CFA Institute Research Challenge

Hosted in

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CFA Institute Research Challenge

Curtin University | Sydney Airport Holdings Pty Ltd (SYD.ASX)

GICS Sector: Industrials
GICS Industry: Transportation
Australian Securities Exchange (ASX)
Current Price: **$6.02** as at CLOSE, 09/10/2020

Date: 09/10/2020

Recommendation: BUY
Target Price: $6.96

SYD.ASX Overview

Recommendation	BUY
Current Price (AUD)	6.02
Target Price (AUD)	6.96
Upside (%)	15.61
Market Cap (AUD)	15,760m
Shares Outstanding	2,700m
Free Float (%)	99.04
52-Week High (AUD)	9.07
52-Week Low (AUD)	4.26
EV / EBITDA (LFI)	20.85
Current Ratio (LFI)	0.76

**Values true as at CLOSE, 09/10/2020*
Source: Thomson Reuters Eikon

Price History: SYD Against Rebased ASX200 (2015 – 2020)

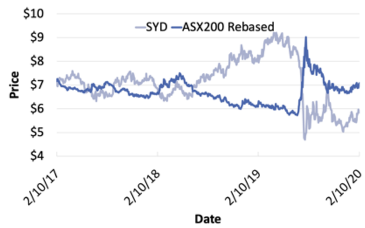


Exhibit 1: SYD Revenue Stream % of Contribution to Total Revenue (2015A – 2024F)

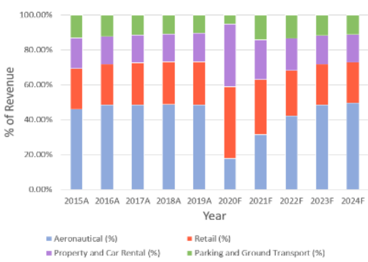
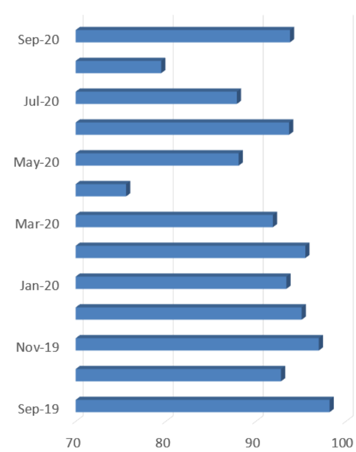


Exhibit 2: Consumer Sentiment Index Australia 2020



Executive Summary

We issue a **BUY** recommendation on Sydney Airport Holdings Pty Ltd (SYD.ASX), based on a 12-month target price of **$6.96**, reflecting **15.61 percent upside** from the current price of $6.02 – as at close on 9 October 2020. Our target price has been forecasted using a discounted cash flow (DCF) valuation with careful considerations of the dividend discount model (DDM) and relative valuation with the relevant EV/EBITDA and EV/Sales multiples.

SYD is the only Australian airport listed on the ASX, with the only other airport on the exchange being Auckland (New Zealand) International Airport Limited (AIA.ASX). Furthermore, airports throughout the world operate under different jurisdictions with diverse government regulations, meaning the performance of global airports may not be directly comparable to that of SYD. Due to this, it is difficult to evaluate and assess their historical performance relative to global airports.

In our view, the market has over-reacted to the adverse effects of COVID-19 and as a result, SYD is currently experiencing a mismatch between the market and fair price.

1. The Global Race for a COVID-19 Vaccine

We believe in a positive outlook for a COVID-19 vaccine, surprising the market on the upside, with a global urgency to find a COVID-19 vaccine, there are promising Phase-3 trials from University of Oxford and AstraZeneca, BioNTech, Fosun Pharma and Pfizer as well as CanSino Biologics Inc (see Appendix 22) and the Beijing Institute of Biotechnology. Australia has signed two agreements with the University of Oxford/AstraZeneca and the University of Queensland/CSL to provide over 84.8 million vaccine doses for all Australians. The vaccine will be distributed to all Australians for free. Globally, 207 vaccines are being trialled and tested. We forecast:

- FDA approval of Phase 4 vaccine trials in January/February 2021.
- Mass production and distribution to all Australians by June/July 2021.
- COVAX, a vaccine alliance hosted by Gavi, distributes a global vaccine to 156 economies that represents two-thirds of the global population by the beginning of 2022.

2. COVID-safe Countries to Join the Travel Bubble

Recent announcements as at 16 October 2020, welcomes New Zealand travelers into Australia. The agreement between governments was made after careful assessment on each country's effective measures taken against COVID-19. Thus, we foresee the current Tran-Tasman Bubble to expand to other countries with successful pandemic containment in coming 2021, which includes: **China, Singapore and Hong Kong** (See Appendix 23). We forecast the Australian Government will have a sense of urgency to reopen borders to these countries as their travelers account for 27.14 percent of tourism income for Australia in 2019 to aid the recovery of our economy. We believe that travel will recover rapidly with the evidence of an emerging travel bubble.

3. Australian Government's Decision to Boost the Economy

Within the period of the COVID-19 outbreak, the consumer sentiment index plummeted twice to 75.6 in April 2020 and 79.5 in July 2020, corresponding to the events of initial outbreak and Victoria's second wave respectively. However, in their consecutive months, a fast recovery in the index can be seen. This shows a robust consumer confidence in Australia's economy.

We foresee a boost and continuance in strong consumer confidence levels as a result of future fiscal policies being brought forward from 2022 to 2020. These changes include a shift in tax brackets which increases individuals net income and a wage subsidy for the unemployed. With the recent fiscal policy announcements, we believe in an increased propensity to travel due to strong consumer confidence. We forecast:

- Consumer Sentiment to remain robust despite Australia entering a recession.
- A gradual increase in the Consumer Sentiment Index currently at 93.8 due to positive consumer fiscal stimulus changes.
- Improvements in household financial situations translating to a swift recovery of air travel.

Exhibit 3: SYD's and Western Sydney Airport's Location

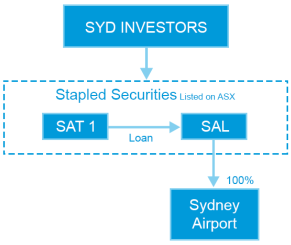
Legend:

= SYD

= ***Western Sydney Airport***

Source: Sydney Transport, February 2013

Exhibit 4: SYD's Double Stapled Structure



Source: From *Board and Management team,* by Sydney Airport (n.d.).

Exhibit 5: SYD's Revenue Streams

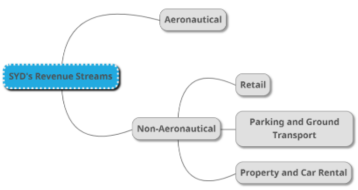


Exhibit 6: SYD's Revenue Drivers

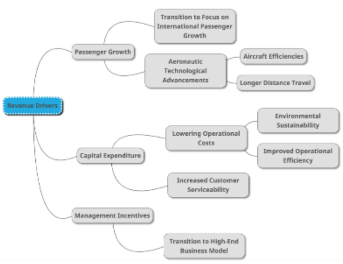
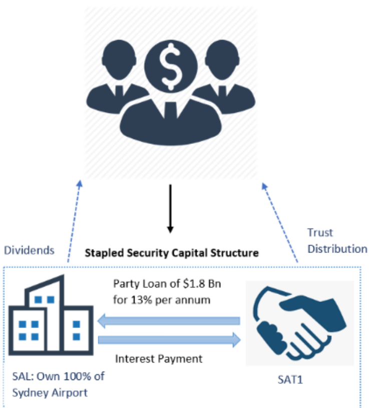


Exhibit 7: SYD's Carbon Accreditation - Optimisation



4. Balance Sheet Resilience

SYD boosted its financial resilience to withstand the aftermath of the COVID-19 pandemic through $2.0 Bn of capital raised from issued equity. As a result, SYD now hold $4.6 Bn of liquidity consisting of $1.6 Bn in undrawn bank facilities and $3.0 Bn cash on hand, which enables the airport's capability to endure the impact of consistent low passenger traffic until all revenue streams recover. Furthermore, the maintenance of SYD's investment grade credit rating is vital to enjoy low borrowing costs, along with giving investors' confidence in SYD. With the injection of capital from issued equity, the pro forma net debt is reduced from $9.1 Bn to $7.1 Bn (see Appendix 2), lowering the net debt-to-EBITDA ratio from 6.8x to 5.3x. The $4.6 Bn is more than sufficient to cover the debt maturing from 2020 to 2022 totaling $2.8 Bn.

5. Propensity for International Travel will Rebound

Historically, international travel has seen consistent increases in growth since the 1950's. Black swan events such as 9/11, SARS and the Global Financial Crisis in 2008 had only short-term impacts on the international travel market, with full recovery achieved in under two years (see Appendix 20). Swift demand and recovery average a two-year period before exceeding past historical all-time highs. We expect the international travel market to recovery similarly within the next two years and expect international travel to grow at 6.8% annually in due time. Sydney will remain to an iconic tourist location in the heart of Sydney CBD and the main gateway of Australia.

BUSINESS DESCRIPTION

Overview

Located eight kilometres south of Sydney's CBD, SYD is Australia's busiest airport, processing 44.4 million passengers in both 2018 and 2019. Three terminals service the airport; one international – amassing 16.8 million users throughout 2019, and two domestic – for which one is solely controlled by Qantas and the other by budget airlines.

SYD's freight hub property precinct is the most significant in the country by value and volume, handling 45 percent of all freight movements into and out of Australia. Excluding minerals and animal products, SYD is overrepresented for most commodity classes, relative to their import/export catchment.

SYD is one of NSW largest job creators, directly and indirectly generating some 10 percent of the state's employment opportunities. Around 500 staff are employed there permanently, with roughly 31,000 being contracted for roles across 800 different businesses.

Business Structure

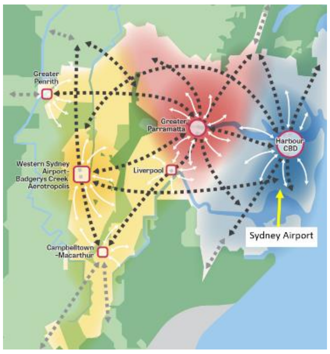
SYD is a double-stapled security, comprised of Sydney Airport Limited (SAL) and Sydney Airport Trust 1 (SAT1). SAL is the parent company of Sydney Airport Corporation Limited (Sydney Airport) – the operator of Sydney Airport. SAT1 is a registered managed investment scheme, aligned with a wholly owned subsidiary of Perpetual Limited (PPT.ASX). Each unit of SAL is stapled to one unit of SAT1, traded on the ASX as "SYD". That is, when investing in SYD, an investor is buying one unit of SAL and one of SAT1 (Exhibit 4).

