliability, performance or completeness of the information. In no event will FIIG be liable for any special, indirect, incidental or consequential damages which may be incurred or experienced on account of the user using information even if it has been advised of the possibility of such damages.

FIIG provides general financial product advice only. As a result, this document, and any information or advice, has been provided by FIIG without taking account of your objectives, financial situation and needs. Because of this, you should, before acting on any advice from FIIG, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs. If this document, or any advice, relates to the acquisition, or possible acquisition, of a particular financial product, you should obtain a product disclosure statement relating to the product and consider the statement before making any decision about whether to acquire the product. Neither FIIG, nor any of its directors, authorised representatives, employees, or agents, makes any representation or warranty as to the reliability, accuracy, or completeness, of this document or any advice. Nor do they accept any liability or responsibility arising in any way (including negligence) for errors in, or omissions from, this document or advice. Any reference to credit ratings of companies, entities or financial products must only be relied upon by a 'wholesale client' as that term is defined in section 761G of the Corporations Act 2001 (Cth). FIIG strongly recommends that you seek independent accounting, financial, taxation, and legal advice, tailored to your specific objectives, financial situation or needs, prior to making any investment decision. FIIG does not make a market in the securities or products that may be referred to in this document. A copy of FIIG's current Financial Services Guide is available at www.fiig.com.au/fsg.

An investment in notes or corporate bonds should not be compared to a bank deposit. Notes and corporate bonds have a greater risk of loss of some or all of an investor's capital when compared to bank deposits. Past performance of any product described on any communication from FIIG is not a reliable indication of future performance. Forecasts contained in this document are predictive in character and based on assumptions such as a 2.5% p.a. assumed rate of inflation (unless otherwise stated), foreign exchange rates or forward interest rate curves generally available at the time and no reliance should be placed on the accuracy of any forecast information. The actual results may differ substantially from the forecasts and are subject to change without further notice. The information in this document is strictly confidential. If you are not the intended recipient of the information contained in this document, you may not disclose or use the information in any way. No liability is accepted for any unauthorised use of the information.

The contents of this document are copyright. Other than under the Copyright Act 1968 (Cth), no part of it may be reproduced, distributed or provided to a third party without FIIG's prior written permission other than to the recipient's accountants, tax advisors and lawyers for the purpose of the recipient obtaining advice prior to making any investment decision. FIIG asserts all of its intellectual property rights in relation to this document and reserves its rights to prosecute for breaches of those rights.