

PACIFIC NATIONAL FINANCE PTY LTD

FACT SHEET

AUGUST 2024

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INCOME ASSET
MANAGEMENT

Issuer Outline

Pacific National Finance Pty Ltd provides rail operation services. The Company transports coal, steel, agricultural products, construction materials, fuel, and waste. Pacific National Finance serves agriculture, consumer goods, and mining industries in Australia.

Sector:	Industrial
Sub-Sector:	Transportation
Country:	AU
Ownership:	Public

IAM Credit View

Pacific National (PN) is a key player in Australia's infrastructure transportation sector. PN's strategy is to transform the rail freight industry across Australia, with a role in mitigating emissions and having a positive environmental and social impact. In our view, this remains a low risk, investment-grade credit. The company's shareholders have been willing to forego dividends to protect the BBB-/Baa3 rating. These shareholders are experienced infrastructure investors with over USD1.7trn assets under management. Coal haulage contracts are largely on a take or pay (ToP) basis, which protects the issuer from counterparty risk. The weighted average coal contract is 5.4 years, while a freight contract is 3-5 years respectively.

A common misconception with PN is that it supports coal transportation only. This is inherently wrong, and the company is slowly diversifying out of coal and into rail freight. Revenue from coal is projected to decline from 39% (of rail revenue as at FY23) to 30% by 2025-2030 as rail freight increases as a portion of revenue. Over time, the development of the 1,700km Inland Rail Network will increase the competitiveness of rail against road transportation and help this diversification take place. PN has also pre-emptively invested ~\$400m as of FY23 to acquire and/or develop key freight hubs along the planned route of Inland rail while expanding its locomotive fleet to meet the increased service demands down the track. Apart from benefitting from the additional source of income from access charges to other freight operators, the

Issuer Credit Rating & Outlook

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

Key Financials (AUD m)

LTM (31 Dec)	FY23	FY22
Revenue	2,369	2,323
EBITDA	623	717
Normalised EBITDA	685	767
Net Interest Expense	181	167
NPAT	57	105
EBITDA Margin (%)	26.3%	30.9%
Total Assets	4,864	4,955
Total Debt	2,985	3,038
Net Debt	3,146	3,197
EBITDA to Net Interest	3.5	4.3
Net Debt/EBITDA (x)	5.0	4.5

PACIFIC NATIONAL FINANCE PTY LTD

FACT SHEET

AUGUST 2024

I A M
INCOME ASSET
MANAGEMENT

added flexibility and control over the owned hubs will likely distinguish PN from other operators from the lens of customers. Whilst PN is well on-track to diversify away from coal haulage, the coal business remains healthy due to the strong demand from coal-importing Asian countries in the near term.

In our view, this remains a low risk, investment grade credit. We also like the fact there is an opportunity for the bonds to outperform other BBB corporates as investors start pricing the bonds without the significant ESG risk which is unwarranted in our opinion.

Environmental factors are pertinent. The company has a large footprint in coal haulage rail services that contribute around 40% of its revenue. Of the coal business, about 47% stems from thermal coal and 53% metallurgical, both of which come from coal deposits in Australia that are of high quality relative to global suppliers. With no viable alternative to metallurgical coal for steel production, we see this segment as secure. Demand for thermal coal could present a challenge if Asian countries transition from coal-based generation to other forms. As one of the largest intermodal rail operators (contributing around 60% of revenues), PN is seeking to further the transition to rail-based freight from road. This helps to ease congestion within Australian cities by reducing truck movements and is much less emissions intensive than trucks. PN appropriately manages noise and air quality (diesel emissions and coal dust), factors that could affect its capacity to operate, and we expect the company to manage these appropriately under any changes to regulations.

