Pacific Infrastructure Handbook

Balancing risks for sustainable growth

S&P Global
Ratings

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This report does not constitute a rating action

Contents

Key Takeaways

Key Themes:

- The current high inflation is broadly beneficial for infrastructure through regulated and contractual price increases.
- Yet, inflation-linked cost increases, softer demand, labor shortages and supply-chain issues are key risks to be managed through flexible capex plans and/ or provisions under project contracts.
- Disciplined debt funding of capex (for growth and energy transition) should reduce risk.
- Flexible shareholder returns and proactive risk management should reduce risk.
- High interest rate hedging and timely debt refinancing will support at least an adequate liquidity in the sector.

Rating Outlook:

- Stable outlooks as the majority of entities have adequate headroom against our downside thresholds.
- Weaker cost controls, higher-than-expected debt-funded capex and volatile debt margins for some sectors (e.g. coal-exposed sectors) can bring risk to the rating headroom.
- Adherence to financial policies and shareholder support are key through the ongoing large-capex phase.

Sector Watch Points Over The Next Two To Three Years

Airports:

- Traffic (will it plateau at current levels?); and how capex and shareholder returns are tailored.

Ports:

- Container volumes and the ability to increase tariffs if soft volumes are extended; a potential jump in shareholder returns.

Rail:

- Trends in competition, contract pricing and renewals; and whether the operators can maintain margins.

Regulated utilities:

- Upcoming resets, further gas reforms if any, energy transition-related network projects, M&As.

Toll roads:

- Whether subdued traffic will persist, commitments to new projects, and the outcome of New South Wales toll reforms.

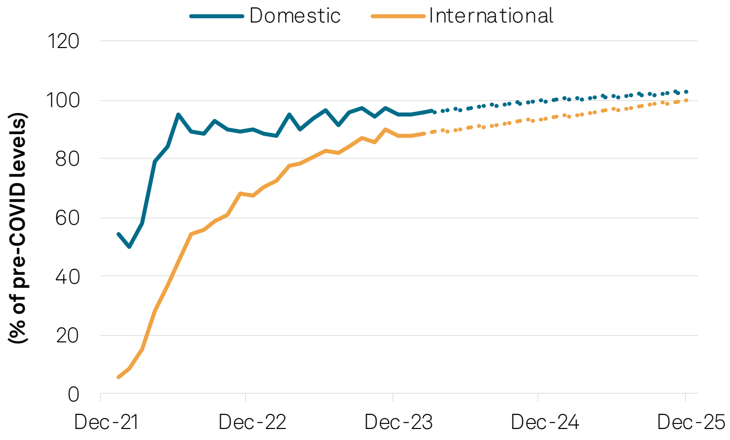
Unregulated power:

- Investment in renewables, capital funding structure (JVs, project financing), M&As.

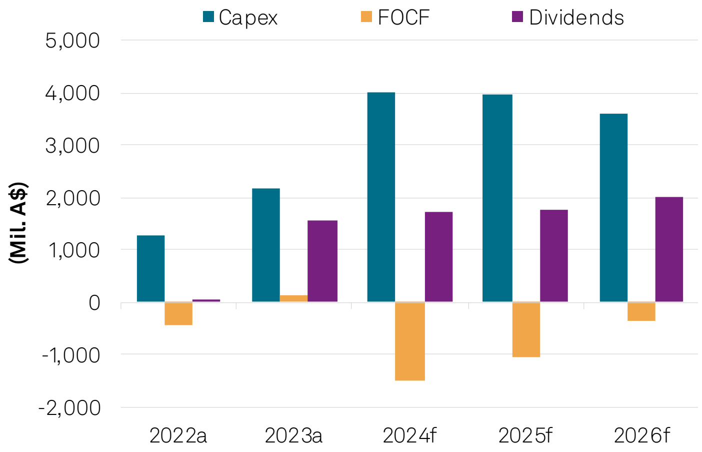
Airports: Back To Pre-Pandemic Levels By 2025

- International and domestic traffic to hit pre-COVID levels by calendar ends 2025 and 2024, respectively. Some airports are at or above pre-pandemic levels already, driven by demand from the commodities sector.
- Factors that may moderate recovery include lagging business travel, cost of living pressures, airline fares, and the geopolitical situation.
- High capex is resuming at most rated airports supported by pricing agreements. Flexibility to defer projects, mainly non-aeronautical.
- Discreet debt-funded capex and shareholder returns should maintain rating headroom.

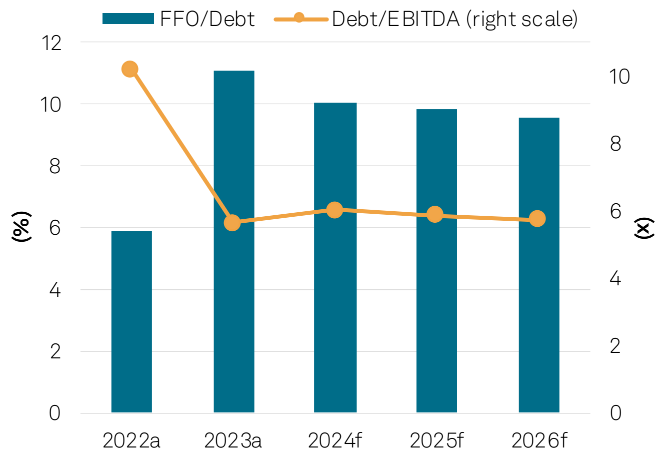
Passenger recovery in line with expectations



Flexibility in forecast dividend provide buffer



Leverage forecast within rating profile



Above charts are for rated airports. Capex--Capital expenditure. FFO--Funds from operations. FOCF--Free operating cash flow after capex and before dividends. Sources: Company data, S&P Global Ratings.

