

OIC Research Group | Analyst Group Report

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March 26, 2024

SAA took over Sydney Airport

Transaction Summary

Announcement Date	July 5, 2021
Transaction Size	A\$23.6bn (US\$16.9bn)
Close Date	Mar 9, 2022
Enterprise Value	A\$32bn (US\$22.6bn)
Deal Structure	100% Cash deal (A\$8.75 per share)
Percentage Acquired (%)	85%

Deal Background

- On 9 March 2022, Sydney Aviation Alliance, a consortium of investment funds that each has investments in a range of infrastructure assets, acquired all Sydney Airport Securities at an enterprise value of approximately A\$32bn. It was one of the largest cash takeovers in Australian history.
- The final acquisition price settled at A\$8.75 cash per stapled security. This followed the initial bid of A\$8.25 cash per security in July 2021 and A\$8.45 cash per security in August 2021, both of which were rejected by the Boards.
- At the close of trading on Thursday, 10 March 2022, Sydney Airport ('SYD') was removed from the Australian Stock Exchange (ASX).

Deal Rationale

Acquirer

- Steady return from investment:** From 2010 to 2019, SYD's operating cash flow maintained stable growth, rising from US\$863.7mm to US\$1.4bn, representing a CAGR of 7.42%, and an average dividend yield of 9.46% consistently, both of which are desirable for infrastructure and Superfund investors.
- Passenger recovery:** With the gradual recovery of passenger numbers post-COVID-19 pandemic, the International Civil Aviation Organization (ICAO) forecasted a return to pre-pandemic numbers by 2024. In 2022, SYD's passenger movement grew by 74.5% YoY, showing promising recovery potential for Australia's busiest airport.
- Franking credit⁽¹⁾:** Before the acquisition, half of SYD's shareholders were non-Australian residents, exempting them from Australia's franking credit system benefit. Hence, with SAA being 100% Australian-based investors, SAA members may benefit from the tax imputation system whenever dividends are paid.

Sellers

- Premium paid:** Shareholders received A\$8.75 per share, representing a 50.6% premium⁽²⁾. Despite its Tier 1 position in the airport industry, the deal's valuation at 23x FY23 EV/EBITDA is lower than the industry average of 24.1x, reflecting uncertainties in future earnings recovery.
- A safe bet:** Offsetting the challenges posed by the COVID-19 pandemic, SYD requires substantial capital expenditure and investment to enhance its operational capacity. Moreover, in light of aeronautical regulatory risks and the impending launch of Western Sydney Airport in 2026, the takeover ensures the sellers a secure exit from their investments.

Acquirer

IFM Investors
AustralianSuper

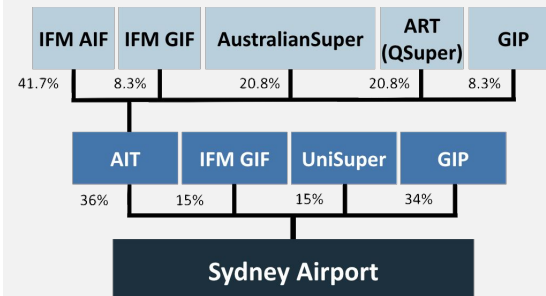
Sydney Aviation Alliance



Sydney Aviation Alliance (SAA) is an Australian-led consortium comprising the IFM Australian Infrastructure Fund (AIF), the IFM Global Infrastructure Fund (GIF), Australian Retirement Trust (ART), AustralianSuper and Global Infrastructure Partners (GIP). From its completion, SAA also included UniSuper, which elected to roll out its existing investment in Sydney Airport.

Founded Year	2021
HQ	Australia
Sector	Infrastructure
Assets Under Management	US\$630bn

SAA's Holding Structure



Target

Sydney Airport (ASX: SYD) **SYD**

Sydney Airport is Australia's largest airport and served over 44 million passengers in 2019. SYD surged 34% following the takeover offer by SAA, taking it private. The airport continued performing strongly after the buyout.

