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Transurban Queensland Finance Pty Ltd

4 May 2022

Sector: Infrastructure
Sub-sector: Toll Roads
Country: Australia
Ownership: Private

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Issuer Outline

Transurban Queensland Finance Pty Ltd (TQF, Issuer) is the financing vehicle for Transurban Queensland Group (TQG, Group). TQG is the operator of six toll roads in Queensland which it operates under multiple concessions which have a weighted average life of 35 years and include toll price uplift mechanisms. TQG is majority owned by its ultimate parent company, ASX-listed Transurban Group (62.5%), with the remaining ownership split between Australian Super (25%) and Tawreed Investments Limited (12.5%), part of the Abu Dhabi sovereign wealth fund.

TQG owns an 82km integrated network of toll roads, bridges and tunnels which forms a core component of the road network in Brisbane. All toll roads are well established, having been in operation for five or more years and cater for essential commuting and freight traffic. The toll roads include the Gateway Motorway, Logan Motorway, Airportlink M7 Tunnel, Clem7 Tunnel, Legacy Way, and Go Between Bridge.

Key Financials (AUDm)

LTM (30 Jun)	2021
Revenue	684.5
EBITDA	539.7
Net Interest Expense	291.8
Total Assets	9,111.3
Cash	362.0
Total Debt	5,100.5
Net Debt/EBITDA	9.5x
EBITDA/Interest Exp.	1.8x

Source: FIIG Securities, S&P Capital IQ

Summary Bond Details

ISIN	Issue Amount	Ranking	Coupon	Coupon Frequency	First Call	Maturity Date
AU3CB0279958	AUD300m	Senior Secured	3.25%	Semi-Annual	7 May 2031	5 August 2031
AU3FN0025987	AUD200m	Senior Secured	3mBBSW + 2.05%	Semi-Annual	17 Sept 2024	16 December 2024

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Strengths

- Essential nature of assets and monopolistic position: Each of the toll roads within the Queensland Motorways Group is fully operational. Toll rates are relatively low across the network compared to peers in Australia, and penetration of public transport across the Brisbane area is also relatively low which supports traffic volumes and the company's large commuter traffic capture rate. The company has a very strong competitive and market position, given its now effective monopoly position in the Brisbane toll road market (all toll roads in Brisbane are operated by TQG).

  Toll roads are a vital part of various supply chains and as such, are in continuous use by many vehicles. Heavy vehicle traffic (over 4.5 tonnes including trucks and buses) comprises between 15%-25% of TQF's roads. This segment of traffic is typically quite inelastic, and will continue to benefit TQF's earnings.

- Concession structure: TQG is the operator of six toll roads in Queensland which it operates under multiple concessions which have a weighted average life of 35 years and include toll price uplift mechanisms. Long-term concession agreements are viewed as a credit positive as they provide transparency and a clear toll pricing regime for TQF's toll-road assets, including toll increases which would support an appropriate return on investment. The expiry of each of the toll road concession agreements ends between 2051 and 2065, meaning each of the toll roads is expected to generate revenues well beyond the maturity date of the bonds which mitigates refinancing risk.

- Expected support from Parent: The credit profile of TQG is enhanced by Transurban Group's majority ownership. TQG is strategically important to Transurban Group, given that the acquisition of Queensland Motorways Group has consolidated its position as the dominant toll road operator in Australia. Alongside Transurban Group, are two major institutional shareholders, including Australia's largest industry superannuation fund Australian Super.

- Bond structure and compliance: The bonds are secured against all present and future assets and undertakings of the obligor group, as well as the shares in each of the holding companies and investment trust.

  TQF's debt instruments are subject to several covenants. In particular, TQF must maintain its senior interest coverage ratio above 1.20x, and equity distributions are subject to a cashflow ratio lock-up test, whereby cash cannot be distributed to equity owners if the interest cover ratio is below 1.40x. In addition, the bonds benefit from additional coupon step up provisions in the event of downgrades. There is also an additional debt covenant test whereby TQF can only raise new debt if the senior interest coverage ratio remains above 2x post issuance.

- Potential expansion due to city growth: TQG could benefit from the increased connectivity and expansion of the Brisbane network over the short to medium term, and a population growth increase in the greater Brisbane area which could increase traffic usage. This has been highlighted throughout the COVID-19 pandemic, as Brisbane experienced the highest population growth in Australia (the Australian Bureau of Statistics reported a 0.9% growth in 2020-21) as people sought more affordable living (mean price of AUD750k in QLD vs AUD1,207k in NSW and AUD956k in VIC) and liveability. TQG could also benefit from potential broader network developments relating to the hosting by Brisbane of the 2032 Olympic Games.

Risks

- High leverage: TQ is highly leveraged, with AUD5.1n of debt outstanding as at June 2021. TQ's debt level rose about AUD230m across FY20 and FY21, primarily to fund expansion work across the network. Despite the recovery of traffic on TQ's roads, it is expected that the company's leverage will remain high over the next 18 months.

- Exposure to broader economic conditions: Traffic growth is generally expected to grow in line with general economic growth, and so it would be impacted by a downturn in Brisbane/Queensland economic conditions. It can also be impacted by increased penetration from alternative public transport options. Having said this, the Brisbane toll road rates are considered relatively low when compared to Australian peers. While TQ was heavily impacted during the COVID-19 pandemic and associated lockdowns, traffic performance has returned to pre-COVID levels.

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