Sydney Airport Trust 1 (SAT1): SAT1 is a public trust, deriving income through majority financing the operations of Sydney Airport. The trust structure allows for SAT1 to be treated as a flow through entity for income tax purposes, in accordance with Australian tax legislation. This means, no tax is paid given all net income is distributed to shareholders. The loan from SAT1 to SAL differs immensely to its comparable debt holdings due to the high interest charge of 13% annually on $1.8 Bn to SAL. The weighted average of SYD's debts currently remain at 3.60%, a much lower rate in comparison to the related-party loan with SAT1.

Sydney Airport Limited (SAL): The business model for which SYD operates is heavily underpinned by passenger numbers. Much of their recent revenue growth can be attributed to a steady increase in both domestic and international passenger numbers (Exhibit 14). Their revenue generating activity are split broadly into two categories; aeronautical and non-aeronautical.

Aeronautical: The primary revenue driver for this category is contracts with airlines for the provision to access and use airport facilities, including; terminals, runways, infrastructure and aircraft parking. Other charges, such as passenger fees, also account for a portion of this revenue. Aeronautical services generated 48 percent of the total revenue contribution in 2019.

Exhibit 8: SYD's Closeness to CBD



Source: Greater Sydney Commission

Exhibit 9: SYD's Female Staff Proportion

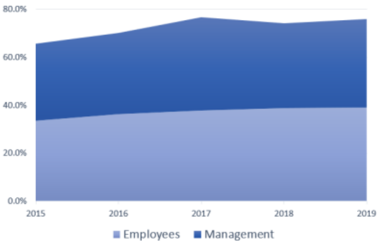
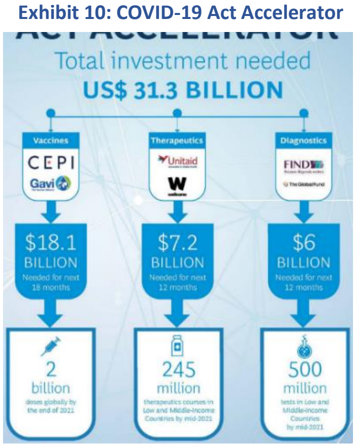


Exhibit 10: COVID-19 Act Accelerator



Source: WHO ACT-Accelerator Tools

Exhibit 11: SYD's Carbon Accreditation - Optimisation

Exhibit 12: SYD's Environmental Management Framework

Non-aeronautical: This category has three main revenue drivers; retail, property and car rental, and parking and ground transport. These activities contributed 24, 16 and 11 percent to revenue in 2019 respectively.

Business Model: Revenue Streams

The four segments which generate operating revenue are Aeronautical Services, Retail, Property and Car Rental and Parking and Ground Transport. Each draws revenue from the below sources:

Aeronautical Services

- Passenger charges
- Runway charges
  - Per Passenger or;
  - Maximum aircraft take-off weight
- Passenger and airfield security
- Aircraft parking

Retail

- Lease agreements with retail outlets
- Passenger numbers
  - Heinemann, a significant tenant, have split fixed lease and per passenger charge agreement.

Property and Car Rental

- Lease agreements
  - Freight hubs
  - Car rental yards
  - Airline lounges
  - Hotel Operations
- Passenger Numbers
  - Hotel Occupancy

Parking and Ground Transport

- Passenger numbers
  - Domestic passengers utilising parking
  - Taxi/rideshare charges
  - Valet parking
  - Buses and transfers

With all segments having a degree of exposure to passenger numbers, it is the prime driver of revenue. Secondly, lease agreements within retail, commercial and industrial industries make up the remainder of revenue. All lease agreements have contracted rate increases that are tied to Consumer Price Index (CPI) or performance of the industry's lease market.

MANAGEMENT & GOVERNANCE

Environmental, Social and Governance (ESG)

Environmental: Australia has a State Action Plan to manage carbon emissions in the aviation industry. Proposed to the International Civil Aviation (ICAO) in 2017, Australia is trending towards creating environmentally cleaner and sustainable aviation practices through energy and water audits, as well as endorsing recycling and biodiversity zones. SYD has been consistently improving their environmental sustainability and responsibility. Going beyond themselves, SYD has engaged with retail partners and service providers to proactively create a sustainable future. In 2019, SYD has secured a Sustainability Linked Loan (SSL) of $1.4 Bn, the first in Australia and the largest SSL to an airport. SYD also issued a multi-tranche USPP of $600 million on February 17, 2020, which included a 20-year sustainability-linked tranche, structured similarly to an SSL. SYD is highly financially incentivised to be environmentally sustainable due to the SSL and sustainability linked USPP.

Currently at level three of the Airport Carbon Accreditation (ACA) "Optimisation", SYD has goals to be carbon neutral by 2025. SYD will be required to engaged with third parties to carbon offset the remaining surplus of carbon emissions through funding projects that reduce carbon emissions. SYD is aligned in their business practices, values and objectives to be environmentally sustainable and conservative, with financial debt instruments incentivising the business to perform in these areas benefitting the company and environment.

Social: SYD has actively supported and engaged with the local community. By investing $5.2m into the local community in 2019, SYD has been able to support 29 community organisations and continue to be of support to the community during the COVID-19 pandemic, sponsoring a UNSW aviation scholarship every year in continuance of the SYD100 program.

SYD has an above average gender pay ratio of 95.9, in comparison to the Australian standard of women earning 14 percent less than men. SYD also has an above average amount of women (37 percent) in managerial roles, compared to the Australian standard of 31.5 percent. SYD is conscious about gender inequalities and have taken initiative to create fairness within the workplace. SYD consists culturally diverse workforce coming from 46 countries.

As COVID-19 forced strict regulations on international and domestic travel, aeronautical adjusted revenue has decreased 58 percent from 1H19. SYD has prioritised national interests and customer safety, developing a COVID-safe protocol in synergy with the Australian Aviation Recovery Coalition, ensuring customers comply with the minimum regulatory requirements before travelling. Mandatory PPE for staff and an increase in regular cleaning policies have been implemented proactively for the safety of staff and customers. Abiding to the National Cabinet's Code of Conduct, SYD has negotiated temporary relief with 71 percent of rental contracts within the retail and 54 percent of the property and car rental sectors to assist financially on a case by case basis. SYD has prioritised the best interests of staff and customers, adhering to government requirements around COVID-19.

Exhibit 13: Different Type of Shareholders' - Proportion in

Company	Holding
UniSuper Limited	15.54%
The Vanguard Group, Inc.	2.32%
BlackRock, Inc.	1.75%
Caisse de dépôt et placement du Québec	1.40%
Capital Research and Management Company	1.18%
Legg Mason, Inc.	0.86%
CI Investments Inc.	0.86%
Australian Foundation Investment Company Limited	0.79%
Motor Trades Association Of Australia Superannuation Fund Pty. Limited	0.74%
Norges Bank Investment Management	0.60%

Exhibit 14: Forecasted SYD International and Domestic Pax Recovery 2019-2032Exhibit 14:

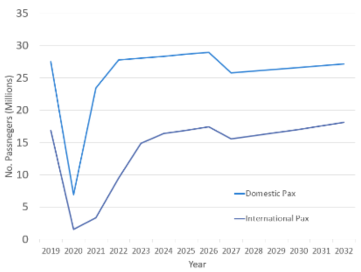
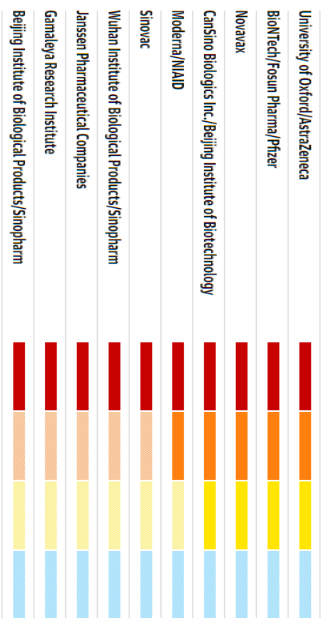
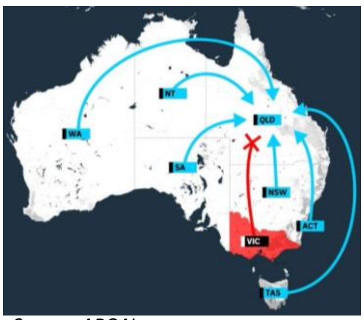


Exhibit 15: Vaccine Trials Progress



Source: The Guardian Vaccine Tracker

Exhibit 16: First Borders Reopen: Queensland for interstate travellers



Source: ABC News

Governance: SYD's management and board has a high level of experience in each specific role. The management team's remuneration is structured well with incentives linked to SYD's long and short-term performance. The board of directors are all independent with regular reassessment on their independence to prevent conflicts of interest and remunerated without incentives. Audits are completed fairly and in good faith, with active engagement of a third-party audit team to prepare annual financial reports in compliance with Chapter 2M of the Corporations Act 2001. Nomination of management and board members follow a strict structure and skills matrix to ensure they are competent and meet the requirements for the required role. An in-depth analysis of SYD's management, board and corporate governance can be found in Appendix 3-5.

Shareholder Analysis

SYD currently has 2,700 million outstanding shares at a free float of 99.04 percent, for which the top 25 investors own 30.41 percent of the company. The top ten shareholders of the airport are shown in Exhibit 13 with their ownerships.

INVESTMENT SUMMARY

1. Positive Progress in Vaccine Trials amidst COVID-19 Chaos

Vaccines Progress Steadily with Confidence Backed by Global Giants: With a global race to find a vaccine to curb the COVID-19 pandemic and aid economic recovery, over 170 vaccines are currently in the works from scientists globally. **10 vaccines are in Phase-3**, with promising signs of entering Phase-4 to be approved and licensed for distribution. Globally, over $10 Bn USD in government funding has been poured into pharmaceutical companies to assist with finding a vaccine. The Chief of the World Health Organisation (WHO), Tedros Adhanom Ghebreyesus, expects a vaccine to be ready by the end of 2020. Bill Gates, funding 16 pharmaceutical companies, has optimistic outlooks on vaccines being accessible globally with expectations of first-world economies recovering by late 2021. The Good Judgement Project (GJP), a team of professional super forecasters predict that there is a 43% chance that a vaccine will be readily available between 1 October 2020 and 31 March 2021 to be distributed to 25 million people in the United States. GJP also predicts that there is a 46% chance that the vaccine will be readily available between 1 April 2021 and 30 September 2021. With a high chance that a vaccine for COVID-19 will be produced in the near future, SYD will benefit from the positive outlook of a vaccine entering Phase-4.

