

Wellington International Airport

Bond Offer

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Wellington International Airport (WIA) is undertaking an offer of up to NZ\$75m (plus the ability to accept up to NZ\$25m of oversubscriptions) of unsecured, unsubordinated bonds. The bonds are of the same class as WIA's existing NZDX quoted bonds WIA020, WIA030, WIA040, WIA050 and WIA060.

Figure 1. Issue details

Issuer	Wellington International Airport	Maturity	14-Aug-2026	Key dates	
Security	Unsecured, unsubordinated	Credit rating S&P (Issuer)	BBB	Open	3-Aug-2020
NZDX code	WIA070	Credit rating outlook	Negative	Rate set	7-Aug-2020
Minimum rate*	2.50%	Min holdings	NZ\$10k, \$1k	Close	7-Aug-2020
Amount on issue	up to NZ\$100m	ISIN	NZWIAD0070L4	Issue	14-Aug-2020
Interest Payments	Semi-Annual	Registry	Link Market Services	Expected quotation	17-Aug-2020
Indicative Margin*	2.20% to 2.45%	Supervisor	Trustees Executors	First interest pymt	14-Feb-2021

Source: Forsyth Barr analysis

Recoveringslowly

WIA is unique when compared to its peers, (Auckland International Airport [AIA] and Christchurch International Airport [CIA]) given its significant exposure to the domestic market. Pre COVID-19, 85% of WIA's passengers were domestic. The remainder is predominantly trans-Tasman and Fiji, which are looking to be some of the first overseas markets to reopen with New Zealand. Currently WIA is running ~65% of its domestic capacity, with an expectation that August will see a lift of up to 75%.

WIA's revenue is around 60/40 aeronautical charges (regulated)/commercial business such as retail and carparking etc (non-regulated). A new carpark and hotel were recently completed as was a refit of the terminal. Further enhancements of the terminal is forecast, albeit somewhat delayed (2040 masterplan on hold until operating conditions improve) in these uncertain times. WIA has also reduced its operating costs by 25% with further reductions likely.

The proceeds of the offer is to refinance WIA's May 2021 maturity (WIA020) and general corporate purposes.

Lenders and shareholders supportive

There is no doubt the current COVID-19 pandemic is severely impacting businesses such as airports, with WIA experiencing a -99% drop in passenger numbers in April compared to April 2019. However, WIA has received strong support from its bankers, USPP lenders and its two shareholders, (Infratil [66%] and the Wellington City Council [34%]). Bank and USPP covenants have been waived until September 2021 and banking facilities have been increased and extended. Distributions have also been suspended whilst covenant waivers are in place.

COVID credit rating impact

WIA is different in the sense that the company is rated BBB (Negative outlook) from S&P, however, its bonds (aside from WIA050) are not rated. Due to the ongoing impacts of COVID-19, S&P downgraded WIA from BBB+ and placed WIA on negative outlook. The negative outlook is due to the ongoing uncertainty about the path to air travel recovery, in particular international travel, over the next six to 12 months.

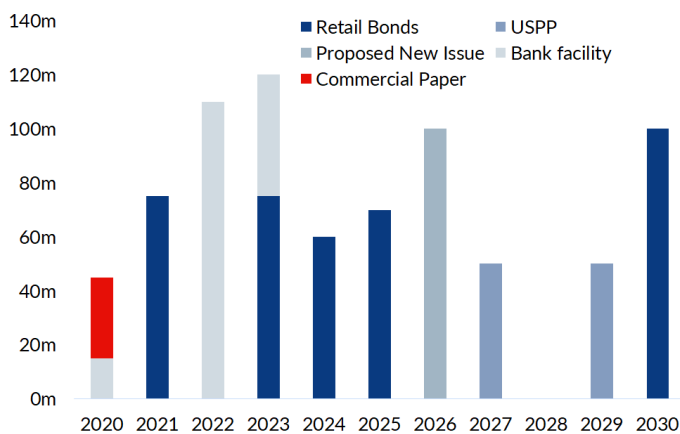
Ratings: WIA: BBB (negative outlook), AIA: A- (Stable outlook), CIA: BBB+ (Stable outlook). CIA has the same stand alone credit rating but receives a one-notch upgrade due to its Crown and Council ownership.

