

# Novacare Solutions Partnership

24 June 2019

**This security is available for Retail and Wholesale Clients**

## 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.*

## Issuer Outline

The Novacare Solutions Partnership consists of Novacare Solutions Trust and Novacare Health Solutions Trust (Novacare). Novacare, together with Novacare Services Pty Ltd contracted with the NSW Department of Health (NSW Health) to design, build, refurbish and maintain various facilities at the Mater Misericordiae Hospital (Mater Hospital), in Newcastle. NSW Health's obligations under the PPP contract are guaranteed by the New South Wales State Government (State).

Novacare is obligated to provide facilities management for the duration of the concession until it expires in 2033. Novacare has subcontracted its hard facilities management including utilities management, building maintenance and lifecycle capital replacement to Honeywell. All soft facilities management responsibilities have been contracted to Medirest (part of the Fortune Global 500 Compass group, which employs more than 500,000 people in over 50 countries), this includes cleaning, catering and ground maintenance.

To finance the project, Novacare issued two tranches of senior secured bonds: AUD90.19m of nominal annuity floating rate bonds (fully repaid) and AUD85.85m of CPI indexed annuity bonds maturing in April 2033.

Security  
AUD86m CPI+3.26% Apr 2033

ISIN  
AU300NCRE023

Currency  
AUD

Type  
Senior secured  
inflation linked

Key Terms			
Coupon Type	CPI Linked	Amount Issued/Outstanding	AUD85.85m/AUD53.41m
Rate	3.26%	Minimum Amount	AUD10,000
Frequency	Quarterly	Denomination	AUD10,000
Domicile	Australia	AU Withholding Tax Exempt	Yes
Key Dates			
Issue Date	30 November 2005	Maturity Date	15 April 2033
Call Dates	n/a		

*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.*

## Novacare Solutions Partnership

### Strengths

- The project receives fixed availability payments, which are not related to the number of patients that use the hospital's clinical services, but are related to the quality and availability of the Mater Hospital and the services provided by Novacare. As such, cashflows are predictable, and are matched with the timing of debt payments. A portion of the total revenues are indexed to the consumer price index (CPI) mitigating inflation risk.
- Novacare's revenue stream comes from NSW Health and is guaranteed by the NSW State Government, whose credit profile is highly-rated. The strong ratings reflect the rating agencies' views of the State's ability and willingness to make the availability payments.
- The performance of the project to date has been stable, and it is expected to continue to perform well. Both Honeywell and Medirest are experienced facilities management providers and both contracts have parent company guarantees which partly mitigate the risk of increased costs following a subcontractor failure.
- Both Medirest and Honeywell have established histories of successful FM operations in Australia and are one of the leading FM providers in the Australian PPP sector. The obligations of the FM contractors are supported by guarantees from the respective highly rated parent companies, as well as performance bonds from each of the contractor equivalent to six months of the respective gross service payments. This mitigates Novacare's exposure to the risk of unrecoverable and/or increased costs which would be incurred if there is a need to replace any of the FM contractors.
- Offsetting the thin cashflow buffer due to the project's high leverage are a number of protections which exist for bondholders, including security over the project's assets, a six month debt service reserve account, and a cashflow waterfall ensuring periodic senior debt repayments are made in priority to equity distributions. A number of dividend distribution tests have also been incorporated into the project structure, including an equity lock up if the Debt Service Coverage Ratio (DSCR) falls below 1.10x, to ensure that dividends are not made to investors which may otherwise be required to service senior bond cashflows. These tests help preserve cash within the project and reduce the risk of default, and enable the sponsor to remediate the cause of reduced cashflows.
- The Security Trustee has the right to step into key subcontracts following a Novacare event of default, and cure the defaults if Novacare has failed to do so, including replacing the service contractors.
- High recovery expectations: The bondholders are senior secured creditors of Novacare and as such, Moody's recovery expectation for the secured bonds is high. In the unlikely event of project termination, Moody's expects a high recovery rate, based on the project's termination payment regime – a further source of credit support.

### Risks

- Social infrastructure PPP projects are highly geared, with senior gearing levels around the 90% level. These gearing levels are achieved through the predictability of the revenues servicing the bonds, the low operational risk in these projects and the strength of the government counterparties. As such, cash flow buffers and liquidity in social infrastructure projects are very thin.
- Novacare depends on NSW Health to make the availability payments in accordance with the project agreements.
- The project is subject to operational performance risk, with NSW Health able to make deductions to the availability payment. However, these performance deductions are passed through to the operations subcontractor in the event the subcontractor was responsible for the performance failure.
- If performance is excessively poor, PPP projects can be subject to a contractual default termination regime from NSW Health. However, with the project in the mature operational phase, the prospect of a default termination due to poor operating performance is unlikely. In addition, in the event the State becomes entitled to terminate the concession, it is required to give notice to senior creditors and grant them an opportunity to rectify any defaults prior to an actual termination. These step-in rights are critical in projects of these nature as they provide creditors an opportunity to ensure the continuation of the concession and its associated cash flows that ultimately support repayment of the debt.

---

*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.*

---

## Novacare Solutions Partnership

### Other risks

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

### Summary

The Novacare AUD 15 April 2033 senior secured indexed annuity bond suits an investor seeking inflation protection with exposure to an investment grade infrastructure asset and comfortable with a longer dated instrument.

---

*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.*

---

## Novacare Solutions Partnership

*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. FIIG's AFS Licence does not authorise it to give personal advice. 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](http://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, 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. FIIG is not licensed to provide foreign exchange hedging or deal in foreign exchange contracts services. 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.*

---