Australians Promised Vaccines Provided for Everyone: In an effort to get rid of the adverse impact of COVID-19 pandemic both socially and economically, Australian Government made two onshore manufacturing agreements worth of $1.7 Bn with University of Oxford/AstraZeneca and University of Queensland/CSL. The agreements promised more than 84.8 million doses of **free** vaccines would be available for Australians. Among these pharmaceutical companies, Oxford/AstraZeneca is one of the two leading candidates in the race to get regulatory approval from FDA, which is the acknowledgement for the vaccines' effectiveness as well as a permit for mass production. If trials prove successful, the agreement will bring Australia an early access to 3.8 million doses from AstraZeneca in early 2020.

Global Alliance to Defeat COVID-19: COVAX facility is one of the three pillars of Access To COVID-19 (ACT) Accelerator, launched by WHO in April 2020 to focus on the vaccine-related operations. Today, COVAX is engaged by two thirds of the world in order to ensure sufficient vaccine doses to distributed globally. According to GAVI, COVAX aims to secure $2 Bn vaccine doses and half of it are going to be distributed to 92 low- and middle-income countries, which encompassed half of the world population. With that being said, we foresee that free travel is occurring latest by the end of 2021.

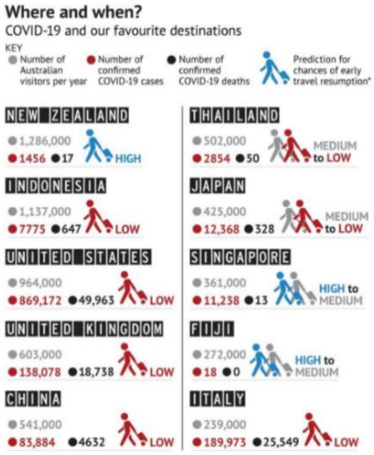
On the other hand, the Australian Government committed $123.2 million to COVAX in a recent agreement to join COVAX facility which enables the purchase of COVID-19 vaccine doses once they are available. This agreement adds up the provision of vaccine to Australians.

2. Borders reopening: The Beginning of the Travel Bubble

A Christmas Gift from the Government – The Reopening of Domestic Borders: With the diminishing numbers of COVID-19 cases after the second wave scare in Victoria, domestic borders are being slowly announced to reopen as per each state's judgement.

South Australia (SA) has announced that New South Wales (NSW) can re-join the other Australian states in participating in interstate travel from 23 September 2020 onwards. Although Victoria (VIC) has been the latest COVID-19 hotspot, VIC has always allowed travellers from all states to travel freely into VIC. Queensland (QLD), released a roadmap on 2 October 2020 stating that the NSW border restriction will be lifted on 1 November 2020. The Northern Territory (NT) has recently also announced border reopening's to Greater Sydney on 9 October 2020 if COVID-19 cases remain low. Tasmania (TAS) will soon allow interstate travel to the other states including NSW, only if COVID-19 cases remain controlled with low numbers. NSW has also been freely open to all other states throughout the pandemic except VIC due to the recent second wave. Although Western Australia (WA) has not announced any current border reopening's, there is reason to believe that these restrictions will be lifted soon as well due to the high-risk management quality from the Australian Government during the COVID-19 pandemic. With interstate borders on track to fully reopen so that Australian's can move freely interstate, the outlook of SYD's domestic travellers remains positive with full support from Scott Morrison, the Australian Prime Minister, stating interstate borders to be fully reopened before Christmas.

Exhibit 17: Predictions on Possible Countries to Reopen Borders

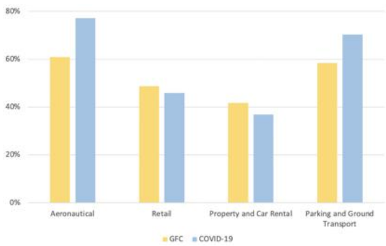


Source: Tourism Research Australia. John Hopkins University.

Tran-Tasman Bubble: Welcome Kiwi Travellers: SAL's increased reliance on international travellers over the years due to higher landing charges and terminal fees on international airlines will represents a margin tailwind, which implied a shift in SAL's value propositions as well as operational strategy to be a high-end airport. The disastrous impact of COVID-19 reflected a crumple in international patronage of 97.5% meaning there are barely any international travellers currently due to people's fear and border restrictions. With Australia Government confirming a travel bubble to open between Australia and New Zealand, despite being one-way, it implies the commence of gradual recovery in international recovery. Once the bubble enables two-way travelling, we foresee a higher patronage during the travel bubble as for people who are interested to have a holiday or vacation overseas, New Zealand and Australia are the only option available for residents from each country.

According to Margy Osmond, CEO of Tourism and Transport Forum (TTF), there are some possible options for Australia to include in the quarantine-free travel bubble: Pacific economies and Singapore. We forecast Hong Kong and Singapore to be appended in the list while putting China, Korea and Japan as possible candidates after assessing the COVID-19 infection cases in respective countries. According to our forecast, by the end of 2021, Sydney Airport are going to capture one-fifth of the international passengers compared to pre-COVID level from the travel bubbles, indicating a huge recovery in aeronautical revenues. In overall, we see it as a positive sign for SAL for a couple reasons: **1)** Higher charges for international passengers compensate for its slower recovery rate and lower volume. **2)** The international patronage leads to an increase in retail revenue as a part of Heinemann rental varies with international passenger volume. **3)** Increasing reliance on international passengers is improving SAL's profit margin as well as substantiating its business paradigm as a high-end airport to distinct itself from the up-coming Western Sydney Airport (WSA).

Exhibit 18: Percentage Loss Occurred Comparison (GFC vs COVID-19)



3. Fiscal Stimulus, More Cash to be Splashed

Fiscal Stimulus in Hopes to Increase Spending – Consumer Sentiment to Increase Despite Recessions: Since March 2020, the Reserve Bank's cash rate has been at an all-time low of 25 basis points. With negative rates ruled out by Philip Lowe, the Reserve Bank of Australia's governor, Australia is left with limited options to stimulate the economy and therefore, future 2022 planned fiscal policies have been fast-forwarded to FY2020. The budget brought forward as at FY2020 includes:

- Relief to taxpayers through tax rate cuts and bracket changes
- Wage subsidies for the unemployed and apprentices
- Enable small businesses to 'carry back'

The tax cuts provided by the Australian Government will increase the average Australian household income. According to Tourism Research Australia (TRA), there is a positive correlation between income and international travelling of 1.02. Therefore, we foresee the fiscal stimulus will further increase the number of outbound travellers. The tax relief will lead to an increase of 1.3% – 2.5% in income depending on the individuals' salary. In the long run, outbound international pax growth will increase in the range of 1.326% to 2.55% solely due to the fiscal stimulus.

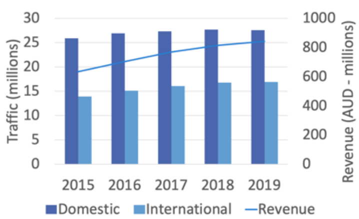
Exhibit 19: Australian Tax Relief After Shifts in Tax Bracket

Taxable Income		Change in Tax (%)
$	40,000	-24.1
$	60,000	-17.8
$	80,000	-11.3
$	100,000	-9.2
$	120,000	-8.0
$	140,000	-6.1
$	160,000	-5.1
$	180,000	-4.4
$	200,000	-3.8

Source: Team Analysis

Despite the drastic decrease to 75.6 in the consumer sentiment index (CSI) of Australians, a swift recovery spike to previous pre-COVID-19 index levels is seen, bringing the index back to 93.8 as at September 2020. Similarly, the research by TRA displayed a positive correlation of consumer confidence on both domestic and international travel propensity, 0.49 and 0.14 respectively. With the recent rebound in CSI, we forecast domestic passenger volume to recover at a higher rate after borders reopen. Given the economic state of Australia, the current CSI continues to remain in the previous range of pre-COVID-19 sentiment. With fiscal policies injecting large amounts of capital into the economy, the CSI is forecasted to remain at normal levels.

Exhibit 20: Domestic and International PAX Numbers and Revenue Trend (2015 – 2019)



4. De-risked Balance Sheet

Enhancing SYD's Financial Resilience: With passenger volume being the main driver of SYD's operational activities revenue, COVID-19 event had resulted in a critical 96.5% plummet in total passenger traffic in Aug 2020 compared to the corresponding period. SYD had revealed a $53 million loss for the six months to June 30 as a result of the huge plunge in patronage. Aside from the aeronautical revenue, domestic patronage is directly associated with parking and transport revenue; while international patronage is correlated with retail revenue as part of rental agreements include percentage of sales and charges per

Exhibit 21: Different Type of Shareholders' - Proportion in SYD

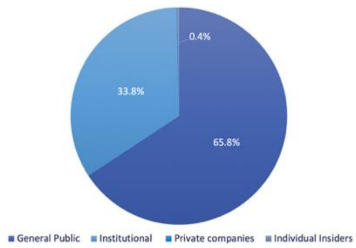


Exhibit 22: Australia's Total Passenger Movements (1985 – 2020)

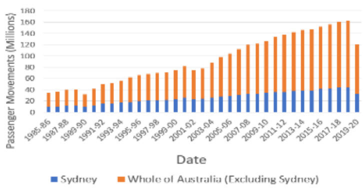


Exhibit 23: Inbound Passengers to Australia

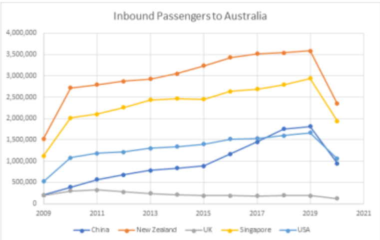


Exhibit 24: International Travel and Education Export Estimates ($ mil)

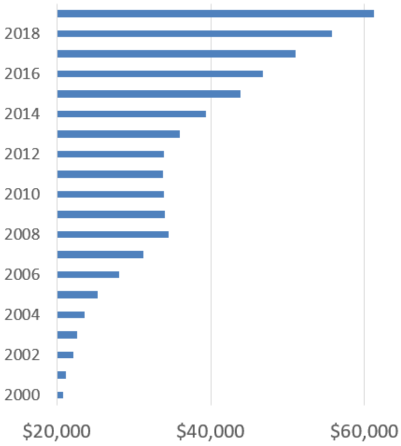
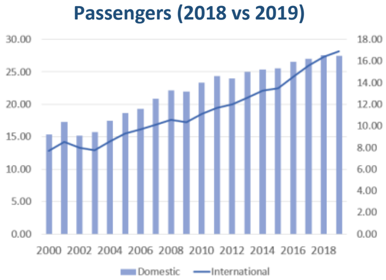


Exhibit 25: Pre and Post Equity Raising Effect on Gearing Covenants

		2020		2019
Short-term debt	$	1,826	$	1,826
Long-term debt	$	9,790	$	9,790
Cash and cash equivalents	-$	3,002	-$	1,002
Net Debt (ND)	$	8,614	$	10,614
Enterprise Value (EV)	$	22,898	$	22,898
Gearing Covenants		0.38		0.46
(ND/EV =0.75)				

Exhibit 26: Distributions of Domestic and International Passengers (2018 vs 2019)



pax. In a short period of three months, the pandemic event resulted in 36% drop in revenue, a total of $63 million impairment and $59 million of rental abatements and deferrals. Thus, we see the equity raise is sufficient to ensure SYD remains well capitalised to withstand the repercussions of COVID-19 event.