PACIFIC NATIONAL FINANCE PTY LTD

FACT SHEET

AUGUST 2024

I A M
INCOME ASSET
MANAGEMENT

Strengths of Pacific National

- Long-term customer relationships with largest miners in the world and leading Australian industrial companies. Coal contracts predominantly include ToP volumes. There is also a high degree of control over costs with Network access charges and fuel fully recoverable from customers and representing 44% of total operating expenses.
- Strong financial position and commitment to investment grade rating. Capital management decisions are made with credit metrics in mind. PN's investment grade rating is underpinned by; strong competitive position in the intermodal, coal and bulk rail-haulage services in Australia; supportive Shareholders' experienced in ownership of infrastructure assets; disciplined approach to shareholder distributions and moderation of capital expenditure when needed to preserve cash; and evenly spread debt maturity profile, diversified funding sources and a strong liquidity position.
- PN is the largest interstate rail freight operator with a national footprint in Australia. PN has ~570 active locomotives and ~12,500 wagons. The long-term thesis for PN is reliant on the progress of the Inland Rail project as the extensive freight rail line provides strategic foundation for growing the intermodal freight business. Inland Rail is Australia's largest rail freight infrastructure project, traversing 1,700km across Melbourne and Brisbane via regional Victoria, New South Wales, and Queensland. Construction of the line is divided into thirteen projects, with 733 kilometres of new track to be built and 994 kilometres of existing track to be upgraded. The creation of a more direct rail link between Melbourne and Brisbane is forecast to cut about 200 kilometres off the current, longer coastal rail link, and lower rail freight costs by as much as \$10 per tonne and saving 10 hours in travel time.

Weaknesses of Pacific National

- The dependency on coal haulage poses a material risk to PN in the long-term in consideration of the focus on energy transition and environmental, social and governance (ESG) factors. As discussed in the industry analysis above, thermal coal is on a downward trajectory given the environment costs associated. PN is in acknowledgement that coal haulage is unsustainable for its long-term growth and is gradually pivoting towards intermodal freight and railing. There is also further support by the Inland Rail project rolled out by the Federal government, to transit road haulage to rail by building new railway infrastructures. This should create new demand in rail haulage and more broadly intermodal freight as demand moves from road transportation. As of latest, thermal coal contributes ~18% of PN's revenue stream which is non-negligible. This is likely a stable revenue source for PN in the short to medium term given the strong reliance by developing countries such as Indonesia and China, while PN looks to transit into more sustainable (economically and environmentally) revenue streams.
- Weather or external events. As evident by the idiosyncrasies faced in FY22, adverse weather conditions impair the ability of haulage trains to transport coal and other goods. Despite the pay or take clause that underpin most of the contracts that ensures a stable revenue YoY, the loss in service volumes was still a drag on end profitability which saw a decline in net profits

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PACIFIC NATIONAL FINANCE PTY LTD

FACT SHEET

AUGUST 2024

IA M
INCOME ASSET
MANAGEMENT

- Despite operating in an oligopolistic market characterised by the high barriers to entry, PN faces increasing competition from its peers such as Aurizon and Qube. These are long-term logistic operators pursuing growth opportunities to expand horizontally into sub-sectors.

Summary Bond Details

ISIN	Issue Amount	Ranking	Coupon	Coupon Frequency	First Call Date	Maturity Date	Issue Rating (S&P/Moody's/Fitch)
AU3CB0266906	AUD450m	Sr Unsecured	3.700%	Semi-annual	24 September 2029	24 September 2029	BBB- / - / BBB-
AU3CB0282812	AUD400m	Sr Unsecured	3.800%	Semi-annual	8 September 2031	8 September 2031	BBB- / - / BBB-
XS1794216660	USD400m	Sr Unsecured	4.750%	Semi-annual	22 March 2028	22 March 2028	BBB- / WR / BBB-
AU3CB0229680	AUD350m	Sr Unsecured	5.250%	Semi-annual	19 May 2025	19 May 2025	BBB- / WR / BBB-
AU3FN0035770	AUD100m	Sr Unsecured	3mBBSW + 2.60%	Quarterly	12 May 2027	12 May 2027	BBB- / WR / BBB-
AU3CB0244325	AUD250m	Sr Unsecured	5.400%	Semi-annual	12 May 2027	12 May 2027	BBB- / WR / BBB-

Estimated Commodity Split (Volume)

Revenue by Business Segment	%
Intermodal Freight	45.0%
Metallurgical Coal	19.0%
Thermal Coal	20.0%
Other	16.0%

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FACT SHEET

AUGUST 2024

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INCOME ASSET
MANAGEMENT

Australian Coal Exports

Destination country of Australian Metallurgical Coal		Destination country of Australian Thermal Coal	
India	25.0%	Japan	41.0%
Japan	25.0%	Taiwan	12.0%
South Korea	14.0%	China	11.0%
Taiwan	6.0%	South Korea	6.0%
Vietnam	4.0%	India	6.0%
Rest of Asia	8.0%	Rest of Asia	15.0%
Other	18.0%	Other	9.0%

