AusNet Services Ltd
FACT SHEET
OCTOBER 2024

IAM
INCOME ASSET MANAGEMENT

Issuer Outline

AusNet is a diversified energy infrastructure group. It owns and operates gas and electricity distribution networks, as well as the electricity transmission network, in the State of Victoria.

Sector:	Utilities
Sub-Sector:	Electric
Country:	AU
Ownership:	Private

Key Financials (AUD m)

FY ending 31 Dec	**2023**	**2022***
Revenue	2,201	1,554
EBITDA	1,280	945
NPAT	821	1,768
EBITDA Margin (%)	58%	61%
Capital Expenditure	1,087	646
Key Credit metrics	**2023**	**2024**
Net Debt	10,422	10,299
Net Debt/RAB (%)	81%	84%
FFO/Net Debt (%)	8.5%	6.7%
FFO Interest Coverage (x)	2.7	3.0

Issuer Credit Rating & Outlook

Agency	Rating	Outlook
S&P	BBB+	Stable
Moody's	Baa1	Stable
Fitch	-	-

Summary Bond Details

ISIN	Issue Amount	Ranking	Coupon	Coupon Frequency	First Call[1]	Maturity Date	Issue Rating (S&P/Moody's/Fitch)
AU3CB0242527	AUD425m	Sr Unsecured	4.400%	Semi-annual	16 August 2027	16 August 2027	BBB+ / Baa1 / -
AU3CB0288066	AUD500m	Sr Unsecured	4.301%	Semi-annual	30 March 2028	30 March 2028	BBB+ / Baa1 / -
AU3CB0299816	AUD700m	Sr Unsecured	6.134%	Semi-annual	31 March 2033	31 May 2033	BBB+ / Baa1 / -
AU3CB0309664	AUD500m	Sr Unsecured	5.981%	Semi-annual	16 March 2034	16 May 2034	BBB+ / Baa1 / -
AU3FN0056594	AUD650m	Subordinated	3mBBSW + 3.10%	Quarterly	7 December 2024	6 December 2079	BBB- / Baa3 / -

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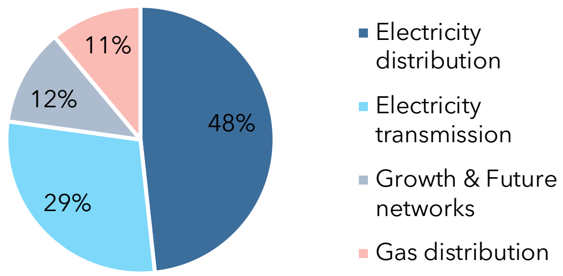
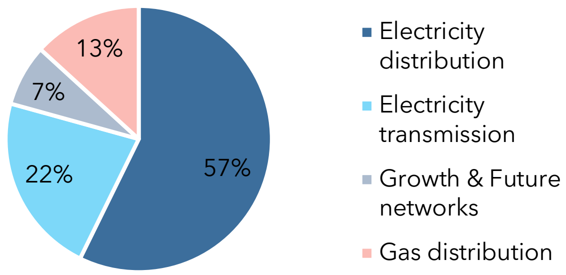
Business Segment	AUD m	Revenue
Electricity distribution	1069	48%
Electricity transmission	640	29%
Growth & Future networks	260	12%
Gas distribution	245	11%



Business Segment	AUD m	EBITDA
Electricity distribution	780	57%
Electricity transmission	300	22%
Growth & Future networks	102	7%
Gas distribution	180	13%

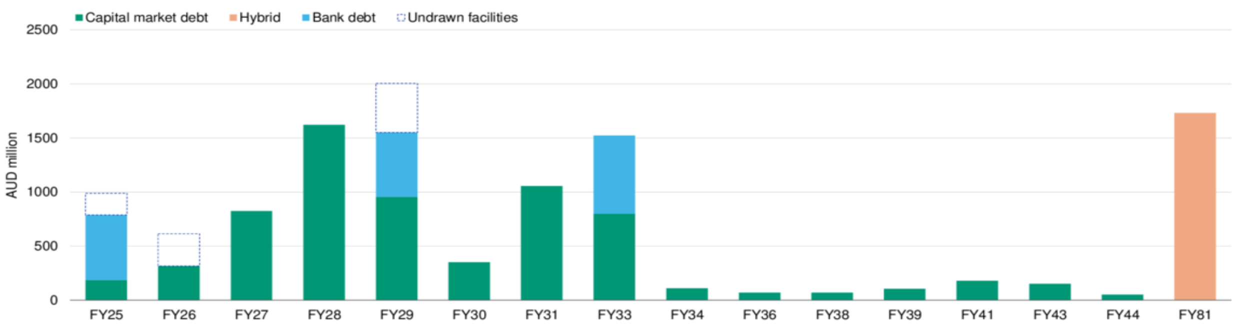


IAM Credit View

Ausnet is a solid investment grade company underpinned by the essential nature of its regulated electricity and gas networks, its strong market position and the transparent regulatory framework that it operates under. We have a neutral view on Ausnet Pty Ltd's credit trajectory in the next 12-18 months. Our view is underpinned by its solid and predictable cash flows, with revenue certainty until next regulatory resets in 2026 and 2027, balanced by its sizable capital investment program. Capital expenditure is expected to peak in FY26/27 which should see leverage remain elevated in the next few years, but we these to be managed to remain within credit ratings thresholds for the BBB+/Baa1 senior unsecured credit rating. As such we expect no change to the BBB-/Baa3 ratings on the subordinated bonds.