Uphold Investment-grade Credit Rating: SYD's current credit rating holds at investment grade at BBB+/Baa1 (S&P/Moody's) with negative future outlook. A further credit downgrade would reclassify SYD's bonds from investment grade to "junk" status, which could bring much severe consequences than a mere one-step drops in credit rating. As a downgrade to "junk" status is indicating a higher default risk in the respective firms, it forces the investors to scatter as asset managers are not allowed to hold junk bonds in their portfolios. The repercussions are disastrous for SYD where approximately 41% of its investors are institutional shareholders and the ripple effect of a panicked sell-off in the market is simply catastrophic. On the other hand, a credit downgrade also means SYD has to bear a higher borrowing cost as SYD default risks are deemed at a higher level. In overall, we see the capital injection of $2 Bn as an action to loosen its credit pressure by improving SYD's sufficient liquidity until significant recovery take place.

Buttress SYD's Balance Sheet: With the boost in liquidity from $2.6 Bn to $4.6 Bn, the equity raise decreased SYD's pro forma net debt from $ 9.1 Bn to $ 7.1 Bn with its debt-to-earning leverage falls from 6.8x to 5.3x. The most significant implication is reflected in a drop of the ND-to-EV ratio from 0.46 to 0.38, which will prevent SYD from breaching its gearing covenants. Aside from the boost in equity, SYD also took actions including a cut in operating expenses (OPEX) by 20% and setting CAPEX for 2021 in the range of $100 - $125 million. In short, SYD aims to preserve as much cash as they can in order to weather through the pandemic event. Thus, we are optimistic with SYD's capability to withstand the pandemic until the economy recovers to pre-COVID levels.

5. Travel to Resume Where it Left Off

The Natural Trend of International Travel: Historically, pre-COVID-19, there has been exponential global growth in international travel since 1950. The United Nations World Tourism Organization (UNWTO), estimated 25 million international travellers back in 1950, with a huge growth to 1.4 Bn of international travellers in 2018, despite previous black swan events such as 9/11, SARS and the Global Financial Crisis temporarily hindering growth. Tourism was worth $9 trillion in 2019, equating to a global GDP of 10%. The importance and demand for tourism will continue to be a vital part of the global economy, with SYD to be well positioned to facilitate international travel and tourism due to its uniqueness and popularity of Sydney's tourist attraction. With a pent-up demand of international travel due to the global border restrictions to halt the spread of COVID-19, international travel will recover and resume the growing trend in due time.

Nothing is Forever: Despite the 99.6 percent decrease in all short-term visitor arrivals in Australia, equating to 17x larger drop in airline capacities in comparison to the Global Financial Crisis (GFC), a recovery trend of two years in international travel can be seen historically whenever a black swan event occurs. With long- term drivers for expanded demand for air travel expected to recover, emerging economies are forecasted to have an increase in air services in the future. Although highly dependent on a vaccine to resume international travel, the necessity of aeronautical services remains a staple with high barriers of substitutes. Aeronautical services will remain to be the most time-efficient and cost-effective way to internationally travel.

INDUSTRY OVERVIEW AND COMPETITIVE POSITIONING

Market Dynamic

Consumer Sentiment Index and Income: The consumer sentiment index reflects people's prospect over their individual financial health and the whole economy of Australia. Generally, a positive index indicates people are more optimistic about the economy and more likely to spend more. This increased likelihood to spend is good for the air travel industry, as studies by the TRA have found this to have a positive correlation of 0.49 with domestic airport passenger movements. Furthermore, household income is found to have a greater positive correlation of 1.02 for Australians travelling outbound internationally.

Tourism: Since 2011, Australia's growing popularity as a travel destination signals the flourish of Australia's tourism sector. Without a doubt, airport operators are the benefactors of the international tourism growth with increasing airport patronage. Majority of Australia's international visitors are from China, New Zealand, United States, Singapore and United Kingdom. Visitors spending from these five countries (A$7.4b) accounts for approximately half of international visitors total spending (A$15.6b). Prior to COVID-19 outbreak, Australia has seen a steady increase in international arrivals, with dramatic growth observed from 2009 onwards. However, the event of COVID-19 outbreak which caused lockdowns in various cities and travel restrictions had severely impacted the industry. The consequent of travel restrictions imposed by Australian Government is reflected in the drastic drop in international arrivals since 2020.

Industry Dynamics

Industry Life Cycle – Growth: We identify Airport Operations Industry to be in the **growth** phase of its economic life cycle. Airport operators' Industry Value Added (IVA), a measure used to indicate the contribution of an industry to the whole economy, is forecasted to be 1.9 percent over 10 years through 2024 – 2025. Despite being approximately equal to Australia GDP growth, which is 1.9 percent in 2020. We believed the industry is underperforming due to the COVID-19 pandemic outbreak. The negative impact on industry demand is very likely to be temporary rather than a persistent long-term decline. In addition, the booming tourism industry is very likely to lead to the outperforming of airport operations industry against the economy.

Demand from Airlines: International airlines are one of the key sources of demand for airport operators. Generally, airports charge airlines more per international passengers which compensate for the lower volume compared to higher volume of domestic passengers. For SYD, demand from international airlines played an even significant role, capturing 70 percent of revenue for FY19.

Rising demand from domestic airlines increases the volume of passengers passing through airport facilities, boosting revenue. Throughout the past decade to 2018, there has been a steady increase in the number of domestic passengers. However, from 2018 – 2020, we see that Sydney Airport has decreasing domestic patronage, a 4 percent drop in two years; meanwhile a huge increase of 10 percent in international patronage.

Difficult to Penetrate: The air travel industry, particularly the business of operating airports, is one which can be considered well protected. Reflecting on Porter's Five Forces, we have identified majority of risks (Appendix 6). To enter the industry there is a very large initial requirement for capital. Much of this cost is accounted for by land and infrastructure. Hence, there is very little risk of new entrants which further acts to restrict the competitive rivalry.

Exhibit 27: Demand from Domestic Airlines

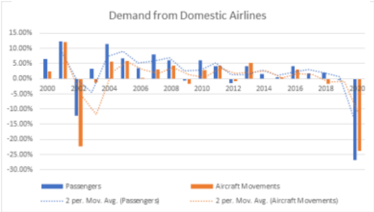


Exhibit 28: Demand from International Airlines

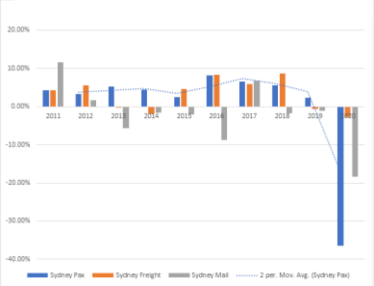
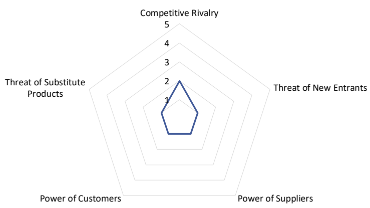


Exhibit 29: Porter's Five Forces

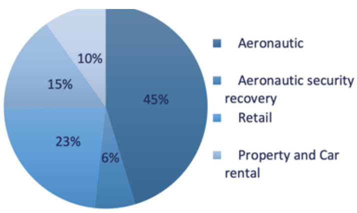


FINANCIAL ANALYSIS

Strong Domestic Passenger Demand Commences Recovery

We expect the domestic passenger demand to recover quickly once state border restrictions have been lifted in December 2020. We expect further that the monthly number of domestic passengers will be back on 2019 levels from May 2021 onwards, which boosts not only the aeronautical revenue, but also the parking and transport revenue (188.6 percent 2021 YoY growth). In that case, domestic passengers account for 68.6 percent of the 2021 total aeronautical revenue and the parking and transport income as part of the total revenue increases to 13.2 percent from 9.88 percent in 2019.

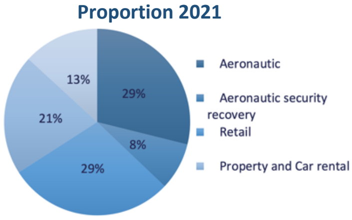
Exhibit 30: Forecasted Revenue Proportion 2021



Travel Bubbles to Resume Overseas Traffic

With a COVID-19 vaccine in distribution in mid-2021, we see international travel resuming with New Zealand in 2021, followed by a selection of other countries as early as 2022 based on infection rates. Subsequently, we predict SYD's aeronautical revenue to grow YoY 27.8 percent in 2022, 15.9 percent in 2023, 6.2 percent in 2024 and 4.1 percent in 2025. The arrival of international passengers in 2022 follows a rise in SYD's pre-tax margin and EBITDA coverage to 20.42 percent and 2.62, respectively.

