

**Moody's assigns first-time Baa2 issuer rating to Lonsdale Finance; outlook stable**

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Sydney, April 27, 2018 -- Moody's Investors Service has today assigned a first-time Baa2 issuer rating to Lonsdale Finance Pty Limited (Lonsdale Finance).

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The outlook on the rating is stable.

Lonsdale Finance is the finance vehicle of the Port of Melbourne group (PoM) and its rating reflects the fact that all of its debt obligations are guaranteed on a senior secured basis by other entities within the group. These entities include Lonsdale Asset Property Trust and Port of Melbourne Unit Trust, as well as their respective trustees and parent holding trusts.

The group has a 50-year leasehold interest in the port land and seabed of the Port of Melbourne, with the state of Victoria (Treasury Corporation of Victoria, Aaa stable). The group is responsible for the commercial operations of the port, including wharf and port infrastructure management and rights to charge for use of the channel.

Lonsdale Finance's equity interest is held by a consortium of funds managed by QIC and Global Infrastructure Partners (each with a 40.005% interest), and OMERS (19.99% interest).

**RATINGS RATIONALE**

"Lonsdale Finance's Baa2 rating reflects the Port of Melbourne's credit profile, which in turn is underpinned by the port's status as the dominant trade gateway for its service area and with strong transport links," says Simon Poidevin, a Moody's Analyst.

"Such factors enhance the visibility of its cargo volumes, which are the key revenue driver, particularly given that the port's strong market position is protected by its distance from competing ports and the high costs of intermodal transport," adds Poidevin.

Moody's central scenario is for a low single-digit percentage population and economic growth in PoM's service area, which will support continued trade volume and revenue growth in the low single-digit percentage range.

While a pronounced reduction in economic activity is the main source of downside risk, Moody's notes that PoM's trade volumes have typically recovered rapidly during periods of past volatility. Moreover, the more equal balance between import and export volumes compared with other ports in Australian capital cities, and cargo diversification mitigates the consequence of a decline in any particular market.

Moody's says that the higher customs tariffs levied on trade between China and the US should not have a material impact on PoM's activities, given that (1) the diversification of cargo and (2) PoM's focus on captive origin and destination cargo support volume stability.

Moody's believes that PoM's exposure to the risk of a failure of the new container terminal operator, Victoria International Container Terminals, is manageable, mainly because the ongoing demand growth for container handling and the increased maritime capacity of Webb Dock should help ensure interest from replacement operators if necessary.

Although PoM's expected financial leverage -- as measured by funds from operations (FFO) to debt -- falls outside the rating tolerance level in FY18, the rating is predicated on the port's future income growth elevating its credit metrics into the rating. Moody's expects FFO/debt to increase to 7.0%-7.5% over the next three years, compared to the rating tolerance level of 6.5%.

Apart from the factors supporting revenue growth, the ongoing commitment of Lonsdale's sponsors to strengthening PoM's capital structure under downside scenarios is a key rating consideration. The rating therefore factors in the sponsors' supportive investment track records, and Moody's expectation that they will implement countermeasures if required to protect PoM's rating.

Moody's could upgrade Lonsdale Finance's rating over time, if PoM's capital structure improves sustainably, with FFO/debt exceeding 9.5%-10.0% and FFO/interest cover above 3.0x.

Lonsdale Finance's rating could experience downward pressure, if its financial metrics deteriorate on a sustained basis, with FFO/debt falling below 6.5% and FFO/interest cover below 2.0x. Moody's could also downgrade the rating if the sponsors fail to provide the necessary support for the company to achieve Moody's base case metrics in a timely manner in periods when growth proves lower than Moody's anticipates.

The principal methodology used in this rating was Privately Managed Port Companies published in September 2016. Please see the Rating Methodologies page on [www.moodys.com](http://www.moodys.com) for a copy of this methodology.

Port of Melbourne group operates the commercial port in Melbourne, with a catchment area which includes Victoria, Tasmania and parts of the neighbouring states. The port handles a diverse range of containerised general cargo, and dry and liquid bulk cargo at over 30 commercial berths. For the financial year ended 30 June 2017, the port reported container volumes of about 2.7 million twenty foot equivalent units, which is equivalent to more than a third of total national trade.

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Simon Poidevin  
Analyst  
Project & Infrastructure Finance  
Moody's Investors Service Pty. Ltd.  
Level 10  
1 O'Connell Street  
Sydney NSW 2000

Australia  
JOURNALISTS: 61 2 9270 8141  
Client Service: 852 3551 3077

Terry Fanous  
MD-Public Proj & Infstr Fin  
Project & Infrastructure Finance  
JOURNALISTS: 852 3758 1350  
Client Service: 852 3551 3077

Releasing Office:  
Moody's Investors Service Pty. Ltd.  
Level 10  
1 O'Connell Street  
Sydney NSW 2000  
Australia  
JOURNALISTS: 61 2 9270 8141  
Client Service: 852 3551 3077

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