Lonsdale Finance Pty Limited (Port of Melbourne)
FACT SHEET
OCTOBER 2024

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INCOME ASSET MANAGEMENT

Issuer Outline

Lonsdale Finance Pty Limited is the debt issuing entity for the Port of Melbourne. The Port of Melbourne is the primary port of call serving the Victorian and broader Australian market. The port has a diversified landlord port business model that benefits from a stable regulatory regime and a portfolio of long term property leases that govern the operation of its established facilities. The company issues only senior debt. The shareholder sponsors are made up of experienced infrastructure investors, including QIC, GIP Investors and OMERS Infrastructure.

Sector:	Industrial
Sub-Sector:	Infrastructure - Ports
Country:	Australia
Ownership:	Private

Key Financials (AUD m)

YE (30 Jun)	FY24	Change from FY23
Total Trade volumes (M RT)	111.9	2.8%
- Total non container	25.9	1.7%
- Total container	86.1	3.1%
Container throughput (M TEU)	3.2	2.4%
Revenue	694	6.9%
EBITDA (M)	627	8.6%
EBITDA margin (%)	90.4	1.5%
	FY24	**Downgrade trigger**
FFO/Debt (%)	8,0	< 6.5%
Debt/EBITDA (x)	8.0	> 9.5x
FFO/Interest cover (x)	2.9	< 2.0x
FFO/Debt (%)	8.0	< 6.5%

**Source: FY24 results and company presentation*

Issuer Credit Rating & Outlook

Agency	Rating	Outlook
S&P	NR	NR
Moody's	Baa2	Stable
Fitch	BBB	Stable

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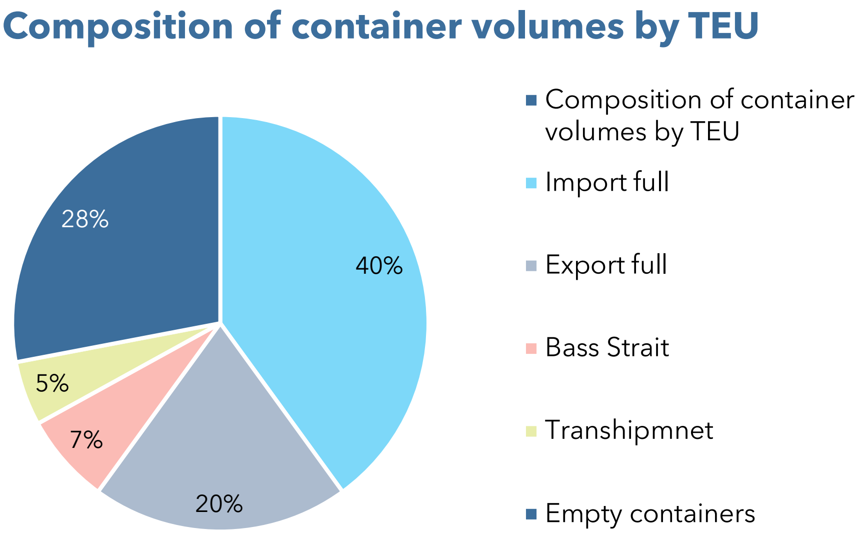
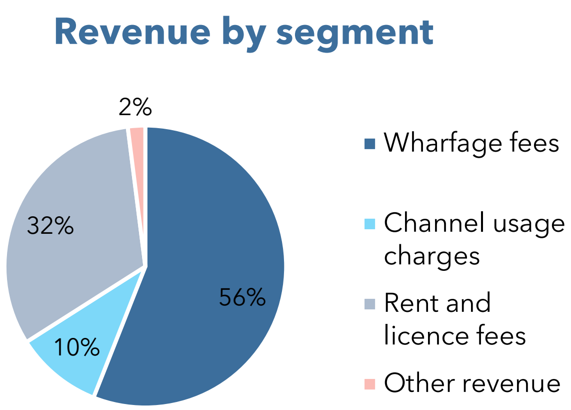
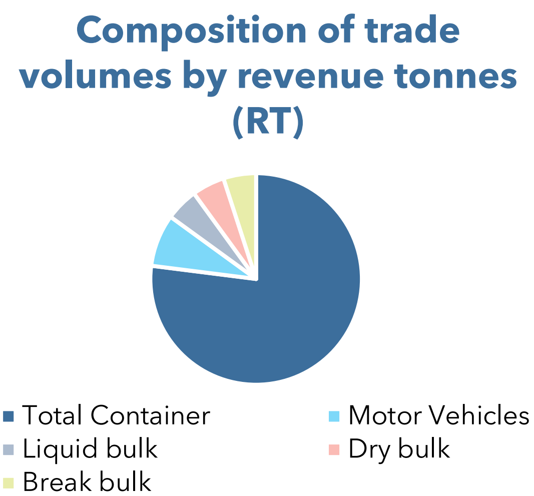
Summary Bond Details

ISIN	Issue Amount	Ranking	Coupon	Coupon Frequency	First Call[1]	Maturity Date	Issue Rating (S&P/Moody's/Fitch)
AU3CB0275253	AUD350m	Secured	2.100%	Semi-annual	15 October 2027	15 October 2027	- / Baa2 / -
AU3CB0257533	AUD550m	Secured	3.900%	Semi-annual	15 October 2025	15 October 2025	- / Baa2 / -
AU3CB0268548	AUD550m	Secured	2.450%	Semi-annual	20 November 2026	20 November 2026	- / Baa2 / -

