FIIG | Factsheet

Airservices Australia

10 November 2022

Sector: Infrastructure
Sub-sector: Air Services
Country: Australia
Ownership: Government

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Issuer Outline

Airservices Australia (AsA) is the monopoly provider of air traffic control and related services to civil aircraft operators in Australia. Its services cover airspace management, air traffic control, traffic and flight information, navigation services, as well as aviation rescue and firefighting. AsA covers an area representing 51.7 million square kilometres, or about 11% of the world's airspace.

The company was established under the Air Services Act 1995 and is a designated corporate Commonwealth entity under the Public Governance, Performance and Accountability (PGPA) Act 2013. As a monopolistic provider of air traffic control services, AsA is required to inform the Australian Competition and Consumer Commission of any tariff changes.

AsA is 100% owned by the Commonwealth Government and operates under the supervision of the Minister for Infrastructure, Transport and Regional Development.

Key Financials (AUDm)

LTM (30 Jun)	2022
Revenue	593.0
EBITDA	(340.3)
Interest Expense	(29.5)
Total Assets	2,450.0
Cash	257.8
Total Debt	1,107.6
Net Debt / EBITDA	N.M
EBITDA / Net Int. Exp.	N.M

N.M: Not Meaningful
Source: FIIG Securities, Company, S&P Capital

Summary Bond Details

ISIN	Issue Amount	Ranking	Coupon	Coupon Frequency	First Call[1]	Maturity Date
AU3CB0237444	AUD 200m	Senior Unsecured	3.25%	Semi-Annual	15 Dec 2025	15 May 2026
AU3CB0294072	AUD 300m	Senior Unsecured	5.40%	Semi-Annual	15 Aug 2028	15 Nov 2028
AU3CB0272292	AUD 275m	Senior Unsecured	2.20%	Semi-Annual	N/A	15 May 2030
AU3CB0294080	AUD 200m	Senior Unsecured	6.00%	Semi-Annual	15 Aug 2032	15 Nov 2032

[1]Excludes potential terms that would allow the issuer to redeem prior to the maturity date through a make-whole call.

Airservices Australia

Strengths

- Legislated monopoly: AsA operates as a monopoly, being the sole provider of air traffic related services across Australia and its controlled airspace, with a long-term essential nature given the importance of aircraft management and safety. It manages 11% of the world's total airspace (to the upper airspace for Nauru and the Solomon Islands) with a focus on air traffic control, traffic and flight information, navigation, and rescue and firefighting services. It operates air traffic towers across the vast majority of Australian airports (29 locations including all first-tier airports) with aviation rescue firefighting stations at 27 sites.
- Stable earnings and limited regulation: The current light-handed regulatory regime is a credit strength for AsA, because it allows it to negotiate tariffs for terminal navigation, enroute charges (aircraft weight and distance travelled), and firefighting services without external regulatory intervention. Such a framework therefore promotes commercial outcomes and minimises the likelihood of unforeseen step changes in AsA's revenues, particularly as pricing oversight is still performed by the ACCC. AsA's earnings are relatively steady and non-volatile given its regulatory framework, which allows it to recover its operating costs, depreciation, and earn a rate of return. It should be noted though that AsA's revenue (and earnings) were materially impacted during the pandemic given the direct correlation between revenue and aircraft movements / passenger volumes, although this was compensated by a large operating grant from the Commonwealth government in FY21.
- Benefits from OneSKY upgrade: The current OneSKY programme aims to completely overhaul AsA's air traffic systems and integrate it with similar systems used by the Department of Defence for military aircrafts. The purpose of the technological system upgrades is to harmonise civil and military air traffic management (combining the separate systems), therefore improving productivity and the resilience for unplanned events. AsA's share of the total project is expected to be about AUD1.3bn and is expected to be completed during FY26.
- Full government ownership: AsA is 100% owned by the Commonwealth Government. While it is not explicitly guaranteed by the government, the critical nature of the services it provides and the very strong oversight from the government (including periodic reporting to the relevant minister), means that AsA is generally viewed as an arm of government, with the expectation that the company would receive both ongoing and extraordinary support in the event of financial stress. This support also lifts AsA's standalone credit profile to the Australian government level. This was evident throughout the COVID-19 pandemic, where it received approximately AUD1.38bn over 2020 and 2021 plus a further AUD495m to support AsA's capital expenditure programme.