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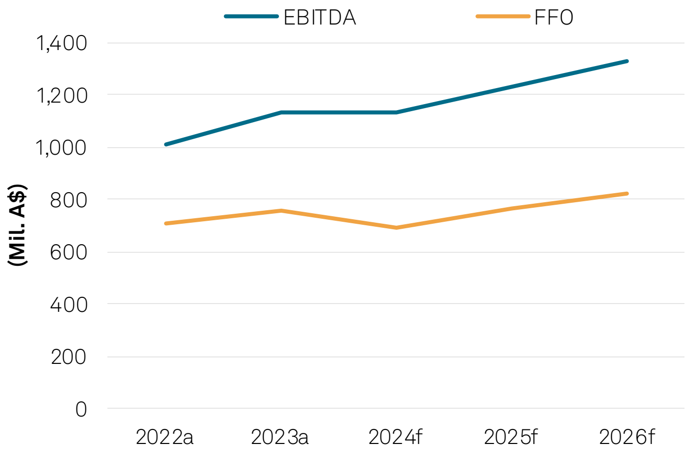
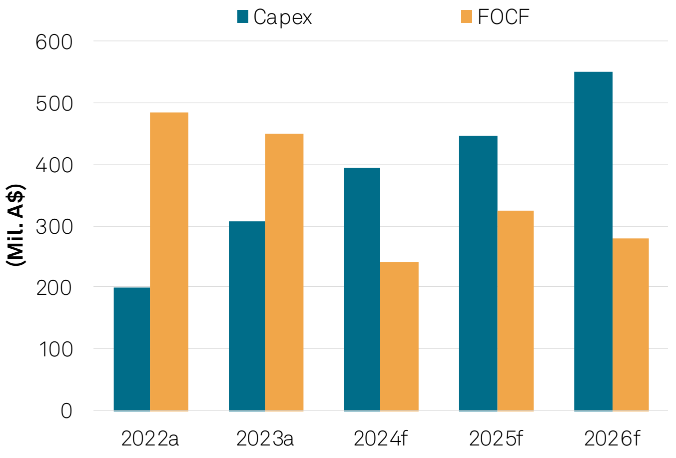
Ports: Moderation In Container Growth, Recovery From 2026

- Moderating domestic consumer demand will drag on container volumes in 2024 and 2025.
- Australian landlord ports : Inflation-linked tariff increases and stable property demand will support earnings and metrics.
- New Zealand operating ports may face volatility in log and agriculture exports; financial metrics are strong to deal with this.
- Moderate and flexible capex profile given sufficient capacity. Dividend flexibility to protect credit profile.

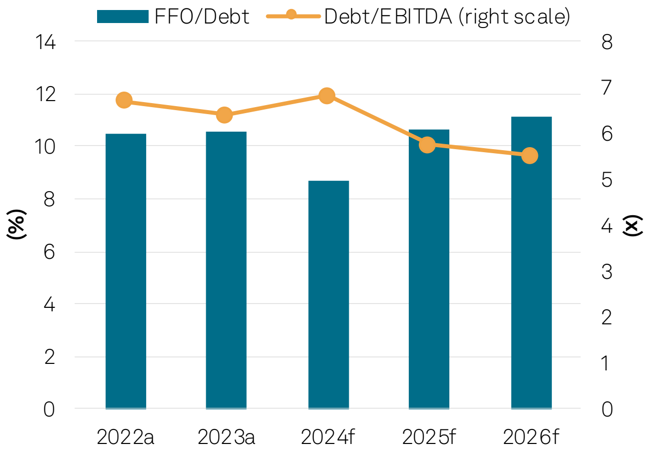
EBITDA uptick in 2026 with tariff and volumes



Flexibility in capex subject to trade volumes



Steady leverage, function of equity returns

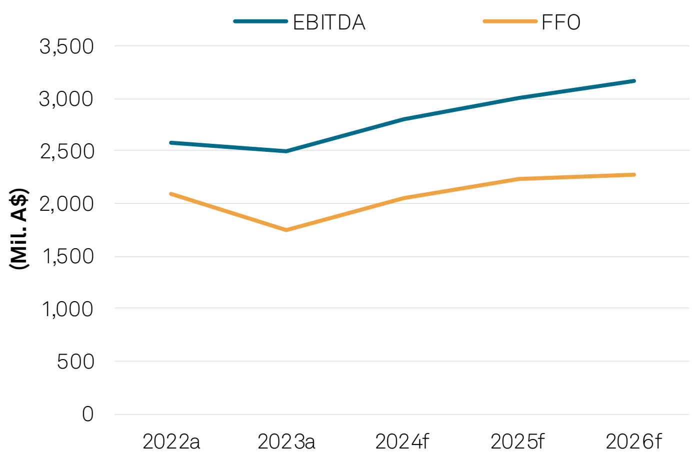


FFO--Funds from operations. FOCF--Free operating cash flow after capex and before dividends. Sources: Company data, S&P Global Ratings.

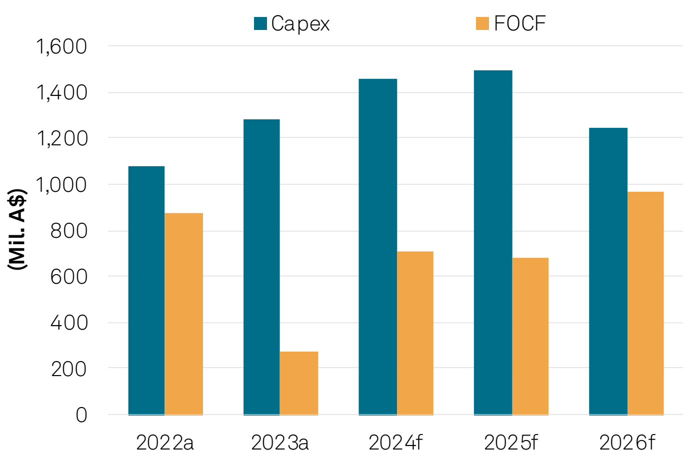
Rail: Increased Competition And Slowing Intermodal Demand

- Rated entities continue to benefit from shadow regulations on below-rail services, and largely take-or-pay for above-rail segments.
- High competition and slowdown in consumer demand will temper intermodal growth. Coal volumes to be stable on Asia demand, absent any adverse weather. Bulk will benefit from organic growth in Western Australia with exception of weak grain.
- Contract renewals, pricing and managing costs to remain key credit driver.
- Growth capex required to keep competitive position; although ability to flex timing of spend to manage metrics.

