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Sydney Airport Finance Company

13 July 2021

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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. SACL is ultimately wholly owned by Sydney Airport Ltd, listed on the ASX.

Security
AUD300m 3.12% Nov 2030

ISIN
AU3AB0000085

Currency
AUD

Type
Senior secured

Key Financials (AUDm)

LTM (30 Dec)	2020
Revenue	804
EBITDA	627.8
Cash	1,076
Interest Expense	(432)
Debt	10,089
Net Debt/EBITDA	11.9x
Cash Flow Cover Ratio	1.8x

Source: FIIG Securities,, Company reports

Key Terms

Coupon Type	CPI Linked	Amount Issued/Outstanding	AUD300m/AUD300m
Rate	3.12%	Minimum Amount	AUD10,000
Frequency	Quarterly	Denomination	AUD1,000
Domicile	Australia	AU Withholding Tax Exempt	Yes

Key Dates

Issue Date	20 November 2006	Maturity Date	20 November 2030
Call Dates	n/a		

Sydney Airport Finance Company

Strengths

- Monopolistic asset: Sydney has Australia's largest airport and remains the key national hub both domestically and internationally. 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/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 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 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
- 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, 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
- Debt maturity profile and solid liquidity: Sydney Airport maintains a well-diversified debt profile with debt maturities ranging to 2030 and its liquidity position is robust, which primarily reflects its holding of cash balances, solid operating cash flows and its staggered debt maturity profile
- 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 stemming from the COVID-19 pandemic.
- Deferral of dividends: SYD suspended dividends in fiscal 2020 through to moderate the effect of COVID-19 on its financial performance. Significant uncertainty remains with respect to SYD's recovery in FY21 and as such, the Company has withheld distribution guidance. Ultimately, a recovery hinges on a successful COVID-19 vaccine rollout and the lifting of Australia's hard international border closure.

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
- 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). 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 and there is limited visibility as to when these could restart, noting the general consensus is that it won't be until early 2022 (at the earliest). 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).
- 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

Other risks

- Call risk: n/a
- Duration risk: The Sydney Airport AUD senior secured bonds mature in 2030 and carry a relatively long duration. Investors are exposed to a degree of interest rate risk on the bond. For example, a 100bp increase in yields would result in about a 7.84% fall in the capital price of the bond, all other things being equal.
- Interest deferral/cancellation: n/a
- Non-viability trigger: n/a

Summary

Sydney Airport 3.12% 20 November 2030 AUD senior secured capital indexed bond suits investors seeking inflation protection via an investment grade domestic credit.

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