

Civic Nexus Finance Pty Ltd

13 July 2021

This security is available for Retail and Wholesale Clients

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Issuer Outline

Civic Nexus Finance Pty Ltd (CNF) is a wholly owned finance vehicle of Civic Nexus Pty Ltd as trustee of the Civic Nexus Unit Trust (Civic Nexus). Civic Nexus is contracted with Public Transport Victoria (PTV) to finance, design, construct and operate the Southern Cross Station (Station) in Melbourne, Australia under a private public partnership (PPP) arrangement.

The project has been operational since construction completion in December 2006, with Civic Nexus obligated to operate the Station for the project term, which expires in 2036. It operates the Station with the assistance of major subcontractors, including Honeywell Limited for facilities maintenance and Wilson Security.

Civic Nexus receives the bulk of its revenue (around 70%) from availability type payments from the State of Victoria (State) for providing 'landlord' type facility services and a limited number of travel related services at the Station, sufficient to service debt, operating costs and capital expenditure. However, unlike other Australian PPPs, Civic Nexus also generates a material portion of its revenue (around 30%) from sources other than availability payments. Key sources of non-PPP revenue include rental from retail properties within the station, car parking, bus terminal access charges, locker hire and advertising

Security
AUD135m CPI + 4.04% Sep 2032

ISIN
AU000CNFL011

Currency
AUD

Type
Senior secured
inflation-linked

Key Terms

Coupon Type	CPI Linked	Amount Issued/Outstanding	AUD135m/AUD107.88m
Rate	4.04%	Minimum Amount	AUD10,000
Frequency	Quarterly	Denomination	AUD10,000
Domicile	Australia	AU Withholding Tax Exempt	Yes

Key Dates

Issue Date	15 September 2002	Maturity Date	15 September 2032
Call Dates	n/a		

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Strengths

- The revenue stream for the project comes from the Victorian State Government, is very stable and is matched with the timing of debt payments. In addition, the availability payment stream is CPI linked and is not exposed to volume risk
- Performance of the project has remained extremely solid since the start of operations, with only a single financial deduction since 2009 which would have been absorbed by Honeywell.
- Commercial revenue have also shown strong performance owing to the strong foot traffic going through the station and long operating history which provides confidence around projected commercial revenue going forward. Retail tenancies continue to show 100% occupancy.
- A number of dividend distribution tests have been incorporated into the project structure to ensure that dividends are not made to Investors which may otherwise be required to service senior bond cashflows
- From a liquidity perspective, Civic Nexus has the benefit of
 1. performance security from Honeywell,
 2. an equity dividend 'lockup' test which stops equity distributions if the debt service cover ratio (DSCR) falls below 1.15x,
 3. a one and a half month debt service reserve, and
 4. a cashflow waterfall ensuring periodic senior debt repayments are made in priority to equity distributions
- The project bonds are fully amortising over the concession period with principal and interest repayments linked to CPI over their duration. The project is therefore not exposed to refinancing risk

Risks

- As with most of its PPP peers, Civic Nexus is highly leveraged with modest cashflow coverage levels. This means the project has limited ability to withstand unexpected financial or operational performance difficulties. We note that debt service cover ratios are expected to remain in a range of 1.3x-1.4x over the life of the project, a level substantially higher than seen on other similar availability-based PPP projects but reflecting the commercial revenue stream which would typically represent less than 10% for other projects.
- The project is exposed to a level of commercial revenue that is substantially higher than seen on other similar PPP projects. This means that the project is exposed to credit risks of the tenants, as well as lease renewal risk. This is mitigated by the continued high level of occupancy (100% currently) as well as continued very strong foot traffic which will support retail cash flows and lease renewal.
- The current foot traffic through the station is close to target capacity, resulting in higher operating costs (such as cleaning or maintenance). In addition, Civic Nexus is currently in discussions with the State about undertaking certain works to increase capacity and improve amenity, which could re-introduce some level of construction / execution risks. We believe both risks are manageable, with Civic Nexus having a right to recover additional operating costs in the event of rising foot traffic. We also believe any development risks will be appropriately managed to significantly reduce (or eliminate) any residual risk to existing noteholders.
- The project's cashflow is exposed to potential risk exposures such as failure of a major counterparty or contractor, significant ongoing performance issues or higher than expected capital or operating expenditure for the project. However, these are common exposures amongst PPP projects and are considered to be manageable given the strong performance history to date

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Other risks

- Call risk: n/a
- Duration risk: n/a
- Interest deferral/cancellation: n/a
- Non-viability trigger: n/a

Summary

Civic Nexus' AUD senior secured IABs maturing 15 September 2032 provide investors with an opportunity to participate in a mature investment grade infrastructure asset. The underlying revenue servicing the Civic Nexus bonds are backed by the State of Victoria.

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