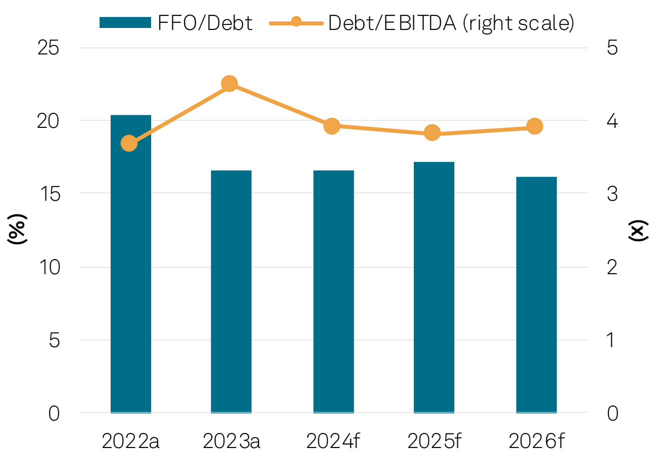
EBITDA benefits from steady tariff and volume growth



Capex to remain elevated to support new contracts



Leverage managed to keep rating headroom



Includes rated below rail and above rail haulage entities in Australia. FFO--Funds from operations. FOCF--Free operating cash flow after capex and before dividends. Sources: Company data, S&P Global Ratings.

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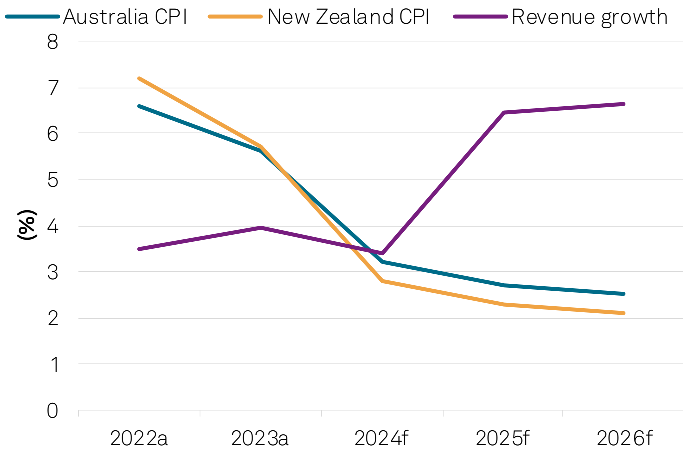
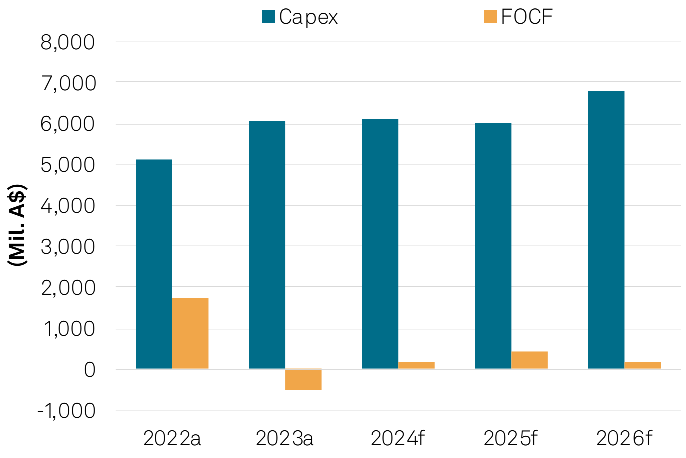
Regulated Utilities: Higher Inflation To Improve Returns

- Inflation-indexed increase in revenue (and RAB) should offset higher opex and capex, and support margins for rated entities.
- Cash flow risks are reduced by keeping operations within the regulated opex and capex allowances.
- Alignment of debt maturity or swap profile with regulatory reset provides protection against higher interest rates.
- Large transmission capex (in Australia) for energy transition will need shareholder support, if undertaken by rated entities.

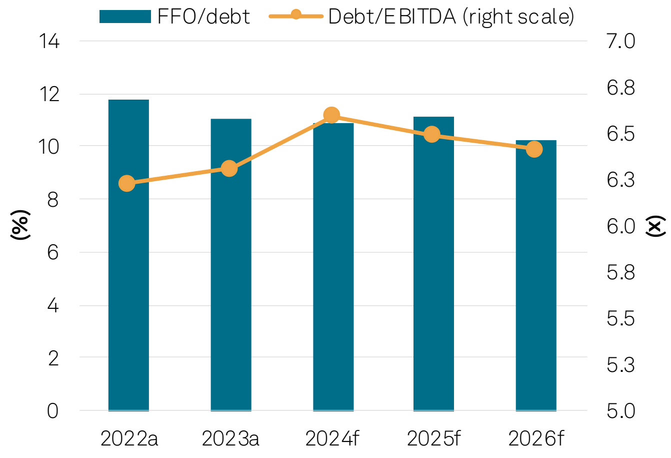
Higher CPI and resets will drive revenue profile



Positive FOCF provide balance sheet flexibility



Fairly steady leverage forecast



RAB--Regulated asset base. Opex--Operating expense; Capex--Capital expenditure, FFO--Funds from operations. FOCF--Free operating cash flow after capex and before dividends. Source: S&P Global Ratings.