**Source: Company presentation, FY24 results*







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IAM Credit View

We have a positive view of Lonsdale Finance Pty Limited, the financing vehicle of Port of Melbourne, underpinned by its strong market position as the largest and busiest cargo port in Australia, generation of strong and reliable cash flows with its revenue profile linked to population growth and CPI increases, high operating margins of ~90%, and treasury and distribution policies that support its BBB/Baa2 credit ratings target. Financial performance has been relatively resilient despite pressure on container volumes from a weakened consumer. Indeed, recent FY24 results were solid and broadly on expectations, with revenue up 6.9% to 694M driven by wharfage fees and improving container volumes. Underlying EBITDA rose 8.6% to 627M as tariff prices increased by 7% in line with recorded CPI in the prior year and a reduction in its cost base. Management has reported that after a weak first half of fiscal 2024 where container volumes were down 5%, the lifting of tariffs in China and better agriculture volumes saw a 10% trade growth in the second half, with positive trade continuing into Q1 25. Credit metrics have strengthened modestly including FFO/Debt of 8%, Net Debt/EBITDA of 8.0x (steady) and FFO interest cover of 2.9x, indicating a balance sheet that is reasonably well positioned to withstand any potential shocks.

Company Background

Lonsdale Finance Pty Limited is the financing vehicle for the Port of Melbourne (PoM). The principal asset is the 50-year lease on the port land and channel - granted in 2016 and expiring in 2066 - with the State of Victoria (rated Aa2/Stable and AA/Stable by Moody's and S&P, respectively).

The Port of Melbourne is responsible for the operations of the wharf, including wharf and port infrastructure management, as well as the rights to charge for use of the channel. It does not include Station Pier or cruise ship operations and does not have risks associated with towage or stevedoring. PoM's service area includes Victoria, Tasmania, southern NSW and southeastern South Australia.

The bulk of PoMs revenues are from cargo-volume related activities (65%-70%) such as wharfage fees and channel usage charges. The second largest revenue is from long term leases of 30-35% generated from long term property leases featuring weighted average lease tenors > 20 years, low vacancies and lease structures with 4% annual price escalation or CPI +1.5%. The trade composition of its cargo is diversified across product, industry and country. Retail is the dominant part of total trade and imports. In exports, agriculture is the largest part, mostly grain and fibrous materials which have benefited by higher commodity pricing in recent years.

The key tenants are the Victoria International Container Terminal (VICT, a subsidiary of International Container Terminal Services ICTS), Patrick (a subsidiary of Qube and Brookfield) and DP World Australia (a subsidiary of DP World Ltd rated Baa2/BBB+ by Moody's and Fitch) who are responsible for stevedoring operations (i.e. loading and unloading ships). These three operators are highly experienced and have good track records in the container trade.

In August 2024, an additional 29 hectares of the former Melbourne Markets site was added to the agreement. Port of Melbourne expects ~ AUD280M of development of this site (mostly related to logistics tenants) to support expectations that Port of Melbourne's container volumes will double by 2050.

Lonsdale Finance's equity is held by a consortium of institutional investors including QIC (40.005%), GIP Investors (40.005%) and OMERS (19.99%), all are experienced infrastructure investors.

Strengths of Lonsdale Finance Pty Ltd

- Strong market position as essential infrastructure. The Port of Melbourne is Australia's largest capital city container and general cargo port. Its container volume represents over a third of national trade. Cargo volumes are underpinned by its proximity to and strong transport links with Melbourne, and key agricultural producing areas in Victoria and neighbouring states. Its strong market position is protected by its distance to competing ports, and distances between cities which make the movement of goods over land uneconomical.
- The Port of Melbourne operates under a supportive light-handed, stable, transparent regulatory framework that allows the port to increase its tariffs by CPI (maximum) on an annual basis without regulatory approval. This provides high certainty of pricing to the port and its users. Prescribed (regulated) Services Revenue which is under this framework makes up the majority of operating revenue (66% in FY24).
- Shareholder sponsor's commitment to maintain financial profile consistent with mid a BBB rating target. The credit rating target is part of PoM's treasury and distribution policies, with equity distributions not allowed if ICR falls below 1.35x. Lonsdale Finance is currently rated Baa2/Stable by Moody's and BBB by Fitch.
- Positive outlook for container volume growth. Management reports 10-year CAGR for containers has been 3.3% driven by population growth, with demand projected to double by 2050.

Challenges of Lonsdale Finance Pty Ltd

- Volume risk in its container volumes business, which may be global economic and trade activity, consumer demand cycles and weather conditions due to exposure to agriculture exports. For example, during FY23, total container volumes declined by 1.4% yoy to 3.19M TEU's due to cost of living pressures and higher interest rates weakened consumer spending. We see this risk moderated by the ~34% of income from long term landowner/lease businesses, which is unlinked to volumes at the port. Furthermore, the diversification of cargo and the balance between imports and exports has softened the periods of the downturn (e.g. domestic consumer weakness impacting imports offset by higher export volume).
- High exposure to China with risks to any renewal of trade tensions. China is a very important market for the Port of Melbourne, with China representing ~45% of container imports and ~19%

of container exports. Given current improving relations and recent lifting of tariffs from China we believe the latter is low risk. Furthermore, we anticipate that any volume declines to and from China should be mitigated by redirecting exports to other markets and import substitution from other markets.

- Moderately high financial leverage vs peers including FFO/Debt around 7-8% with limited buffer (downgrade trigger level ~6% FFO/Debt) and Debt/EBITDA of 8.0x (downgrade trigger 9.5x). However, the risk of downgrade remains low given sponsor shareholders' commitment to maintain a strong financial profile and modest total capex expectations of 1B in the next five years (~200M pa).

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Disclosure

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