Funding

WIA utilises funding via the New Zealand retail debt market, banks and the United States Private Placement (USPP) market. The proposed offer will see WIA have six issues quoted on the NZDX. WIA recently had the last of its two previous wholesale bonds mature, leaving two USPP tranches alongside the retail bonds. In July 2017, WIA raised NZ\$100m via the USPP market. The borrowing consists of two tranches — a 10 year with a coupon of 3.47% and a 12 year issue with a coupon of 3.59%.

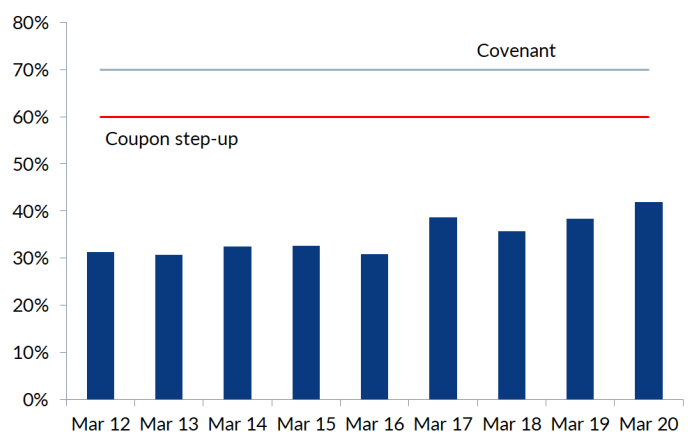
Post-balance date WIA has added NZ\$70m to its banking facilities which now total NZ\$170m. WIAL has also entered into an agreement with its two shareholders for an additional NZ\$75m of funding support (in the form of redeemable preference shares).

Figure 2. WIA maturity profile



Source: Forsyth Barr analysis, WIA, assumes NZ\$100m is issued

Figure 3. Interest bearing debt to total assets (covenant)



Source: Forsyth Barr analysis

Covenants (and waivers)

In addition to WIA increasing the size of its banking facility, WIA has received temporary waivers of its interest cover ratio covenant from its bankers and USPP lenders for the next three test dates (being September 2020, March 2021 and September 2021).

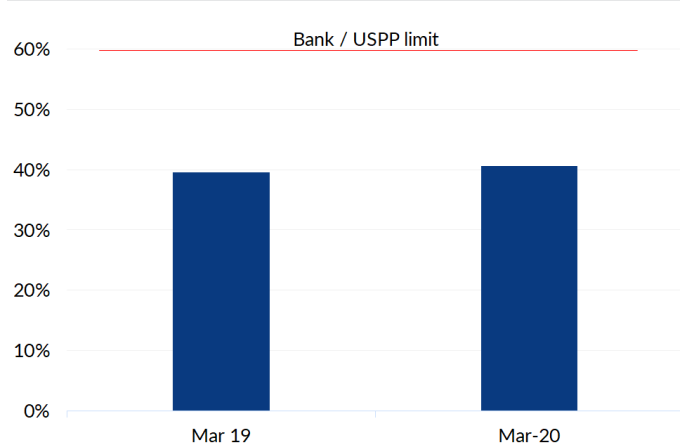
A coupon step-up of 0.50% will apply if, on a bi-annual test date (31 March and 30 September), total interest bearing debt exceeds 60% of total tangible assets. As at 31 March 2020, this ratio was 42%. There are two financial covenants relating to the bonds;

On each test date, WIA will ensure that:

1. Total secured debt does not exceed 10% of Total Tangible Assets.
2. Total Interest Bearing Debt does not exceed 70% of Total Tangible Assets.

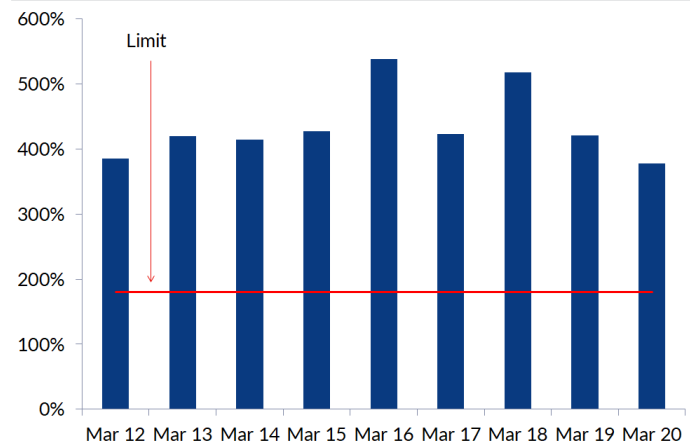
Below are **two** further borrowing restrictions via WIA's banking arrangements.