Debt Maturity Profile

Board, management and shareholders remain committed to maintaining a solid investment grade credit rating and credit metrics

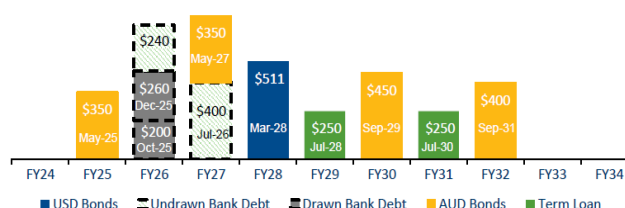
Capital Management – 31 December 2023

- Investments, debt and distributions (among other things) will be managed with the commitment to maintain an investment grade credit rating
- As at 31 December 2023:
 - Cash and cash equivalents of A\$83.0m
 - A\$960.0m drawn bank debt (including A\$500m term bank debt)
- A\$500m of 5 & 7-year term bank debt facilities drawn down in July-23
- PN's next bond maturity is A\$350m in May-25

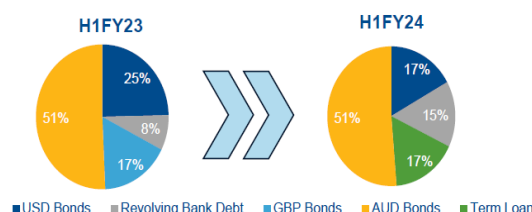
Facility	Type	Maturity	Drawn	Undrawn
Syndicated Bank	Revolving	Oct-25	200.0	0.0
Syndicated Bank	Revolving	Dec-25	260.0	240.0
Syndicated Bank	Revolving	Jul-26	-	400.0
Syndicated Bank	Term	Jul-28	250.0	0.0
Syndicated Bank	Term	Jul-30	250.0	0.0
US\$ bonds ⁽¹⁾	Reg S	Mar-28	511.0	
AUD bonds	AMTN	May-25	350.0	
AUD bonds	AMTN	May-27	350.0	
AUD bonds	AMTN	Sep-29	450.0	
AUD bonds	AMTN	Sep-31	400.0	
Total hedged A\$ equivalent balance			3,021.0	640.0
Cash / liquid assets			(83.0)	83.0
Lease liabilities			216.8	
Net debt / Available liquidity⁽²⁾			3,154.8	723.0

(1) Outstanding amounts for foreign currency issuance are shown at the hedged A\$ balances. Debt maturity profile chart excludes lease liabilities
(2) Source: Pacific National Group management accounts for the half year ended 31 December 2023. Outstanding amounts for foreign currency issuance are shown at the hedged A\$ balances

Debt Maturity Profile – 31 December 2023 (A\$m)¹



Drawn Debt Mix – Bonds/Bank Debt (A\$m)²



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PACIFIC NATIONAL FINANCE PTY LTD

FACT SHEET

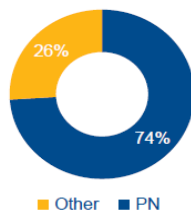
AUGUST 2024

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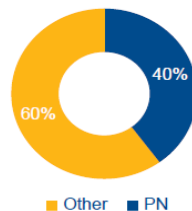
Key counterparties



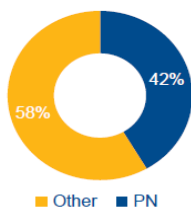
Containerised Freight East-West ⁽¹⁾



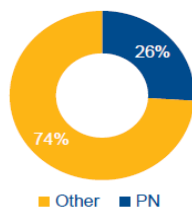
Grain haulage in NSW/VIC ⁽²⁾



Coal Haulage in NSW ⁽³⁾



Coal Haulage in QLD ⁽³⁾

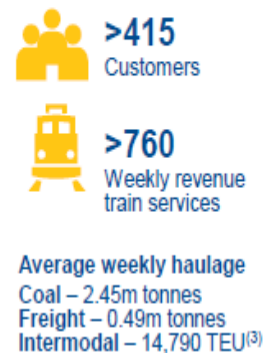


Snapshot⁽¹⁾

National view



Customers



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FACT SHEET

AUGUST 2024

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Disclosure

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