

Royal Women’s Hospital

13 July 2021

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Issuer Outline

RWH Finance Pty Ltd (RWH) is the financing vehicle for RW Health Partnership Pty Ltd (RWHP), which contracted with the Victorian State government (State) to design, construct, operate and maintain various facilities at the Royal Women’s Hospital, in Melbourne under a Public Private Partnership (PPP) arrangement.

RWHP is ultimately owned by BBGI SICAV SA (BBGI), a London Stock Exchange-listed infrastructure investment company.

RWHP originally subcontracted the construction of the project to Baulderstone Hornibrook (part of the Bilfinger Berger Australia group which was acquired by Lend Lease in 2011). The project includes the nine floor Royal Women’s Hospital facility (including a 60 bed private hospital and 14 private consulting suites) and a five level underground car park. The construction phase was completed in 2008.

RWHP is obligated to provide facilities management services and has subcontracted the majority of its operating phase obligations to experienced providers of facilities management services, Cushman & Wakefield Services Pty Ltd and Wilson Parking.

RWHP receives availability type monthly service payments from the State for the 25 year operating phase period of the Project Agreement.

Security
AUD145m CPI + 4.85% Jun 2033

ISIN
AU300RWHF020

Currency
AUD

Type
Senior secured
inflation linked

Key Terms			
Coupon Type	CPI Linked	Amount Issued/Outstanding	AUD145m/AUD113.5m
Rate	4.85%	Minimum Amount	AUD10,000
Frequency	Quarterly	Denomination	AUD10,000
Domicile	Australia	AU Withholding Tax Exempt	Yes
Key Dates			
Issue Date	21 June 2005	Maturity Date	30 June 2033
Call Dates	n/a		

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Strengths

- **Essential infrastructure:** The Royal Women's Hospital is essential infrastructure for the Victorian Government and has provided health services to women and newborn babies in Victoria since 1856.
- **Low cashflow volatility:** The project receives fixed availability payments, which are not related to the number of patients that use the hospital's clinical services, but are related to the quality and availability of the Royal Women's Hospital and the services provided by RWH. As such, cashflows are predictable, and are matched with the timing of debt payments. A portion of the total revenues are indexed to the consumer price index (CPI) mitigating inflation risk.
- **Availability payments from highly-rated counterparty:** RWH's revenue stream comes from the Victorian State Government (State), whose credit profile is highly-rated. The strong ratings reflect the rating agencies' views of the State's ability and willingness to make the availability payments.
- **Solid operational performance:** The hospital is in the mature operational phase. Moody's expects the project's stable operating performance to continue, consistent with RWH's service providers' performance, which should support low cashflow volatility.
- **Relatively simple services obligations:** The operational obligations under the PPP agreement are relatively simple and low risk. RWHP has transferred the majority of the operating responsibilities to Cushman & Wakefield and Wilson Parking, retaining only the SPV management and insurance obligations. Further, RWHP is not responsible for the maintenance of plant (e.g. boilers and chillers) or medical equipment, this falls to the State.
- **Liquidity support from structural protections:** Offsetting the thin cashflow buffer due to the project's high leverage are a number of protections which exist for bondholders, including benefit of the Cushman & Wakefield performance security; an equity lockup trigger, if the debt service coverage ratio (DSCR) is less than 1.10x, with cash sweep to debt if the DSCR remains below such levels; a 6-month debt service reserve facility; and a maintenance reserving mechanism.
- **Ability to cure and remedy defaults:** The Security Trustee has the right to step into key subcontracts following a RWHP event of default, and cure the defaults if RWHP has failed to do so, including replacing the service contractors.
- **No refinancing risk:** Following the refinancing of AUD148m of debt in August 2017 with a fully amortising AUD150m bank facility, RWHP Finance is no longer exposed to refinancing risk, meaning that its debt financing costs are now known and fixed until the end of the concession. This provides additional support to cash flow predictability.
- **High recovery expectations:** The bondholders are senior secured creditors of RWHP and as such, Moody's recovery expectation for RWHP's secured bonds is high. In the unlikely event of project termination, Moody's expects a high recovery rate, based on the project's termination payment regime – a further source of credit support.

Risks

- **High financial leverage and limited financial flexibility:** Social infrastructure PPP projects are highly geared, with senior gearing levels around the 90% level. These gearing levels are achieved through the predictability of the revenues servicing the bonds, the low operational risk in these projects and the strength of the government counterparties. As such, cash flow buffers and liquidity in social infrastructure projects are very thin.
- **Revenue dependent on the State's ability and willingness to pay:** RWHP depends on the State to make the availability payments in accordance with the project agreements.
- **Operational performance and subcontractor failure risk:** The project is subject to operational performance risk, with the State able to make deductions to the availability payment. However, these performance deductions are passed through to the operations subcontractor in the event the subcontractor was responsible for the performance failure.
- **Termination risk:** If performance is excessively poor, PPP projects can be subject to a contractual default termination regime from the State Government. However, with the project in the mature operational phase, the prospect of a default termination due to poor operating performance is unlikely. In addition, in the event the State becomes entitled to terminate

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the concession, it is required to give notice to senior creditors and grant them an opportunity to rectify any defaults prior to an actual termination. These step-in rights are critical in projects of these nature as they provide creditors an opportunity to ensure the continuation of the concession and its associated cash flows that ultimately support repayment of the debt.

Other risks

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

Summary

The RWH Finance Pty Ltd AUD 30 June 2033 senior secured indexed annuity bond suits an investor seeking inflation protection with exposure to an investment grade infrastructure asset and comfortable with a longer dated instrument.

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