Founded Year	2002
HQ	Sydney, Australia
Sector	Aviation Service
Latest Valuation	US\$16.9bn
FY22 Revenue	US\$0.7bn
FY22 EBITDA	US\$529.0mm

Sources: Company press, Australian government data

Notes: (1) Franking credit allows companies to attach credits representing taxes paid on profits to dividends, enabling shareholders to offset their personal income tax liability and avoid double taxation. (2) The premium was calculated according to the Sydney Airport's closing price of A\$5.81 on July 2, 2021, the day before SAA's bid was announced

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Short-term Implications

- **Changes in director:** Following the scheme agreement, Sydney Airport Board members are obliged to resign and be replaced by the SAA nominees, who will comprise a majority of Australian citizens/residents. With effect from the scheme's implementation, SAL announced on 9th March that **board members have resigned and were replaced by three new directors** of SAL, who, on average, **possess 20+ years of extensive experience in investment and consulting in infrastructure**.
- **Continuity of business strategy:** Major projects are **intended to continue following the current strategy to rebuild air travel in Sydney and meet the growing needs of travel demand**. SYD upgraded its retail offering in Dec 2022 to capture the surging demand of transit retailing by opening department store-style shops.
- **New launch of retail offering:** We believe that the new management team has **brought in their expertise in operating airports and bringing more value to passengers by opening up new dining venues** such as Betty's Burger, renowned Australian chef's restaurant with healthy meal options. Customers will have a new shopping experience with the BOSS pop-up shop and Heinemann's first domestic airport department store.

Long-term Upsides

- **Aid by experts:** As IFM plays an active role in 16 airports globally and airport-related operations, they are highly experienced in airport developments, from expansion and refurbishment of terminals to the development of runways and arrival buildings. With projects **with budgets of US\$55mm to US\$1.3bn as use cases**, IFM can assist SYD's **future development plans to improve capacity and efficiency while ensuring industry-standard operations**.
- **High level of financial resources:** With its ownership model, size, and being an open-ended fund⁽³⁾, SAA has **the capability and flexibility for sizeable investments**, especially considering **its strong banking network and debt financing expertise**.
- **Growing international visitors:** Tourism Research Australia (TRA) forecasted **the international arrivals in 2028 to reach 12.1 mm, an increase of 65%**, compared with the number of arrivals in 2023 (7.3 mm). Over the forecast horizon, the increase in arrivals from China is expected to be substantially larger than for any other individual source market. There are forecast to be 1.3 mm additional arrivals from China in 2028 compared with 2023, accounting for more than one-quarter of the total increase in annual international arrivals.

Risk and Considerations

- **Infrastructure development:** Due to the COVID-19 pandemic, **the original strategy roadmap Master Plan 2039 might require further revision** as many projects were suspended or considered to be reevaluated with a higher cost than envisioned. Any delay in or cancellation of planned development projects may adversely impact on SYD's operations, financial position, and performance.
- **New competitor:** Increased competition is anticipated once the construction of Western Sydney Airport is finished and starts its operations in 2026. Unlike SYD, it is planned to **have 24-hour and curfew-free operations**. In the first stage of development, it is expected to **hold up to 10 million annual passengers**, with a US\$11bn Sydney Metro-Western Sydney Airport rail project officially announced in June 2020.

Precedent Transactions

Announcement Date	Target	Acquirer	Target Location	% Acquired	Deal Size (US\$)	EV/EBITDA
05/07/2021	Sydney Airport	Sydney Aviation Alliance	Australia	85%	22.6bn	23x
09/10/2019	Hobart International Airport	Royal Schiphol Group / QIC	Australia	70%	600mm	27x
17/01/2018	North Queensland Airport	Perron Group / The Infrastructure Fund	Australia	24.6%	264.3mm	24x
22/01/2013	Manchester Airport	IFM	UK	35.5%	1.6bn	22.5x
22/12/2014	Vienna Airport	IFM	Austria	29.9%	515mm	NA
Mean				49%	5.1bn	24.1x
Median				35.5%	600mm	23.5x

Sources: Company press, Australian government data

Notes: (3) An open-ended fund is an investment vehicle that uses pooled assets, which allows for, theoretically, an unlimited number of potential shares outstanding