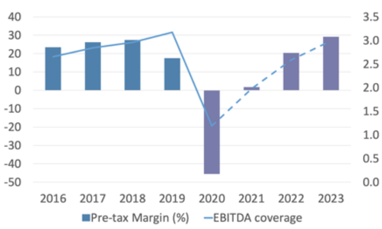
Exhibit 31: Forecasted Revenue Proportion 2021



Retail as Strength During Uncertainty

After abatements of $22.9m have been made, we expect the retail revenue to be stable due to agreed flat rates. We believe that the flat rates account for 97.9 percent of the total retail revenue in 2021 as profitable international passengers are still not present. As a result, retail revenue is the biggest revenue stream in 2020 (36.0 percent of total revenue) and 2021 (28.8 percent of total revenue). Additional revenue will be made when overseas travels resumes through the passenger-based Heinemann contracts with 8.2 percent in 2024 and 8.1 percent in 2025 of total retail revenue. SYD has a unique market position as an airport is an important distribution channel for many luxury goods. We likewise believe a retail revenue growth of 5 percent for the years after 2025.

Exhibit 32: Profitability and Liquidity



Short-term Stability Through Equity Raising

We support SYD's decision to raise another $2b in fresh capital during the pandemic to strengthen its balance sheet and increase liquidity. Not only enables it the airport to overcome this crisis with strong financials, it also provides cash for the upcoming debt maturities (57.2 percent of total debt as of June 2020 until 2025). Given the restricted investment opportunities at SYD, we believe that this capital will partially be used to lower the debt burden. We do not see SYD's long-term debt obligations as an acute problem (return to stable EBITDA coverage after dip in 2020), yet its recent development (24.5 percent

Exhibit 33: Total Assets and Debt

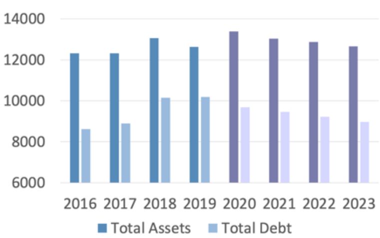


Exhibit 34: Profitability Rebound

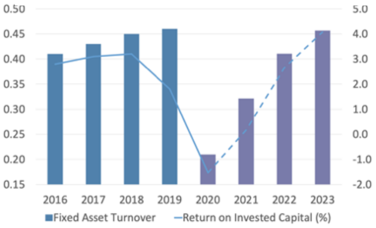


Exhibit 35: Profitability Rebound

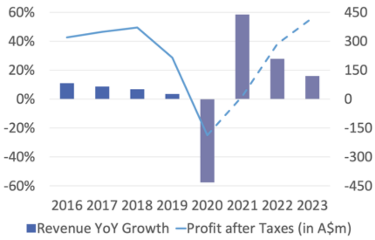


Exhibit 36: Profitability Rebound

debt growth 2015 to 2019) potentially poses a problem on the long-term. Historically, SYD issued new debt securities to satisfy its existing obligations.

Aviation Industry Trends Favour Profitability

As a result of larger and more fuel-efficient next generation aircrafts, airlines can increase the average number of passengers per aircraft and are able to operate profitable on lower air fares. We expect this recent development to continue from 2023/24 with a long-term growth for domestic and international passengers of 1.00% and 3.10%, respectively. Consequently, the proportion of highly valuable international passengers ($/int. Pax 3.15 of $/dom. Pax) at the airport will rises. Additionally, historical data showed that the revenue per international passenger grew at a significantly higher rate than for domestic passengers. We likewise believe that these two key trends stimulate an improvement of SYD's overall profitability (ROIC 2023 4.08% / 2026 5.19%).

VALUATION

With a target price of **$6.96** representing 15.61% upside as of 9 October 2020, we issue a **BUY** recommendation for SYD. Our intrinsic valuation was determined via Discounted Cash Flow (DCF), forecasted to the end of SYD's 50 plus 49-year lease of land and airport operator license. Dividend Discount Model and Relative Valuation methods were also calculated, however not utilised due to uncertain timing of future dividend payments and SYD largely being an outlier for EV/EBITDA, EV/Sales and P/CF multiples. Furthermore, the comparability of differing international airports is not direct, as each airport operates under varying business models and within different geographically competitive environments.

Complex Stapled Security Capital Structure and Tax Implications

The relationship between SAL and SAT1 is essentially the former being the airport operator, while the latter is a creditor for the operator. SAL conducts all operational aspects of Sydney Kingsford Smith Airport, while SAT1 lends to SAL. This occurs to the extent that SAT1's assets are essentially equal to the value of SAL's owings to SAT1 and SAT1's financing income is almost purely derived from interest received from a related party - namely SAL. As SAT1 is a trust, no tax is paid so long as all net income is distributed to shareholders. SAT1's constitution states that it is required to distribute all income, we have reason to believe that the historical trend of consistent semi-annual dividends will be continued to be paid once SYD resumes its profitability to capitalise on tax concessions in the future.

The loan from SAT1 to SAL differs immensely to its comparable debt holdings due to the high interest charge of 13% annually on $1.8 Bn to SAL. The weighted average of SYD's debts currently remain at 3.60%, a much lower rate in comparison to the related-party loan with SAT1.

The capital structure is mutually beneficial to SAL and SAT1 due to the interest deductibility available to SAL while capitalising on the 'profit' to SAT1 to be distributed to SYD's shareholders. There are no observable effects of SYD's capital structure on shareholders as SYD has historically paid unfranked dividends. The capital structure of SYD allows for additional tax benefits to SAL and consistent dividends to be distributed to shareholders through SAT1, a highly regarded aspect of being a SYD shareholder.As essentially all SAT1's cashflows are derived from SAL's interest payments, only SAL's cashflows are included in the DCF model.

Revenue Streams

The four segments which generate operating revenue are Aeronautical Services, Retail, Property and Car Rental and Parking and Ground Transport. Each draws revenue from the below sources:

Aeronautical Services
- Passenger charges
- Runway charges
  - Per Passenger or;
  - Maximum aircraft take-off weight
- Passenger and airfield security
- Aircraft parking

Retail
- Lease agreements with retail outlets
- Passenger numbers
  - Heinemann, a significant tenant, have split fixed lease and per passenger charge agreement.

Property and Car Rental
- Lease agreements
  - Freight hubs
  - Car rental yards
  - Airline lounges
  - Hotel Operations
- Passenger Numbers
  - Hotel Occupancy

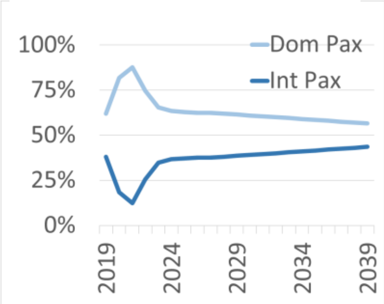
Parking and Ground Transport
- Passenger numbers
  - Domestic passengers utilising parking
  - Taxi/rideshare charges
  - Valet parking
  - Buses and transfers

With all segments having a degree of exposure to passenger numbers, it is the prime driver of revenue. Secondly, lease agreements within retail, commercial and industrial industries make up the remainder of revenue. All lease agreements have contracted rate increases that are tied to Consumer Price Index (CPI) or performance of the industry's lease market and property value.

Forecast Period and Growth Rates

The **DCF model comprises of two stages**, the first being recovery from COVID-19 and the opening of Western Sydney Airport from 2021 to 2028. The second being constant long-term growth of Free Cashflows to the firm (FCFF) through to 2097. We derived the **long-term growth rate of 2.9%** from the 15-year average GDP growth of Australia (see Appendix 8). This aligns with the expiration of the land lease and airport operating license granted to SYD by the Commonwealth of Australia. While a terminal value was considered, it was not deemed appropriate as there is no guarantee that SYD's lease and license will be renewed upon expiry.

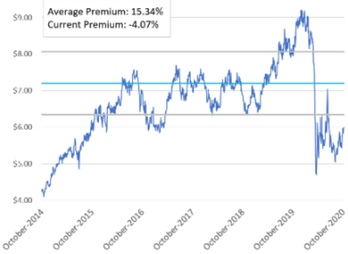
Exhibit 37: Domestic and International Split



Passenger recovery rates have initially been based on previous black swan events. We largely reviewed SYD passenger numbers surrounding 9/11 (social impact), 2008 GFC (economic impact) and the 1989 Australian pilot strike (operational ramp up ability); and other airport's pax recovery following easing of COVID-19 lockdown. New Zealand's domestic pax recovery was closely followed due to having similar economic standing, culture and COVID-19 measures to Australia. Once domestic and international passenger recovered to 2019 levels, **1% domestic and 3.1% international pax growth** rates as per SYD's 20-year Master Plan (released April 2019) were assumed. SYD engaged Tourism Futures International (TFI) as a consultant to forecast SYD long term passenger growth (see Appendix 8). Western Sydney Airport (WSA) is scheduled to open late 2026 with an initial expected passenger volume of 5 million passengers, according to the NSW Government. We have assumed SYD will lose these 5 million passengers in 2027, with an approximate 62% to 38% domestic to international split (as per forecasted passenger composition of 2026 see Appendix 9). This represents a **-10.8 percent drop in pax,** with constant pax growth resuming in 2028.

Increases in retail, commercial and industrial lease rates have been averaged from a number of Sydney property agent outlooks and growth of each segment's previous reported revenues (see Appendix 10). Heinemann pax charges were estimated and calculated independently to allow constant growth rates to be applied to fixed lease rates only. We arrived at a **retail growth rate of 5% and 3.91% for commercial/industrial**.

Exhibit 38: SYD's EV/EBITDA Premium to Peers



WEIGHTED AVERAGE COST OF CAPITAL (WACC)

FCFF have been discounted using a **WACC of 3.97%.** Cost of equity was calculated using the Capital Asset Pricing Model (CAPM), with the **risk-free rate of 0.43%** being the 5yr and 10yr Australian Government Bond weighted average yield, **market risk premium of 5.06%** and **beta of 0.88,** calculated using SYD's 5yr and 10yr weighted average return against AORD**.** The weighted average cost of debt was calculated to be 3.60%, where the floating rates were matched to the nearest size fixed rate instrument. Please refer to Appendix 11 for further detail on WACC and constituent calculation.

Relative Valuation

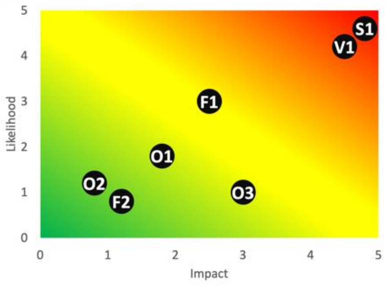
We conducted relative valuations on SYD against its peers and yielded a price of $7.07 derived from analysis of EV/EBITDA and EV/Sales. Four infrastructure industry peers were picked as appropriate comparables given that they all have similar assets. Nonetheless, we believe the result does not reflect the true price of SYD as COVID-19 event had impacted each of the peers and SYD at different magnitudes, which caused the multiples to be hardly comparable. For instance, QANTAS experienced the biggest impact on their operations and incurred operational loss while conversely Qube had an increasing operational income in the pandemic event.