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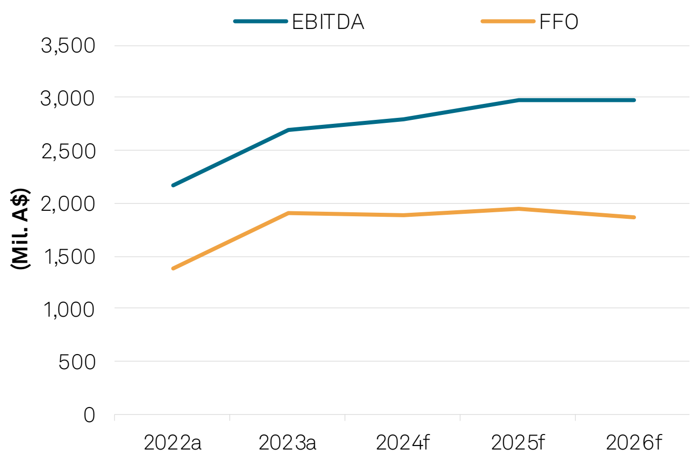
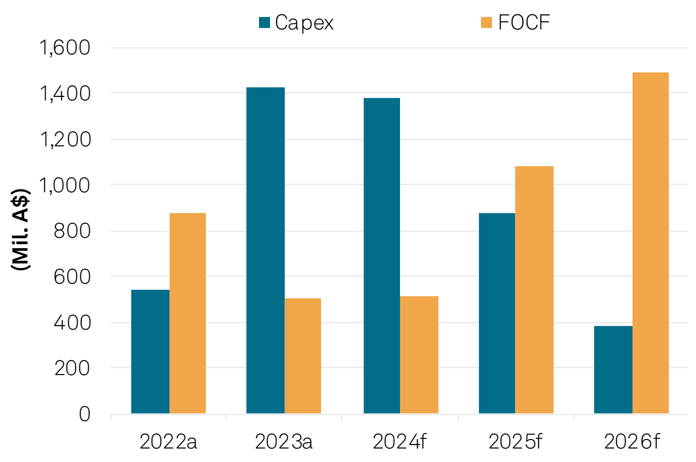
Toll Roads: Inflation-Linked Toll Increase To Support Earnings

- Cost of living pressures could soften traffic volumes over the next 12-24 months on Transurban roads.
- EBITDA to improve with toll increase and solid operating margins; funds from operations suppressed by higher tax.
- Capex winding down from end-2024 unless new projects are announced / committed by Transurban.
- Final views on NSW toll reforms due by end 2024. Such reforms take time and may lead to a negotiation between the state and Transurban. At this stage, we do not expect it to have a detrimental impact on Transurban's credit profile.

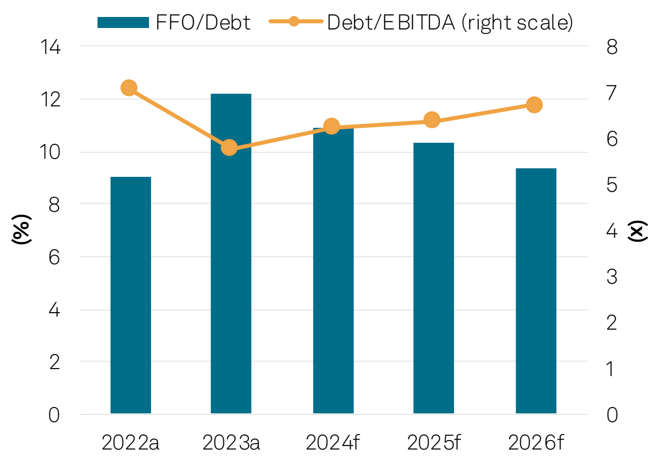
Strong EBITDA mainly due to CPI linked tolls



Positive FOCF to support new projects or equity



Leverage managed to credit profile



NSW--New South Wales. FFO--Funds from operations. FOCF--Free operating cash flows after capex and before dividends. Sources: Company data, S&P Global Ratings.

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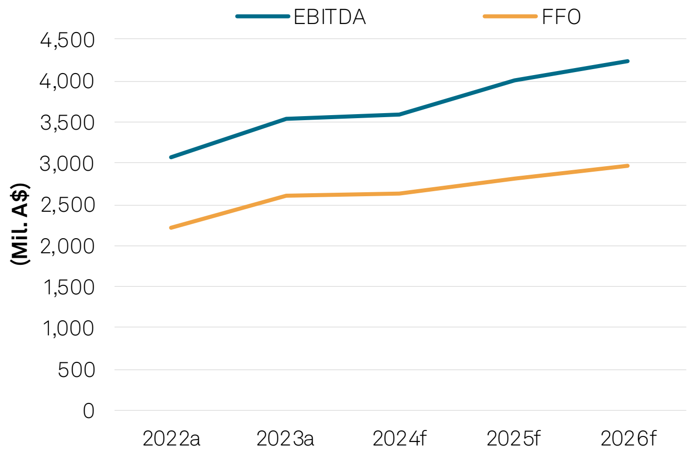
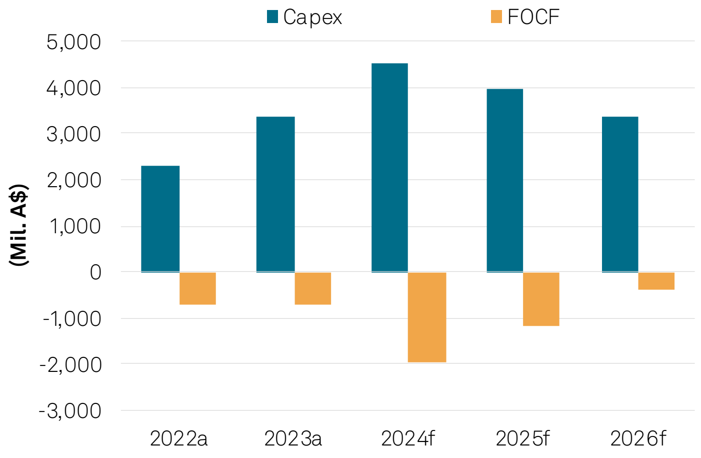
Unregulated Power And Gas: Australia And New Zealand At Different Phases

- Volatile wholesale prices, severe weather events and outages of aging baseload coal plants remains a theme until construction of renewable and transmission infrastructure is completed. Concern from regulators and consumers could moderate pricing increases.
- Leverage will increase for Australian peers to support energy transition amid rising capex costs. Contracting structure is evolving toward targeted price with pains and gains shared, thereby increasing level of company involvement.
- New Zealand peers have headroom to manage renewable build. Decision on Tiwai later in 2024 is key for some projects to progress to FID.
- Adoption of new structure (joint ventures, project financing etc.) to fund new renewable projects and risk allocation can influence credit quality.