Figure 4. Leverage < 60%



Source: Forsyth Barr analysis, debt to debt plus equity

Figure 5. EBITDA / Interest > 180%



Source: Forsyth Barr analysis

Figure 6. Covenants

Covenants	Limits	Applies to	31/03/2020	31/03/2019
Secured liabilities / TTA	<5%	Banks / USPP	0.0%	0.0%
Leverage (debt to debt + equity)	<60%	Banks / USPP	40.6%	39.5%
G'teeing Group TTA Ownership	>90%	Banks / USPP	99.9%	100.0%
EBITDA / Interest cover ratio	>180%	Banks / USPP	377.3%	421.2%
Secured debt / TTA ratio	<10%	USPP / Bonds	0.0%	0.0%
Interest bearing debt / TTA ratio	<70%	USPP / Bonds	41.8%	38.6%

Source: Forsyth Barr analysis

Covenant headroom

As at 31 March 2020, WIA has significant headroom in respect of its covenant limits.

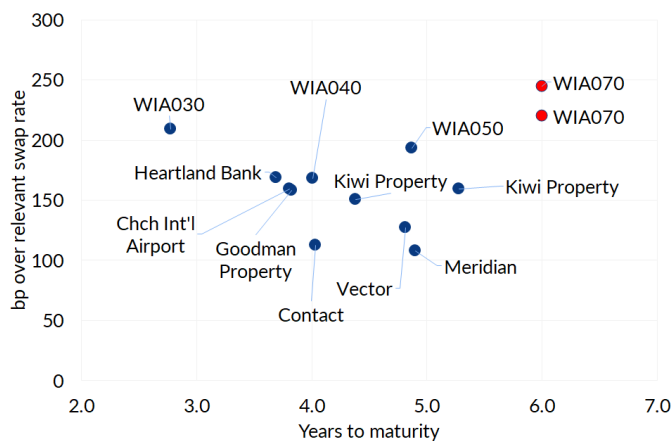
- In terms of its leverage ratio, WIA had NZ\$250m headroom given its covenant limit of 60%.
- Interest bearing debt to Total tangible assets provided NZ\$390m of headroom.
- WIA has received waivers for its EBITDA / Senior Interest ratio being the only ratio / covenant subject to earnings.

Comparative Securities

Although AIA and CIA have different credit ratings, comparison around credit spreads is still valid. Each airport has different characteristics such as private and or public ownership along with international versus domestic exposure. With no corporate issuance in 2020 (only bank and LGFA bonds were issued pre COVID-19), price discovery is currently challenging. The most recent comparative example is Brisbane Airport (BBB, negative) who at the end of June raised A\$250m via an institutional six year deal priced at 265bp over swap. A month later the credit spread remains around that 265bp level.

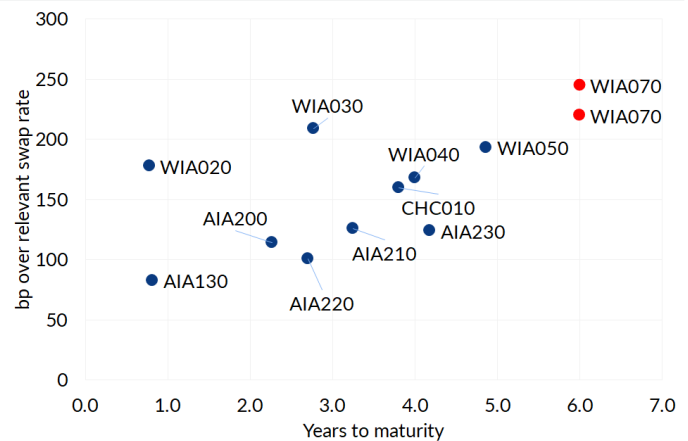
In the two charts below we have compared the new issue against all of the New Zealand airports and also other BBB issues in the New Zealand market (the impact of brokerage is not included below).

Figure 7. NZ BBBs



Source: Forsyth Barr analysis, NZX, Thomson Reuters

Figure 8. NZ Airports



Source: Forsyth Barr analysis, NZX, Thomson Reuters

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