FIIG | Factsheet

Australian Gas Networks Ltd

3 June 2022

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Issuer Outline

Australian Gas Networks Limited (AGN) owns several natural gas distribution networks throughout Australia. The networks transport gas to domestic, commercial and industrial consumers via retailers, with Australia's three largest energy retailers taking over 90% of the gas volumes.

AGN's network consists of over 25,000 kilometres of mains pipeline and 1,120 kilometres of transmission pipeline servicing over 1.3 million customers across Victoria, South Australia, Queensland, and New South Wales. AGN currently outsources maintenance operations to the APA group under a long term operating agreement.

AGN is wholly owned by a consortium led by CK Infrastructure Holdings Ltd (CKI), which holds 45% of equity. Other partners include Power Assets Holdings Ltd (PAH) and by CK Hutchinson Holdings Ltd, which own 27.5% each. CKI and PAH (collectively the CKI Group), together co-invest (CKI also owns 38% of PAH) and control AGN in terms of its business and financial strategies and direction.

Sector: Infrastructure
Sub-sector: Gas distribution
Country: Australia
Ownership: Private

Key Financials (AUDm)

LTM (31 Dec)	2021
Revenue	665.1
EBITDA	516.2
Net Interest Expense	116.9
Total Assets	5,160.2
Cash	6.0
Adj. Debt	3,049.4
Net Debt/EBITDA	5.9x
EBITDA/Net Interest Exp.	4.4x

Source: S&P Capital IQ

Summary Bond Details

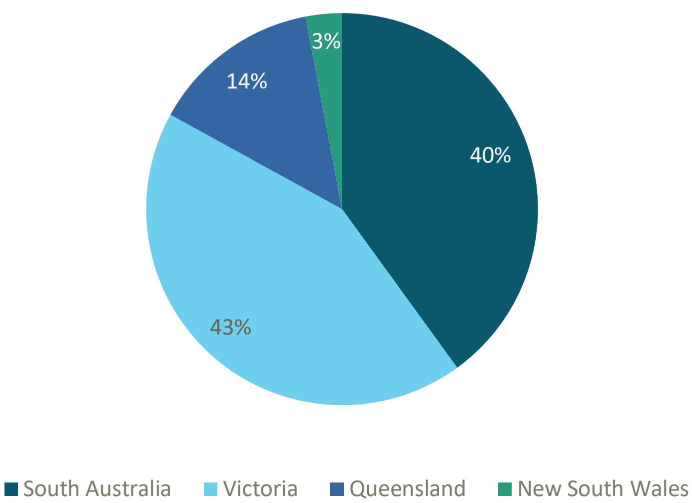
ISIN	Issue Amount	Ranking	Coupon	Coupon Frequency	First Call	Maturity Date
AU300ENL0039	AUD220m	Senior Secured	CPI + 3.04%	Quarterly	N/A	20 August 2025
AU3CB0279883	AUD200m	Senior Secured	2.82%	Semi-Annual	29 January 2031	28 April 2031

Australian Gas Networks Ltd

Strengths

- Monopoly operations: The Australian gas industry was deregulated in the late 1990s, meaning that various retail providers could begin to compete for customers within the market. By their nature, AGN's distribution networks are monopoly assets, because it remains more efficient to have a single network provider than to have multiple providers offering the same service. AGN’s networks remain regulated, so we expect there to be little chance of substitution or competitive pressure in the medium term.
- Predictable regulatory framework: AGN benefits from operating under a regulatory regime operated by the Australian Energy Regulator (AER) that is predictable and transparent. The company's Victorian and South Australian networks operate under five-year regulatory periods that are currently set until July 2023 and July 2026, respectively. This provides increased visibility over these years which means less volatility in its financial metrics. This is important as the vast majority of AGN's revenues (approximately 92%) come from its regulated networks business which includes annual CPI adjustments. It also underpins AGN's ability to meet its debt obligations.
- Diversified asset footprint: AGN's presence across various states in Australia supports its business profile. It primarily operates in the States of Victoria, South Australia, Queensland, and New South Wales, and does own and operate a transmission pipeline and distribution network in the Northern Territory. Among these, the SA and VIC operations form the majority of the business, each representing proportionate EBITDA generally in the range of 40%-45%.

  Figure 1: EBITDA spread across state operations



Source: S&P Capital

- Strong balance sheet: AGN has significantly improved its financial position as a result of a number of equity based initiatives undertaken in recent years which have the effect of both improving the balance sheet of the company and increasing the level of protection to bond holders. AGN has continued to manage its refinancing exposure well and in advance of maturities. Recent bond issues have removed immediate refinance risk and lengthened the average duration of AGN's debt to around nine years
- Consortium ownership structure: AGN is now majority owned by the large Hong Kong conglomerate CKI, which in itself has an investment grade rating from S&P with a stable outlook. CKI has a history of maintaining investment grade ratings on its investments in Australian regulated assets. In addition, CKI has ample sources of capital of its own which provides an additional funding source for AGN if needed.

Australian Gas Networks Ltd

- Use of gas in net-zero transition: Natural gas will play a key role in Australia in the transition to net-zero emissions by 2050. The commodity has lower carbon emissions intensity compared to coal, which most of Australia's electricity for hot water and heating is generated from. Piped gas plays an important role in Australian energy markets both as a transition fuel, and to firm-up the intermittency of renewable generation. AGN's customer connections have for several years grown by around 2% per annum, signifying continued stable demand.

Risks

- Falling gas volumes: AGN could face some revenue decline if actual volumes fall short of forecasts. Regulated gas distribution revenues are determined under a price cap, and as such are potentially exposed to weather variations and structural demand trends. These would largely be the result of milder than expected winters in Victoria and South Australia. We note that volume demand for AGN's networks has historically been resilient to changing economic conditions. This resilience reflects its predominantly residential customer base, which is extremely diverse throughout Australia, and the essential nature of its service to gas users. This is further mitigated by ESG considerations.
- Impact of regulation resets: Similar to other regulated businesses in Australia, AGN is exposed to risks arising from changes in its regulated revenue parameters at each regulatory reset, which could reduce cash flows and revenues as forecasts of gas demand are adjusted. These resets occur every five years and involve a process of consultation with the Australian Energy Regulator (AER), which is responsible for overseeing regulated energy businesses in eastern and southern Australia. This process can cause some variability between regulatory periods due to changes in key revenue parameters, but once tariffs are set, there is cash flow visibility for the next five years. The next resets are scheduled for July 2023 in Victoria and June 2026 for South Australia and Queensland, however the staggered regulatory resets are positive because they provide the company with sufficient time to adjust and accommodate the effects of a lower return path.

Australian Gas Networks Ltd

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