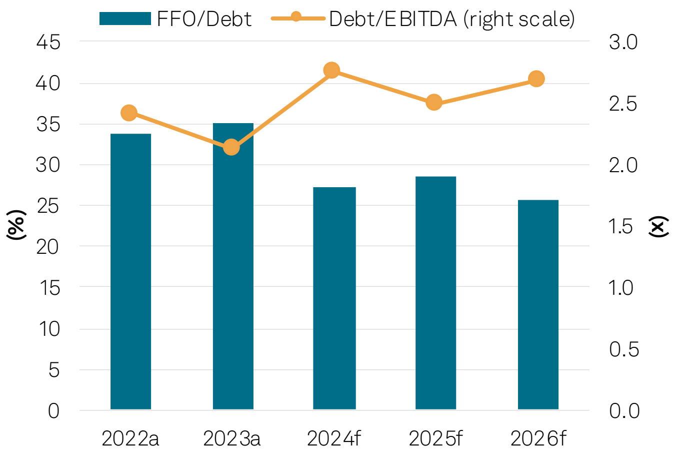
EBITDA supported by elevated prices and new capacity



High capex spend for energy transition



Manageable leverage level, particularly in New Zealand

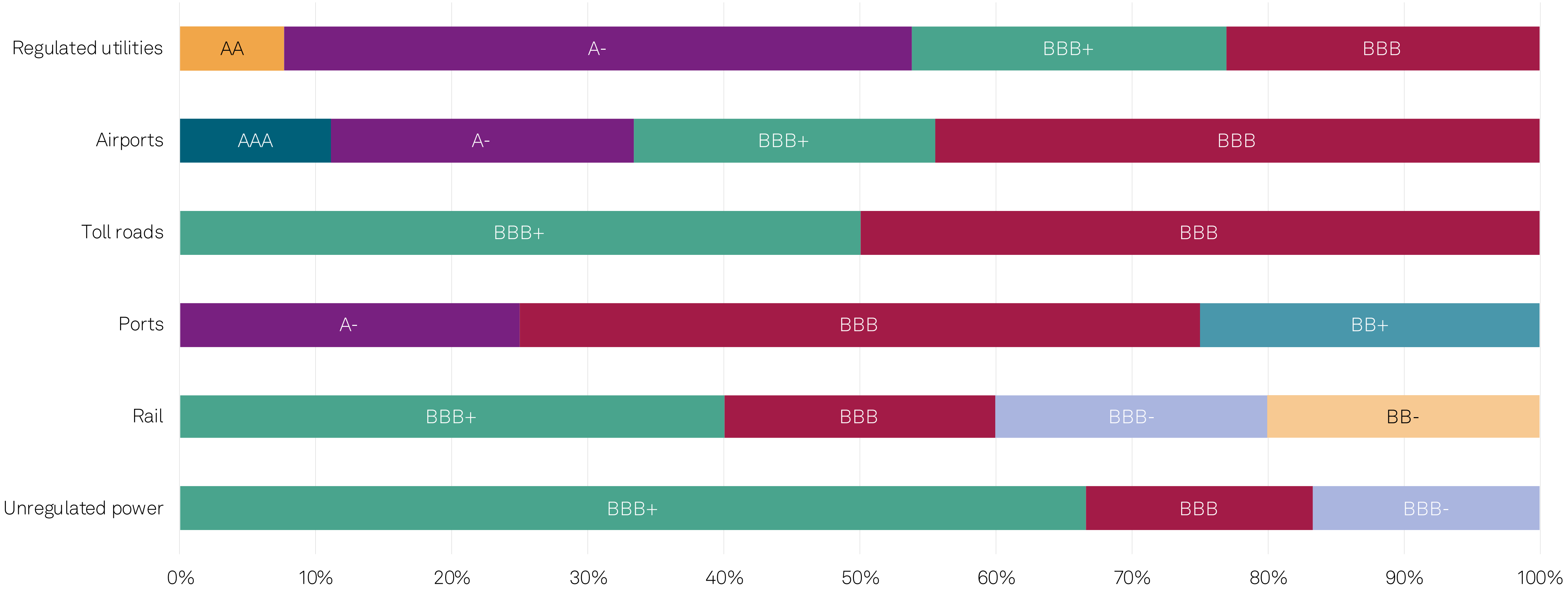


Data includes Snowy Hydro and EDL in Australia along with rated generators-retailers in New Zealand. FID--Final investment decision. FFO--Funds from operations. FOCF--Free operating cash flow after capex and before dividends.
Sources: Company data, S&P Global Ratings.

Appendix

Rating Distribution By Sector

Concentration in the ‘BBB’ category.



Rating data as of April 30, 2024. Source: S&P Global Ratings.

