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Brisbane Airport Corporation

16 November 2021

Sector: Infrastructure
Sub-sector: Airports
Country: Australia
Ownership: Private

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Issuer Outline

Brisbane Airport Corp. (BrisAir, Company) which is ultimately wholly owned by BAC Holdings Ltd. (BACH), operates Brisbane Airport in Queensland. BACH is owned by a consortium of superannuation and infrastructure funds, including Amsterdam Airport Schiphol, which holds a 19.6% stake.

In 1997, BrisAir entered into a 50-year lease from the Commonwealth Government, with an option to extend for a further 49 years, covering all the assets, infrastructure and land of Brisbane's main airport. While the Commonwealth Government retains ultimate ownership, BrisAir has the right for up to 99 years to operate existing assets, develop new infrastructure and earn revenue from those assets (e.g. usage charges, rent payments, etc).

In the twelve months to 30 June 2021, approximately 7.8 million passengers travelled through the airport, down from 23.6 million in 2019, reflecting the negative impact of the COVID-19 pandemic and border closures.

Key Financials (AUDm)

LTM (30 Jun)	2021
Revenue	447.2
EBITDA	219.0
Net Interest Expense	138.7
Total Assets	6,716.1
Debt	4,046.6
Cash	74.1
Net Debt/EBITDA	18.1x
EBITDA/Interest Expense	1.6x

Source: S&P Capital IQ, Company, FIIG estimates

Summary Bond Details

ISIN	Issue Amount	Ranking	Coupon	Coupon Frequency	First Call[1]	Maturity Date
AU3CB0272854	AUD 600m	Senior secured	4.50%	Semi	1 Oct 2030	30 Dec 2030

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

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Strengths

- Monopolistic asset: 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. We note the relative proximity of the Gold Coast Airport which, so far, has complemented Brisbane's offering rather than competed against it.
- Domestic market factors: BrisAir is Australia's most domestically connected airport, with 51 Australian ports on its network. While competing modes of transport are generally a risk for airports, this is not viewed as a realistic threat in Australia given the large distances between major population centres.
- Revenue diversification: BrisAir benefits from significant revenue diversification, through a number of the revenue streams which are directly correlated to passenger numbers and while non-aeronautical revenues are not regulated, they still display highly monopolistic traits. During FY21, aeronautical revenues accounted for only 25% of BrisAir's total revenues with landside transport contributing 17% and retail and investment properties attributing 12% and 24% of revenues, respectively. In FY19 (the last year pre pandemic), the contributions from the above segments were 42%, 18%, 12% and 13% respectively.
- Significant capacity: BrisAir is about to open its second runway, a construction project that started in 2012 to address capacity constraints. Combined with good capacity at its terminals, BrisAir has sufficient headroom within its infrastructure to absorb any near-term volume increase (beyond the current pandemic), thereby reducing the need for capital investment.
- Debt maturity profile and solid liquidity: BrisAir maintains a well-diversified debt profile with debt maturities ranging to 2037 and its liquidity position is robust, which primarily reflects its holding of cash balances, solid operating cash flows and its staggered debt maturity profile. To minimise refinancing risk, BrisAir ensures that no more than 20% of total debt matures within a twelve month period and no more than 50% over a 36 month period.
- Deferral of dividends: BrisAir has suspended dividends in fiscal 2020 through to 2022 which will help to moderate the effect of COVID-19 on its financial performance. Rating agencies anticipate that management will carefully evaluate the recommencement of dividends in the outer years.

Risks

- Ratings pressure: S&P recently affirmed BrisAir's investment grade rating but changed the outlook to Negative as a result of the uncertainty around performance stemming from the global COVID-19 pandemic. However, rating agencies appear to be looking through the near term credit weaknesses and instead focusing on FY22 for the rating. To illustrate, S&P's key metric, its FFO/Debt ratio, is expected to drop below 7% in FY20 and subsequently below 4% in FY21. The threshold to maintain its current rating is FFO/Debt above 9% and given current circumstances, it is likely won't be achieved until FY22. S&P also noted it believes a return to pre-COVID-19 passenger levels is unlikely to be before 2024.
- Airline customer concentration: BrisAir's business and results of operations could be materially adversely affected if it does not continue to generate comparable aeronautical revenues from our key airline customers. We note that the exposure to Australian airlines is broadly consistent with the market share of these airlines domestically and failure of one airline would likely result in a transfer of the majority of these passenger movements to the remaining airlines, given the criticality of air transport, in particular domestically and regionally.
- Exposure to general economic conditions: BrisAir'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 BrisAir'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.

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- **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 return to pre pandemic level, 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).

Summary Financials

The financial summary below represents the consolidated operations of BAC Holdings Ltd (AUDm, FYE 30 June).

Income Statement	FY17	FY18	FY19	FY20	FY21
Revenue	679.7	776.5	840.5	741.1	447.2
EBITDA	504.1	571.7	618.3	452.7	219.0
Net Interest Expense	(114.7)	(111.7)	(118.7)	(123.7)	(138.7)
Depreciation & amortisation	(108.7)	(116.6)	(126.2)	(133.8)	(170.5)
Net income	180.5	230.1	275.8	122.5	5.4
Balance Sheet	FY17	FY18	FY19	FY20	FY21
Cash	94.7	113.2	166.0	1,185.0	74.1
Total assets	5,552.2	5,909.7	6,541.4	7,975.1	6,716.1
Total debt	2,947.9	3,322.1	3,878.8	5,484.0	4,046.6
Total equity	1,501.1	1,548.8	1,548.7	1,483.0	1,522.7
Cash Flow Statement	FY17	FY18	FY19	FY20	FY21
Cash flow from operating activities	318.7	339.8	322.9	129.3	126.5
Cash flow from investing activities	(239.7)	(351.0)	(402.0)	(350.0)	(57.1)
Cash flow from financing activities	(17.0)	29.7	131.9	1,239.8	(1,180.2)
Credit Metrics	FY17	FY18	FY19	FY20	FY21
Net Debt/EBITDA	5.7x	5.6x	6.0x	9.5x	18.1x
EBITDA/Net Interest Expense	4.4x	5.1x	5.2x	3.7x	1.6x

Source: S&P Capital IQ, Company, FIIG estimates.

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