$\boldsymbol{EV/EBITDA_{1-year\ fwd}}$ was given a 50% weighting and used to evaluate SYD in our relative valuation due to the P/E ratio being ineffective as SYD had negative earnings in FY2020. Since the use of the EV/EBITDA ratio, the ASX listed infrastructure companies were more relevant in the context of this ratio due to the difference in financial leverage although similar in size and operations. The use of EBITDA disregards differences in depreciation and amortization of each peer rather than the use of net income as the comparable peers differ in asset types. SYD historically has traded at a premium of 15.34% in comparison to its peers. Currently SYD is currently trading at a -4.07% EV/EBITDA discount due to large earning losses in 2020 reflecting a share price of $6.17.

$\boldsymbol{EV/Sales_{1-year\ fwd}}$ was given a 50% weighting and considered an appropriate multiple to employ in relative valuations as SYD has a very unique capital structure, approximately 89% funded by debt. The highly leveraged capital structure is justified by SYD's positioning as an airport operator, which is a monopoly firm in its respective sector. We picked EV/Sales against the P/S ratio because it failed to recognise debt-financed firms where huge proportion of sales belong to firms' creditors rather than equity investors. Thus, EV/Sales multiple serves as a better multiple to reflect SYD's enterprise value which included the market value of debt in the company as well. We arrived at an average of 15.83x for the comparable set implying a share price of $7.98, with SYD currently trading at a 79.58% over peers.

INVESTMENT RISKS

Exhibit 39: Risk Matrix



[V1] Valuation Risk 1 – Model Assumptions and Sensitivity | HIGH

SYD operates in a market where price pressures from normal industry competition do not bear impact on their pricing structure. This can lead to inefficient pricing that will ultimately be borne by consumers via airfares. The Australian Government therefore requires SYD to notify the ACCC, who must assess and approve any aeronautical price in accordance with Part VIIA of the Competition and Consumer Act 2010. We have assumed constant **growth of 0.17% and 2.84% for domestic and international pax charges**, to which the DCF model is sensitive. There is risk that the ACCC would object to these increases. Furthermore, the model is based on SYD's current dual till pricing structure. A drastic overhaul of this, such as SYD's 2001 change from single to dual till approach, would require remodelling of the DCF.

Overall, the sensitivity of key rate assumptions is high. These include WACC, long term growth rates, PAX recovery rates, impact of WSA (see F1 below) and growth rates for each segments' revenues and expenses.

[S1] Sector Risk 1 – COVID-19 Pandemic | HIGH

With the uncertainty of the COVID-19 pandemic and the global implications of the virus, there has been a massive impact specifically on the aeronautical sector. Historically, the vaccine development for SARS and MERS had not seen success. However, the information obtained from prior research about the coronavirus is of high value in the development of the COVID-19 vaccine. Globally, the International Civil Aviation Organization has stated a 37.38 percent decrease in global flights around the world in the first half of 2020. SYD has felt the impact of the pandemic with a 91.8 percent decrease in domestic and international flights in comparison to July 2019. An adverse impact on SYD can already be seen through revenue, down 35.9 percent from 1H19, forcing SYD to increase liquidity by obtaining $850m worth of bank facilities and issuing $2 Bn in capital raising. With strict government regulations around air travel and uncertain forecasts on the reopening of global and domestic borders, SYD is forced into a conservative approach moving into the future.

[O1] Operational Risk 1 – Capacity Constraints | LOW-MEDIUM

SYD is currently 'land-locked', which will ultimately lead to capacity constraints in the future. They are unable to add further runways to their operations and what's more, are limited for space when it comes to increasing their facilities, such as terminals. SYD further experiences laws restricting the operating hours – one they do not plan to contest. They are not permitted to conduct take-off of landing operations between the hours of 11pm – 6am. This is a major restriction on the number of people who can be processed through the airport. Furthermore, there are movement restrictions of 20 (take-off or landing) within a 15-minute window. This lack of flexibility makes it difficult to catch up with delays caused by weather or operational events.

[O2] Operational Risk 2 – Regulatory Risk (ESG) | LOW

SYD's operations are strictly regulated to reduce environmental and social disruption. Federal, State and local laws govern the limits of SYD's operating hours, aircraft movements and procedures. Compliance of these regulations are mandatory, with breach resulting in financial penalties and even termination of SYD's land lease and operational privileges. Border restrictions increased sanitary and cleaning as well as health screening requirements due to COVID-19 enforced by the government will further decrease revenues and increase operational costs. SYD is also required to abide by environmental laws that prevent damage and contamination of pollutants to the environment. SYD can be held liable for any damages caused by operational activities which will be detrimental to SYD's financial position and social status. The nature of aeronautical activities is very carbon intensive and government intervention to reduce emissions through policy changes will negatively impact SYD.

[O3] Operational Risk 3 – Airline Concentration | LOW-MEDIUM

For a given airport, the degree to which they are dependent on airlines is a risk to consider. Airports serviced by a small number of airlines are more exposed to the impact of disruptive events. In the case of SYD, 54.8 percent of their total passenger traffic is generated by the top two airlines, Qantas and Virgin. This ultimately suggests SYD has a very high reliance on a small number of airlines for generating a significant portion of their aeronautical revenue. Such high concentration is undesirable as there is an increased risk of revenue loss in the event of airline disruptions. With the recent bankruptcy of Virgin that questions the high airline concentration of SYD, we believe that SYD will diversify their airline concentration to accommodate multiple airlines to lower the reliance of a single airline.

[F1] Firm Risk 1 – Western Sydney Airport | MEDIUM

With Western Sydney (Nancy-Bird Walton) Airport (WSA) due for completion in 2026, a second airport in Sydney will add a new competitor to the market. This will increase competition within New South Wales, with plans for WSA to be a fully operational domestic, international and freight airport. WSA will be of similar size to Sydney Airport, with no operating curfews due to the location away from the city centre. The Stage 1 Development of WSA will have capacity to service 10 million passengers a year. Further developments plan to maximise capacity at 37 million passengers per year, 83.3 percent of SYD's capabilities. The increase in competition due to a second airport in Sydney will impact the growth of SYD, with potential to negatively affect SYD's revenues and profit margins.

APPENDICES

FINANCIALS

APPENDIX 1: INCOME STATEMENT

Income Statement (A$m)	2015A	2016A	2017A	2018A	2019A	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E
Aeronautic	523.4	614.2	670.6	721.7	739.3	108.2	312.3	542.7	724.3	788.5	823.4	860.2	782.4
Aeronautic Security Recovery	83.3	87.3	91.3	98.7	105.0	68.3	90.0	93.7	97.6	101.7	105.9	110.3	114.9
Retail	263.5	295.6	333.1	357.0	374.9	249.9	316.2	348.8	376.2	396.5	415.7	435.8	444.1
Property	201.2	204.2	221.4	238.1	251.2	220.4	229.0	237.9	247.2	256.8	266.9	277.3	288.1
Parking	150.6	156.1	159.5	162.1	162.0	32.6	144.8	174.8	176.7	178.7	180.6	182.5	161.3
Other Revenue	6.9	7.2	7.4	7.1	7.2	7.2	7.2	7.2	7.2	7.2	7.2	7.2	7.2
Total Revenue	**1,228.9**	**1,364.6**	**1,483.3**	**1,584.7**	**1,639.6**	**693.7**	**1,099.5**	**1,405.2**	**1,629.2**	**1,729.4**	**1,799.6**	**1,873.4**	**1,798.4**
Operating expenses	(201.4)	(233.2)	(256.7)	(269.6)	(268.1)	(174.3)	(236.1)	(247.2)	(258.8)	(271.1)	(284.0)	(297.7)	(312.2)
Unusual income (expenses)	0.1	(0.1)	(1.8)	0.2	(190.7)								
Other expenses	(24.0)	(45.6)	(28.4)	(32.7)	(35.3)	(22.9)	(23.9)	(24.9)	(25.9)	(26.9)	(28.0)	(29.2)	(30.4)
EBITDA	**1,003.6**	**1,085.7**	**1,196.4**	**1,282.6**	**1,145.5**	**496.5**	**839.5**	**1,133.2**	**1,344.5**	**1,431.4**	**1,487.6**	**1,546.5**	**1,455.9**
Depreciation	(226.7)	(271.0)	(300.4)	(330.3)	(352.7)	(308.7)	(312.8)	(327.2)	(343.3)	(355.3)	(368.7)	(381.3)	(393.9)
Amortisation	(85.8)	(85.5)	(85.3)	(85.3)	(85.3)	(85.8)	(85.8)	(85.8)	(85.8)	(85.8)	(85.8)	(85.8)	(85.8)
EBIT	**691.1**	**729.2**	**810.7**	**867.0**	**707.5**	**102.0**	**440.8**	**720.1**	**915.4**	**989.9**	**1,033.1**	**1,078.5**	**975.1**
Net interest	405.0	409.0	421.6	433.5	420.9	418.0	425.5	433.2	441.0	448.9	457.0	465.2	473.6
Profit before tax	**286.1**	**320.2**	**389.1**	**433.5**	**286.6**	**(316.0)**	**15.3**	**286.9**	**474.4**	**540.9**	**576.1**	**613.3**	**501.5**
Taxes	(5.0)	(0.6)	(40.5)	(62.5)	(71.6)	128.3	0.0	0.0	(53.2)	(73.2)	(83.7)	(94.9)	(61.3)
Profit after taxes	**281.1**	**319.6**	**348.6**	**371.0**	**215.0**	**(186.7)**	**15.3**	**286.9**	**421.2**	**467.8**	**492.4**	**518.4**	**440.1**
Non-controlling interest	1.9	1.3	1.2	1.5	188.9								
Net income	**283.0**	**320.9**	**349.8**	**372.5**	**403.9**	**(186.7)**	**18.0**	**286.9**	**421.2**	**467.8**	**492.4**	**518.4**	**440.1**
Dividends	566.9	694.4	776.5	845.3	880.5			324.8	615.9	716.7	770.1	826.6	656.9