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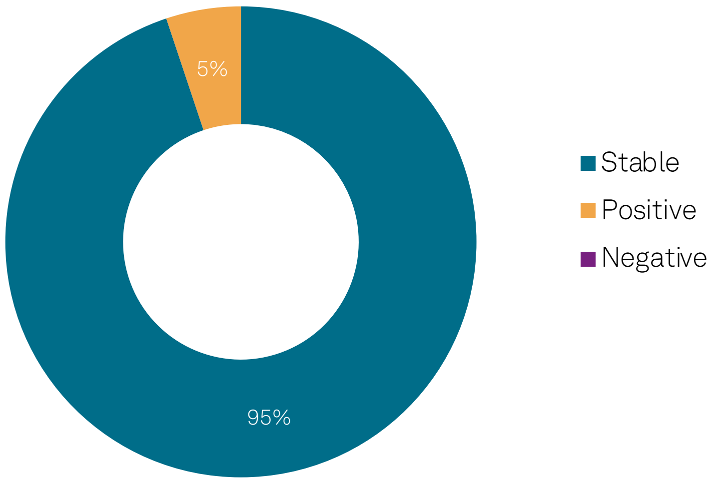
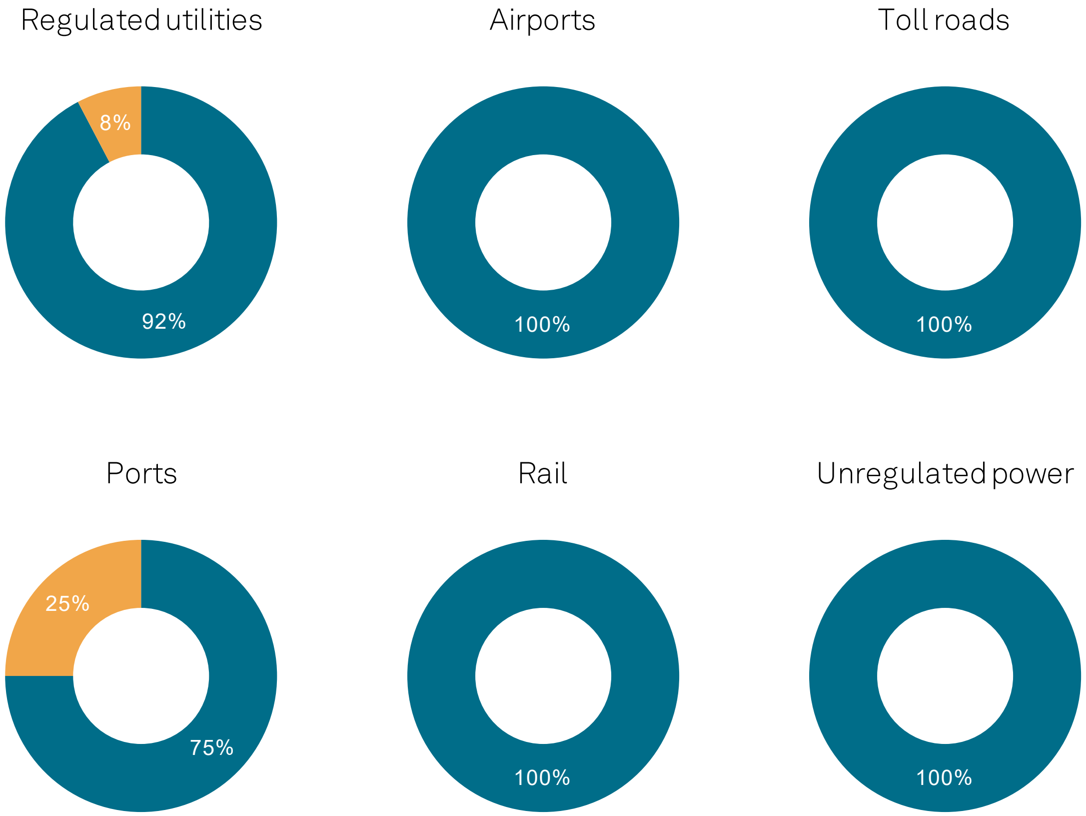
Outlook By Sector

Infrastructure portfolio outlook



- Stable across the entire rated corporate portfolio. Most entities have metric headroom or ability to moderate capex and dividends to manage slowdown.
- Positive outlook on two entities (Vector and Port of Newcastle). Vector benefits from current low leverage levels, where revised financial policy will determine the outcome. Higher wharfage charges to benefit Port of Newcastle.

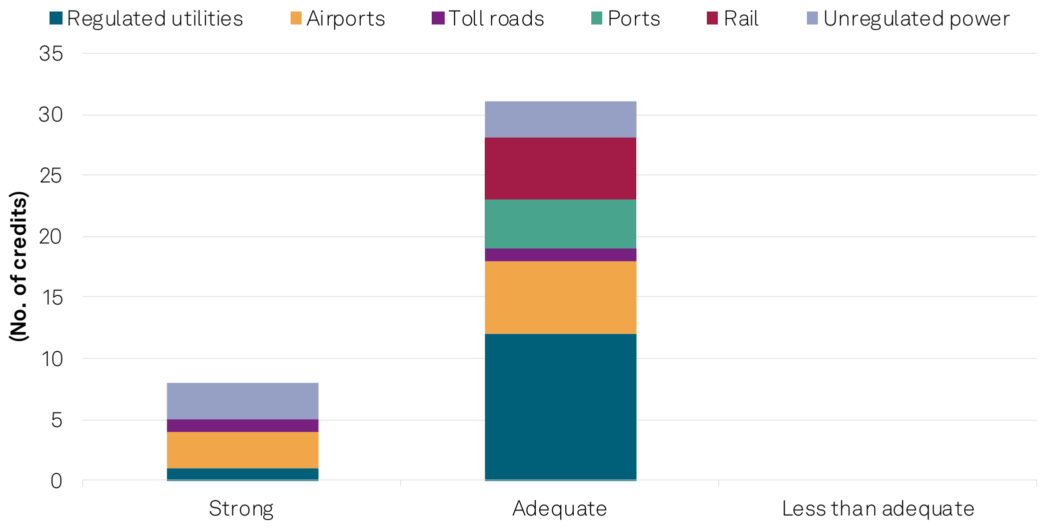
Sector highlights



Rating and outlook data as of April 30, 2024. Source: S&P Global Ratings.

