

# JEM (NSW Schools II) Pty Ltd

30 June 2020

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## Issuer Outline

JEM (NSW Schools II) Pty Ltd is the financing vehicle established by the Axiom Education (Axiom NSW) consortium which was contracted to finance, design, construct, maintain and manage 11 schools located in NSW.

The Axiom consortium was contracted by the NSW Government under a private public partnership (PPP). Construction, undertaken by St Hilliers Pty Ltd and Hansen Yuncken Pty Limited, was completed in 2010. Spotless Group Ltd is undertaking the provision of services for the length of the concession. Axiom is owned by funds managed by AMP Capital and International Public Partnerships Ltd. Axiom NSW commenced providing facilities management services on the completion of each school. These services are to be provided over the project term, which expires in December 2035. Axiom NSW has subcontracted the bulk of these service obligations to Spotless. P&F Pty Ltd (Spotless), an experienced provider of facilities management services part of the Downer group.

Axiom NSW receives service payments from the State of NSW based on the availability of completed buildings and for the provision of services, which is sufficient to cover operating expenses, service debt interest and repayment and equity returns. The payments are linked to CPI and are dependent upon Axiom NSW achieving performance targets which are related to the upkeep and management of the schools' facilities.

Security  
AUD80m 3.13% Nov 2035

ISIN  
AU300JEMF025

Currency  
AUD

Type  
Senior secured  
inflation-linked

## Key Terms

Coupon Type	CPI Linked	Amount Issued/Outstanding	AUD80m/AUD50.7m
Rate	3.13%	Minimum Amount	AUD10,000
Frequency	Quarterly	Denomination	AUD10,000
Domicile	Australia	AU Withholding Tax Exempt	Yes

## Key Dates

Issue Date	11 April 2006	Maturity Date	28 November 2035
Call Dates	n/a		

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## JEM (NSW Schools II) Pty Ltd

### Strengths

- The revenue stream for the project comes from the NSW State Government, is very stable and is matched with the timing of debt payments. In addition, this availability payment stream is CPI linked and is not exposed to volume risk.
- The services for the project are relatively simple, which reflects the standard nature of the school buildings and the manageable nature of the performance requirements. Axiom NSW has established a sound operating track record which is expected to continue over the remainder of the contract.
- Axiom NSW has transferred a high proportion of its contractual operating responsibilities to Spotless. In addition, the risk of poor operational performance is also passed onto to Spotless during the project term. This protects Axiom NSW from cost increases and deductions to revenues due to performance issues, subject to certain caps.
- About 65% of the services are subject to regular repricing, which mitigate the risks of cost fluctuations over the life of the project.
- Spotless has an established history of successful facilities management operations in Australia and is currently the most active facilities management provider in the Australian PPP sector.
- From a liquidity perspective, Axiom NSW has the benefit of
  1. a performance bond from Spotless,
  2. an equity dividend 'lockup' test which stops equity distributions if the debt service cover ratio (DSCR) falls below 1.05x,
  3. a six month debt service reserve, and
  4. a cash reserving mechanism for funding future capital expenditure works.
- A number of dividend distribution tests have been incorporated into the project structure to ensure that dividends are not made to equity investors which may otherwise be required to service senior bond cashflows
- The project's cash flows are expected to exhibit a debt service coverage averaging 1.18x over the life of the project, providing a buffer in case of cash flow fluctuations.
- 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, Axiom NSW is highly leveraged with low cashflow coverage levels. This means Axiom NSW has limited ability to withstand unexpected financial or operational performance difficulties. This is mitigated by a contractual structure that transfers the majority of the risks to third parties.
- 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

### Other risks

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

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## JEM (NSW Schools II) Pty Ltd

### Summary

The JEM NSW Schools II Pty Ltd 28 November 2035 inflation linked bond offers investors inflation protection in an investment grade mature infrastructure asset. The underlying revenues servicing the JEM NSW Schools II bonds are largely backed by the NSW State Government.

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