Income Statement (% of Revenue)	2015A	2016A	2017A	2018A	2019A	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E
Aeronautic	43%	45%	45%	46%	45%	16%	28%	39%	44%	46%	46%	46%	44%
Aeronautic Security Recovery	7%	6%	6%	6%	6%	10%	8%	7%	6%	6%	6%	6%	6%
Retail	21%	22%	22%	23%	23%	36%	29%	25%	23%	23%	23%	23%	25%
Property	16%	15%	15%	15%	15%	32%	21%	17%	15%	15%	15%	15%	16%
Parking	12%	11%	11%	10%	10%	5%	13%	12%	11%	10%	10%	10%	9%
Other Revenue	1%	1%	0%	0%	0%	1%	1%	1%	0%	0%	0%	0%	0%
Total Revenue	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**
Operating expenses	-16%	-17%	-17%	-17%	-16%	-25%	-21%	-18%	-16%	-16%	-16%	-16%	-17%
Unusual income (expenses)	0%	0%	0%	0%	-12%	0%	0%	0%	0%	0%	0%	0%	0%
Other expenses	-2%	-3%	-2%	-2%	-2%	-3%	-2%	-2%	-2%	-2%	-2%	-2%	-2%
EBITDA	82%	80%	81%	81%	70%	72%	76%	81%	83%	83%	83%	83%	81%
Depreciation	-18%	-20%	-20%	-21%	-22%	-45%	-28%	-23%	-21%	-21%	-20%	-20%	-22%
Amortisation	-7%	-6%	-6%	-5%	-5%	-12%	-8%	-6%	-5%	-5%	-5%	-5%	-5%
EBIT	56%	53%	55%	55%	43%	15%	40%	51%	56%	57%	57%	58%	54%
Net interest	33%	30%	28%	27%	26%	60%	39%	31%	27%	26%	25%	25%	26%
Profit before tax	23%	23%	26%	27%	17%	-46%	1%	20%	29%	31%	32%	33%	28%
Taxes	0%	0%	-3%	-4%	-4%	18%	0%	0%	-3%	-4%	-5%	-5%	-3%
Profit after taxes	23%	23%	24%	23%	13%	-27%	1%	20%	26%	27%	27%	28%	24%
Non-controlling interest	0%	0%	0%	0%	12%	0%	0%	0%	0%	0%	0%	0%	0%
Net income	23%	24%	24%	24%	25%	-27%	1%	20%	26%	27%	27%	28%	24%
Dividends	46%	51%	52%	53%	54%	0%	0%	23%	38%	41%	43%	44%	37%

APPENDIX 2: BALANCE SHEET

Balance Sheet (A$m)	2015A	2016A	2017A	2018A	2019A	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E
Assets													
Cash and Short-Term Investments	331	442	474	466	614	2219	1848	1444	1015	547	569	592	569
Total receivables	138	159	178	635	200	83	132	169	196	208	216	225	216
Other Current Assets	36	25	20	11	27	12	19	24	28	29	30	32	30
Current Assets	505	626	672	1112	840	2314	1998	1637	1238	784	816	849	815
Property, plant and equipment	3262	3382	3512	3570	3533	3525	3337	3448	3591	3613	3636	3663	3660
Intangible Asset													
Goodwill	670	670	682	682	682	682	682	682	682	682	682	682	682
Other Intangible Assets	6890	6804	6719	6634	6548	6465	6384	6303	6223	6144	6067	5990	5914
Receivables - Long Term	48	66	198	195	79	33	52	67	77	82	85	89	85
Others Long Term Assets	676	779	541	862	950	362	574	733	850	902	939	978	938
Total Assets	**12051**	**12326**	**12323**	**13054**	**12632**	**13381**	**13026**	**12869**	**12662**	**12207**	**12225**	**12250**	**12095**
Liabilities													
Payable / Accrued	215	237	262	245	255	116	184	235	272	289	301	313	300
Accrued expenses	11	12	14	13	10	8	11	11	12	12	13	13	14
Current Port. of LT Debt			330		760	769	927	1312	1495	1230	724	1300	652
Other Current Liabilities	399	457	508	537	566	234	371	474	549	583	607	632	606
Current Liabilities	626	706	1113	796	1591	1127	1492	2032	2328	2114	1644	2258	1572
Total Long-Term Debt	8181	8626	8567	10152	9427	8919	8529	7906	7478	7492	8239	7912	8815
Deferred tax liabilities	1764	1766	1794	1808	1801	1780	1780	1780	1780	1780	1780	1780	1780
Other Liabilities	165	141	216	227	567	99	157	201	233	248	258	268	258
Minority Interests	(4)	(6)	(7)	(8)	(197)								
Total Liabilities	**10732**	**11233**	**11682**	**12974**	**13189**	**11925**	**11958**	**11919**	**11820**	**11633**	**11921**	**12217**	**12425**
Net Assets	**1319**	**1093**	**641**	**80**	**(557)**	**1456**	**1068**	**950**	**843**	**574**	**304**	**33**	**(330)**
Shareholders' Equity													
Common Stock	5329	5471	5482	5509	5533	7533	7611	7690	7770	7850	7932	8014	8097
Retained earnings	(3843)	(4216)	(4640)	(5114)	(5591)	(5779)	(5763)	(5801)	(5996)	(6245)	(6523)	(6831)	(7048)
Other Equity	(166)	(162)	(201)	(314)	(499)	(298)	(780)	(938)	(931)	(1031)	(1105)	(1150)	(1379)
Total Equity	**1319**	**1093**	**641**	**80**	**-556**	**1456**	**1068**	**950**	**843**	**574**	**304**	**33**	**(330)**
Total Liabilities & Equity	**12051**	**12326**	**12323**	**13054**	**12632**	**13381**	**13026**	**12869**	**12662**	**12207**	**12225**	**12250**	**12095**

Balance Sheet (% of Total Assets)	2015A	2016A	2017A	2018A	2019A	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E
Assets													

Cash and Short-Term Investments	3%	4%	4%	4%	5%	17%	14%	11%	8%	4%	5%	5%	5%
Total receivables	1%	1%	1%	5%	2%	1%	1%	1%	2%	2%	2%	2%	2%
Other Current Assets	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Current Assets	4%	5%	5%	9%	7%	17%	15%	13%	10%	6%	7%	7%	7%
Property, plant and equipment	27%	27%	28%	27%	28%	26%	26%	27%	28%	30%	30%	30%	30%
Intangible Asset													
Goodwill	6%	5%	6%	5%	5%	5%	5%	5%	5%	6%	6%	6%	6%
Other Intangible Assets	57%	55%	55%	51%	52%	48%	49%	49%	49%	50%	50%	49%	49%
Receivables - Long Term	0%	1%	2%	1%	1%	0%	0%	1%	1%	1%	1%	1%	1%
Others Long Term Assets	6%	6%	4%	7%	8%	3%	4%	6%	7%	7%	8%	8%	8%
Total Assets	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**
Liabilities													
Payable / Accrued	2%	2%	2%	2%	2%	1%	1%	2%	2%	2%	2%	3%	2%
Accrued expenses	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Current Port. of LT Debt	0%	0%	3%	0%	6%	6%	7%	10%	12%	10%	6%	11%	5%
Other Current Liabilities	3%	4%	4%	4%	4%	2%	3%	4%	4%	5%	5%	5%	5%
Current Liabilities	5%	6%	9%	6%	13%	8%	11%	16%	18%	17%	13%	18%	13%
Total Long-Term Debt	68%	70%	70%	78%	75%	67%	65%	61%	59%	61%	67%	65%	73%
Deferred tax liabilities	15%	14%	15%	14%	14%	13%	14%	14%	14%	15%	15%	15%	15%
Other Liabilities	1%	1%	2%	2%	4%	1%	1%	2%	2%	2%	2%	2%	2%
Minority Interests	0%	0%	0%	0%	-2%	0%	0%	0%	0%	0%	0%	0%	0%
Total Liabilities	**89%**	**91%**	**95%**	**99%**	**104%**	**89%**	**92%**	**93%**	**93%**	**95%**	**98%**	**100%**	**103%**
Shareholders' Equity													
Common Stock	44%	44%	44%	42%	44%	56%	58%	60%	61%	64%	65%	66%	67%
Retained earnings	(32%)	(34%)	(38%)	(39%)	(44%)	(43%)	(44%)	(45%)	(47%)	(51%)	(53%)	(56%)	(58%)
Other Equity	(1%)	(1%)	(2%)	(2%)	(4%)	(2%)	(6%)	(7%)	(7%)	(8%)	(9%)	(9%)	(11%)
Total Equity	**11%**	**9%**	**5%**	**1%**	**(4%)**	**11%**	**8%**	**7%**	**7%**	**5%**	**2%**	**0%**	**(3%)**
Total Liabilities & Equity	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

APPENDIX 3: SYD SENIOR MANAGEMENT AND BOARD OF DIRECTORS

Analysis of SYD Senior Management Team

Name	Position	Years of Experience in Current Role	Experience, Accreditations & Affiliations
Geoff Culbert	Chief Executive Officer	6	• Bachelor of Economics & Law (Honors) from University of Melbourne • Previous President and CEO of General Electric Australia & New Zealand (2014 - 2017) • General Counsel for GE Australia & New Zealand and Asia (2002 – 2014) • Current Airport Council International (ACI) World Governing Board member
Greg Botham	Chief Financial Officer	7	• Bachelor of Business, Accounting and Business Law from University of Technology Sydney • Charted Accountant • Master of Applied Finance from Macquarie University • Previous CFO experience with Spark Infrastructure (2012-2017) • Prior SYD affiliation as Manager and Financial Strategic Planner (2003-2007)
Vanessa Orth	Chief Commercial Officer	2	• Divisional and National Director of GPT Group (Real Estate Investment Trust) (2007-2012) • Head of Retail for GPT Group (2015-2018) • Studied at University of Technology, Sydney (1994-1998)
Dhruv Gupta	Chief Strategy Officer	7	• Bachelor of Science and Arts, Chemical Engineering and Economics from Stanford University • MBA accredited • Consultant at Boston Consulting Group (1997-2000) • Associate Director of Macquarie Group (2005-2012) • Director of Fairfax Media, Strategy and Corporate Development (2013-2018)
Karen Tompkins	General Counsel & Company Secretary	10	• Bachelor of Art Laws (Honors) from University of Sydney (1997-2002) • Lawyer at Henry Davis York, Herbert Geer and Minter Ellison (2001-2007) • Legal Counsel for Stockland (2007-2016)
Karen Halbert	General Manager	7	• Bachelor of Laws and Economics from University of Adelaide (1989-1993) • Division and Associate Director for Macquarie in Corporate Affairs (2006-2010) • Principal Advisor for Rio Tinto in Media Relations (2010-2012) • General Manager for Tourism Australia (2013-2019)