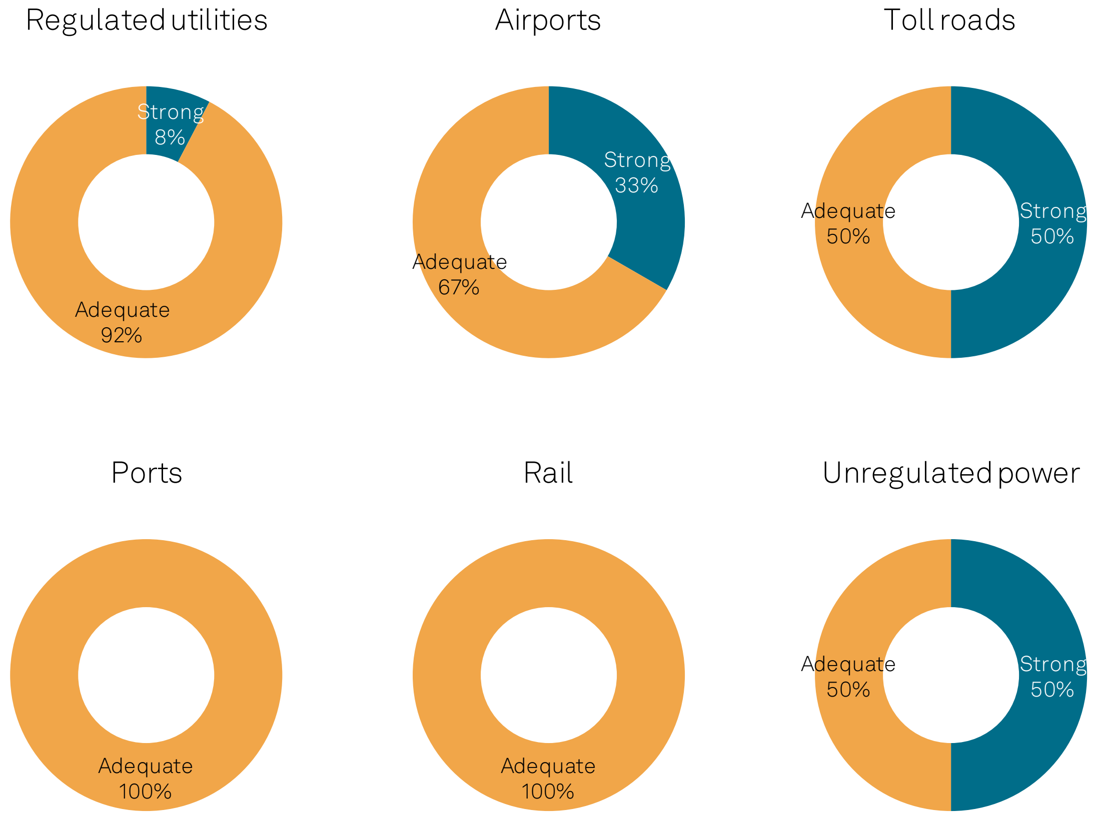
Liquidity : Well Managed Tenor And Refinancing Approach

Infrastructure portfolio outlook



- At least adequate level of liquidity across rated entities, supported by availability of undrawn bank lines and moderate capex or dividend outflows if required.
- Diversified funding sources and sound risk management through refinancing well ahead of upcoming maturities.

Sector highlights



Rating data as of April 30, 2024. Source: S&P Global Ratings.

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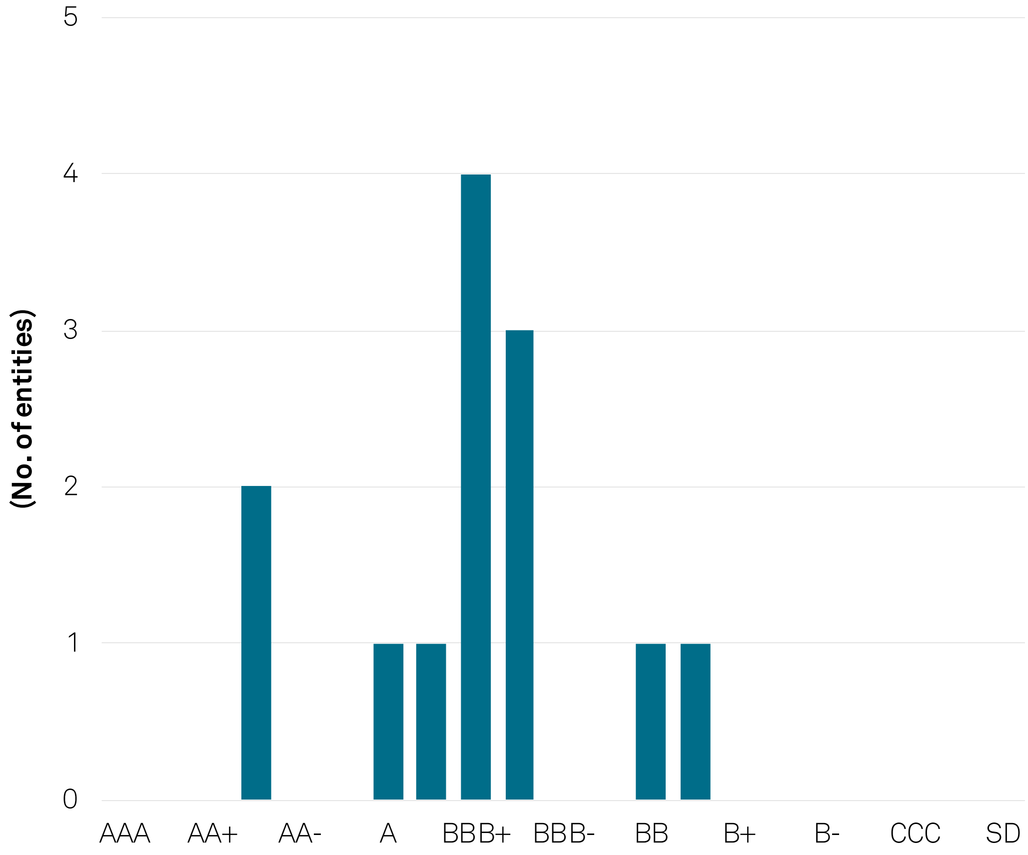
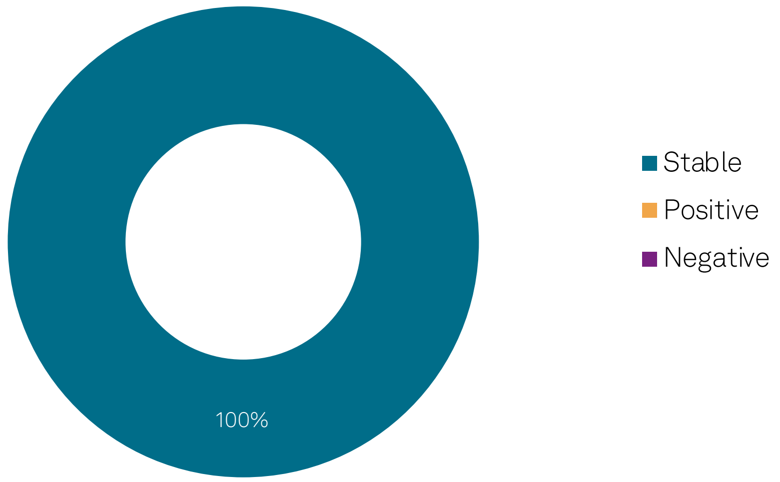
Project Finance

Project finance portfolio rating distribution



Project finance portfolio outlook



- Primarily availability-based or highly contracted projects, with strong cost pass-through and strong counterparties.
- Some increase in market risk seen in coal-linked assets.
- Refinancing needs also expose some projects to changing interest rate assumptions.