Risks

- Exposure to traffic volume risk: AsA's financial performance is mainly dependent on aircraft traffic and passenger volumes, which are exposed to the general economic conditions existing in Australia and internationally. A deterioration in general economic conditions is likely to have an impact on the propensity of passengers to fly, which in turn will reduce AsA's core revenue streams (the pandemic caused an approximately 70% reduction in aeronautical revenue from 2019 levels). Its essential standing and expectation of government support offset these risks.
- PFAS contamination: PFAS was historically the preferred substance for AsA's firefighting services (and common across all airports and defence bases) since it is heat, oil and water resistant, however it can be damaging to the environment. Its long-term use has caused severe land contamination at a number of locations. While AsA has transitioned away from PFAS foams at its sites (using PFAS-free foams at civilian airports since 2010), land decontamination is likely to require significant remediation costs and AsA is also exposed to potential legal claims, noting both Brisbane Airport and Launceston Airport have started proceedings against the company.
- Integration / execution risks: While we view the OneSKY upgrade as positive, projects of this nature are typically exposed to integration / execution risks whereby the expected cost savings (from a larger scale operation) are not achieved, or the costs estimated to execute the upgrade are materially higher than expected. The complexity of this project is heightened by the fact it is undertaken jointly with the Department of Defence, with both parties potentially having conflicting

requirements which could result in delays or cost increases. While these risks are relevant in the short term, we believe the benefit of scale will outweigh those risks in the medium term (once implemented).

- Aging workforce: AsA has over 3,500 employees working across a range of sectors including infrastructure and engineering, information and communications technology (in air traffic control towers), and safety. However, the majority of employees have worked in the industry for a long time (most are ex-defence personnel and ~45% are over the age of 45) and there is a low influx of new entrants. Wage expenses may have to increase to entice individuals to work in this area.
- Fixed costs: AsA has a high level of fixed costs which limits it financial flexibility and in circumstances, its profitability (especially if revenues are weaker than expected). AsA's spends vast amounts each year on consultants and contractors, IT and telecommunication, and infrastructure, all of which are essential to perform its services.

Financials

The financial summary below represents the consolidated operations of Airservices Australia (AUD'000, 12-months ended).

Income Statement	Jun 2018	Jun 2019	Jun 2020	Jun 2021	Jun 2022
Airways revenue	1,080,897	1,093,958	745,743	326,952	550,791
Government grants	-	-	250,000	1,131,833	-
Total revenue	1,106,817	1,119,432	1,018,565	1,480,423	592,999
EBITDA	288,846	266,118	131,401	632,415	(340,318)
EBIT	125,411	107,043	(21,533)	487,411	(469,949)
Interest expense	(30,979)	(32,601)	(34,685)	(28,721)	(29,531)
Net profit / (loss) after tax	74,494	62,407	(24,969)	321,176	(347,562)
Balance Sheet	Jun 2018	Jun 2019*	Jun 2020	Jun 2021	Jun 2022
Cash and cash equivalents	198,795	381,706	517,808	791,556	257,837
Property, plant and equipment	969,124	911,987	957,855	882,750	814,903
Assets under construction	219,061	259,903	501,036	624,176	787,324
Total assets	1,910,143	2,039,418	2,312,254	2,686,442	2,449,981
Borrowings	681,314	677,343	1,151,192	1,057,100	1,107,594
Total liabilities	1,198,956	1,289,696	1,815,548	1,826,070	1,858,087
Total equity	711,187	749,722	496,706	860,372	591,894
Credit Metrics	Jun 2018	Jun 2019*	Jun 2020	Jun 2021	Jun 2022
Net debt / EBITDA	2.0x	1.8x	5.8x	0.6x	N.M.
EBITDA Interest Cover	8.9x	7.7x	4.6x	21.4x	N.M.
Gearing	45.3%	38.3%	60.3%	30.8%	62.0%

Source: Company, S&P Global Ratings

Airservices Australia

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