Ausnet continues to spend on increasing its existing electricity transmission network, as well as investing in the AUD370M Western Renewables Link (WRL) project which is designed to support Renewable Energy Zone (REZ) projects (for example to accommodate volatile renewable transmission and two way distribution as renewables with battery grow). We understand that WRL will be operated based on long term contracts with the Australian Energy Market Operator, which have revenue and investment clawback arrangements similar to the regulated electricity networks. These projects while pressuring credit metrics in the near term are positive overall once complete, improving overall scale and cementing its importance as renewables become an increasing part of the energy mix.

As of February 2024, Ausnet had liquidity of AUD975M (cash and undrawn facilities) which combined with cash flow expectations of AUD850M in the next 12 months is sufficient to cover~ AUD990M capital expenditure, as well as debt maturities and dividend distributions.
Debt Maturity profile (as of February 2024):



Source: Moody's and AusNet

We expect AusNet's credit spreads to remain well supported given expectations of a stable credit profile and modest near term debt maturities to refinance.

Company Background

AusNet Pty Ltd is the head entity of AusNet Services Group. Through its subsidiaries, the group owns and operates two gas and an electricity distribution networks, as well as the electricity transmission network in the State of Victoria. The majority of revenues and EBITDA are generated from infrastructure assets and these are regulated by the Australian Energy Regulator (AER). The AER sets revenue through a revenue cap formula which apply for five years and takes into account a number factors including inflation, a return on investment, the size of the Regulated Asset Base (RAB) and recovery of investment completed in the prior regulatory period.

AusNet also owns and operates a portfolio of unregulated assets under the brand Mondo. These activities include i) expanding the transmission network to integrate renewable energy zones; ii) the construction, maintenance and operation of connections to individual renewable generators under long-term contracts; and iii) digital services (including smart meters). Management aims to grow this contracted asset base to AUD3B by FY26, but will remain likely remain less than 20% of the AusNet's overall business.

All debt is issued by a wholly owned finance company - AusNet Services Holdings Pty Ltd - and benefit from a guarantee group structure which ensures the upstream of cash from operating subsidiaries where the cash generating assets are held.

AusNet was delisted from the ASX after it was acquired by a Brookfield led consortium in February 2022. The two largest shareholders are Brookfield (45.4%) and Australian Retirement Trust (15%), with the balance to four North American state pension funds with 9.9% stakes each.

Strengths of AusNet

- AusNet's cash flows and revenues have a high level of visibility, due to the transparency and stability of the regulatory framework it operates in. The electricity transmission and distribution networks (78% of revenue) are regulated under a maximum allowable revenue basis which protects AusNet from volume risk. AusNet is approaching expiry of the regulatory reset period for its electricity distribution (2026) and electricity transmission (2027) businesses, after which is widely expected to result in higher revenues to account for inflation, higher risk free rate and increases to the RAB.
- Undeniably strong market position, with AusNet's energy infrastructure networks effectively operating like a monopoly in their service areas. Ausnet has been investing to cement this position to future proof against increasing penetration of large scale renewable and distribution with battery storage.
- Shareholder track record and management commitment to support financial metrics in line with BBB+/Baa1 credit ratings. We expect support to come in the form of dividend retention, capex deferral and/or equity injection if under stress.

Weaknesses of AusNet

- Ausnet's financial metrics are aggressive when compared to similarly rated utility peers, partly c large capital expenditure program (across both regulated and unregulated businesses) with sp peaking in FY26/27. FFO/Debt will likely be in the 7-8% range and Net Debt/RAB will likely be 78%-83% range in the next 1-2 years which are more consistent with a BBB/Baa2 rating. Noneth we believe downgrade risks by major external credit ratings agencies S&P and Moody's remain given expectations of ongoing shareholder support and supportive industry dynamics.
- Recent regulatory bans on new gas connections and ongoing electrification of households adv impact growth potential of its gas distribution business. This is significant given its gas distributi network is regulated under a 'price-cap' tariff mechanism which exposes earnings to gas volum However, we believe the gas business cashflows and earnings profile should remain solid in the years, underpinned by the recent regulatory resets that provided a higher rate of return. Furthe gas will remain important given the gradual pace of electrification and its vital role in supportin Australia's energy transition. We also note that gas distribution is a relatively small part of reven EBITDA.

Disclosure

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