Rating and outlook data as of April 30, 2024. Source: S&P Global Ratings.

Appendix: Rating List--Corporate Infrastructure

Issuer	Country	Sector	Rating	Outlook
Adelaide Airport Ltd.	Australia	Airports	BBB	Stable
Airservices Australia	Australia	Airports	AAA	Stable
APA Infrastructure Ltd.	Australia	Regulated Utilities	BBB	Stable
Arc Infrastructure WA Pty Ltd.	Australia	Rail	BBB	Stable
ATCO Gas Australia Networks Pty Ltd.	Australia	Regulated Utilities	BBB+	Stable
Auckland International Airport Ltd.	New Zealand	Airports	A-	Stable
Aurizon Network Pty Ltd.	Australia	Rail	BBB+	Stable
Aurizon Operations Ltd.	Australia	Rail	BBB+	Stable
Ausgrid Finance Pty Ltd.	Australia	Regulated Utilities	BBB	Stable
AusNet Pty Ltd.	Australia	Regulated Utilities	BBB+	Stable
Australia Pacific Airports Corp. Ltd.	Australia	Airports	BBB+	Stable
Australian Gas Infrastructure Holdings Pty Ltd. (rated entity AGI Finance Pty Ltd.)	Australia	Regulated Utilities	A-	Stable
Australian Gas Networks Ltd.	Australia	Regulated Utilities	A-	Stable
Brisbane Airport Corp. Pty Ltd.	Australia	Airports	BBB	Stable
Christchurch International Airport Ltd.	New Zealand	Airports	A-	Stable
Contact Energy Ltd.	New Zealand	Unregulated Power	BBB	Stable
Energy Developments Pty Ltd.	Australia	Unregulated Power	BBB-	Stable
ETSA Utilities Finance Pty Ltd.	Australia	Regulated Utilities	A-	Stable
Genesis Energy Ltd.	New Zealand	Unregulated Power	BBB+	Stable

Note: Rating data as of April 30, 2024.

Appendix: Rating List--Corporate Infrastructure

Issuer	Country	Sector	Rating	Outlook
Mercury NZ Ltd.	New Zealand	Unregulated Power	BBB+	Stable
Meridian Energy Ltd.	New Zealand	Unregulated Power	BBB+	Stable
NSW Ports Finance Co. Pty. Ltd	Australia	Ports	BBB	Stable
One Rail Australia Holdings Ltd.	Australia	Rail	BB-	Stable
Pacific National Holdings Pty Ltd.	Australia	Rail	BBB-	Stable
Perth Airport Pty Ltd.	Australia	Airports	BBB	Stable
Port of Newcastle Investments (Financing) Pty Ltd.	Australia	Ports	BB+	Positive
Port of Tauranga Ltd.	New Zealand	Ports	A-	Stable
Powerco Ltd.	New Zealand	Regulated Utilities	BBB	Stable
QPH Finance Co. Pty. Ltd.	Australia	Ports	BBB	Stable
SGSP (Australia) Assets Pty Ltd.	Australia	Regulated Utilities	A-	Stable
Snowy Hydro Ltd.	Australia	Unregulated Power	BBB+	Stable
Southern Cross Airports Corporation Holdings Ltd.	Australia	Airports	BBB+	Stable
Transpower New Zealand Ltd.	New Zealand	Regulated Utilities	AA	Stable
Transurban Finance Co. Pty Ltd.	Australia	Roads	BBB+	Stable
Transurban Queensland Finance Pty Ltd.	Australia	Roads	BBB	Stable
United Energy Distribution Holdings Pty Ltd.	Australia	Regulated Utilities	A-	Stable
Vector Ltd.	New Zealand	Regulated Utilities	BBB+	Positive
Victoria Power Networks (Finance) Pty Ltd.	Australia	Regulated Utilities	A-	Stable
Wellington International Airport Ltd.	New Zealand	Airports	BBB	Stable

Note: Rating data as of April 30, 2024.

Appendix: Rating List--Project Finance

Issuer	Country	Rating	Outlook
Ancora (OAHS) Pty Ltd.	Australia	AA	Stable
Ancora (RCH 2) Pty Ltd.	Australia	BBB	Stable
Ancora (RCH) Pty Ltd.	Australia	BBB	Stable
DBCT Finance Pty Ltd.	Australia	BBB+	Stable
Hallett Hill No 2 Pty Ltd.	Australia	BBB	Stable
MPC Funding Ltd.	Australia	AA	Stable
NCIG Holdings	Australia	BB	Stable
Newcastle Coal Infrastructure Group Pty Ltd.	Australia	BBB+	Stable
North Queensland Export Terminal	Australia	BB-	Stable
Plenary Health Finance Co. Pty Ltd.	Australia	A	Stable
Ravenhall Finance Co. Pty Ltd.	Australia	A-	Stable
Rowville Transmission Facility Pty Ltd.	Australia	BBB+	Stable
West Connex Finance Pty Ltd.	Australia	BBB+	Stable

Note: Rating above represent Issue Rating on Senior secured debt, except NCIG Holdings which represents Issue Rating on subordinated debt. Rating data as of April 30, 2024.

Related Research

Macroeconomic and Sector Research:

- Conditions Asia-Pacific Q2 2024: A Delicate Balance, March 27, 2024.

Pacific Publications:

- Asia-Pacific Energy Transition: Adapting To Looming Execution Risks, April 15, 2024
- Corporate Australia Eyes A Soft Landing, March 5, 2024
- Credit FAQ: Is Project Finance The Way Forward For Australian Renewables?, Feb. 22, 2024
- Energy Transition Puts Australian Gas Distributors On Track For A Managed Decline, Sept. 4, 2023

Global Publications:

- EMEA Infrastructure: Handbook, Jan. 17, 2024
- Hydrogen: New Ambitions and Challenges, Feb. 16, 2024
- Global Airlines Outlook: Clear Skies, For Now, April 30, 2024

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