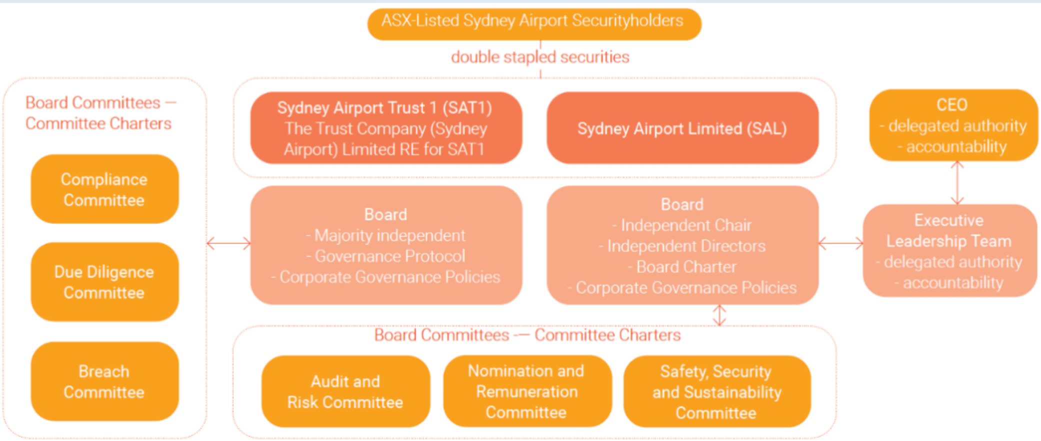
Analysis of SAL Board of Directors

Name	Position	Years in Current Role	Experience, Accreditations & Affiliations
Trevor Gerber	- Independent Chairman - Non-Executive Director	7	• Chairman of Vicinity Centres • Non-executive director or Tassal Group Limited • Former director of CIMIC Group Limited and Regis Healthcare Limited • Charted Accountant of Australia and New Zealand (CA) • Graduated from University of Witwatersrand
John Roberts	- Independent Non-Executive Director - Chairman of the Audit and Risk Committee	7	• Chair of Axicom • Non-executive Chairman of Macquarie Infrastructure and Real Assets • Director of PRP Group Ltd – Diagnostic Imaging • Former director of DUET Group and Atlas Arteria Limited

Stephen Ward	- Independent Non-Executive Director - Chairman of the Safety, Security and Sustainability Committee	7	• Non-executive director of Secure Future Wiri Limited, Restaurant Brands New Zealand Limited and TCF Commercial Finance New Zealand Limited • Member of National Provident Fund Trust Board • Voluntary positions on Wellington Free Ambulance boards (Investment Management Committee, Chair of the Life Flight Trust) • Financial Dispute Resolution Service Chairman • Simpson Grierson consultant (New Zealand law firm)
Ann Sherry	- Independent Non-Executive Director - Chairman of the Nomination and Remuneration Committee - Member of the Safety, Security and Sustainability Committee	6	• Non-executive Director of National Australia Bank • Chairman of Enero Group and UNICEF Australia • Director of Palladium • Bachelor of Arts, Economics and Politics from the University of Queensland • Graduate Diploma of Industrial Relations and Labor • Graduated from the Duke University Executive Program
Grant Fenn	- Independent Non-Executive Director - Member of the Nomination and Remuneration Committee - Member of the Safety, Security and Sustainability Committee	5	• Managing Director and CEO of Downer Group • Previous Qantas Executive Committee member • Previous Chairman of Star Track Express • Ex-Director of Australian Air Express
Abi Cleland	- Independent Non-Executive Director - Member of the Audit and Risk Committee - Member of the Nomination and Remuneration Committee	2	• Non-Executive Director for Coles • Non-Executive Director for Computershare • Non-Executive Director for Orora Limited • Non-Executive Director, Chair Audit and Risk Committee member of Swimming Australia • Chairman of uno Home Loans • Managing Director of Absolute Partners (Corporate Advisory Firm)
David Gonski	- Independent Non-Executive Director - Member of the Audit and Risk Committee - Member of the Safety, Security and Sustainability Committee	2	• Chairman of Australia and New Zealand Banking Group Ltd • Chancellor of the University of New South Wales • President of the Art Gallery of NSW Trust • Director of the Lowy Institute for International Policy • 2007 Companion of the Order of Australia • 2003 Centenary Medal recipient

APPENDIX 4: SAL CORPORATE GOVERNANCE

SYD Corporate Governance Structure



Source: 2019 Corporate Governance Statement – Sydney Airport

Analysis of SYD’s Corporate Governance in Accordance with CFA Institute Corporate Governance Manual for Investors

Board Analysis	
Consideration	**Comment**
Board Independence: The company’s board at a minimum, has a majority of independent board members.	All the non-executive directors are independent and are regularly assessed of their independence. Good governance is shown as this prevents conflicts of interests.
Qualifications: Board members and the management team are adequately qualified to perform their role within the board with the appropriate skills, knowledge, experience and expertise.	Majority of non-executive directors have prior experience in their current position, and all have come from senior leadership backgrounds. Relevant skills, knowledge and experience are part of each board.
External Consultants: The company’s board and committee members should have budget and authority to hire external, independent third-party consultants to assist them with specialized advice and allow the members to obtain support in gathering and analysing information.	The board has approval to use external advisors when specific issues arise to aid them as a collective. There are no restrictions around when the board is allowed to engage with third-party consultants.
Related-Party Transaction Policies: Review of policies that address related-party transactions to ensure the independence within the board. Related-party transactions may allow board members to receive consultancy fees for work performed or allow finders’ fees for bringing M&A or corporate sale partners to the company.	SYD prohibits any activities from directors and staff that has material conflict with their responsibilities. This will disallow any related-party transactions within the board as it puts themselves in a position where their personal interests are above shareholders.
Audit and Risk Committee Analysis	
Consideration	**Comment**
Audit Independency: Board members of the audit committee should be independent and free from management influences.	Three non-executive directors on the board are all independent consisting of David Gonski and Abi Cleland, led by John Roberts. The required minimum of three directors on the board.
Competency: Board members serving on the committee should have adequate financial expertise.	All board members have financial and accounting expertise with comprehensive understanding about the industries SYD operates in.
External Auditors: Appointment of external auditors should be through shareholders vote and the external auditors should act in the best interests of the shareholders.	The latest Annual General Meeting notice dated 14 April 2020 allows securityholders with entitlement to vote to question the conduct of the audit and the auditor’s independence.
Financial Integrity: The audit committee should be responsible for the integrity of the financial reports, ensuring they are complete, accurate, verifiable, relevant, reliable and timely.	The Audit and Risk Committee is responsible for the assessment of the integrity and adequacy of the yearly and half-yearly financial reports. Assessing the reports on the consistency of the information provided and that they provide a true and transparent view of SYD’s current financial position and performance. External auditors' performance, procedures and independence are also assessed.

Nomination and Remuneration Committee Analysis	
Consideration	**Comment**
Remuneration of Executives: Executive compensation should be linked to the long-term profitability of the company, with focus on the long-term increases in share value in comparison to competitors and similar companies.	Long Term Incentive Plans have been introduced for senior executives to ensure that SYD has above average performances as incentives are linked to SYD’s growth. Achieving yearly objectives will increase their Short-Term Incentives (STI) and Fixed Annual Remunerations (FAR). Incentives have been structured to ensure both long and short-term performance of SYD.
Shareholder Communication: Transparency through communications to shareholders about how executives are compensated and how it is aligned with the company’s strategic goals.	In collaboration with the Audit and Risk Committee, remuneration-related reporting will be disclosed in the Remuneration Report in each annual report. Remuneration of each executive is clearly outlined in the annual report with alignment to SYD’s performance.
Conflicts of Interests: Potential conflicts of interests should be eliminated through use of independent compensation consultants who report only to the remuneration committee.	Non-Executive Directors are not entitled to securities, options, bonuses or retirement benefits in their remuneration package from SYD. Remuneration consultants are engaged, and salaries are benchmarked against comparable executives to ensure fairness.

Recruitment of New Members: A high standard and criteria for new members of the board and how the new members compliment the current board.	A board skills matrix is maintained to ensure a diverse competency within the board. Processes for selection, appointment and re-election of directors have been developed and stringent background checks are performed on candidates.
Shareholders Rights	
Consideration	**Comment**
Shareholders Voting Rights: Different classes of shares and the voting rights of each of them.	Each fully paid stapled security gives the shareholder a vote in SAL and one vote per dollar value of the total interest in SAT1 during a poll. During a vote through show of hands, each security holder present has one vote.
Shareholders Input on Corporate Changes: Review of whether shareholders have influence and voting rights on executive compensation, against directors' decisions, company laws and governance documents.	SYD's AGM include explanatory notes which explain the matters at discussion, including appointment and re-appointment of directors, adoptions of how directors are remunerated and policies.
Voting Rules: Analysis of the company's voting rules, whether it allows shareholders adequate time to analyse company reports or information before a voting decision. Ability to casts votes such as only in an AGM may create limited ability for shareholders to vote.	SYD has a Continuous Disclosure and Communications Policy which seeks to disclose accurate information in a timely manner. Information is disclosed fairly and made publicly available to investors.

APPENDIX 5: CORPORATE CITIZENSHIP

Acts of Good Corporate Citizenship

Organisation/Partnership	Contribution
Surf Life Saving Sydney	$300,000 raised for lifeguard training.
University of New South Wales (UNSW)	1 full aviation scholarship to an individual apart of an under-represented group in aviation*
Marrickville Legal Centre	$100,000 grant funding women at-risk
Australian Red Cross & NSW Wildlife, Information Rescue and Education Service	$100,000 shared to support bushfire recovery
Botany Aquatic Centre	$5 million over several years to upgrade the facility

**Sponsorship of one student per year for a four-year aviation university course, for the next 100 years.*

Community Sponsorships

Sport		Other Community Groups	
• Comets Baseball Club • Marrickville Cricket Club • Marrickville Football Club • Randwick Petersham Cricket Club	• Rockdale City Raiders • St George District Cricket Club • St George Randwick Hockey Club	• Live Life Get Active • Bayside Arts Festival • Conservation Volunteers Australia • Sydney Fringe Festival	• IMB Cook Community Classic • Festival of Kurnell • Rotary Australia (Botany, Marrickville, Rockdale)

APPENDIX 6: PORTER'S FIVE FORCES

Analysis of Porter's Five Forces

Notes	Comment
Competitive Rivalry | LOW-MEDIUM	
• Very little competition in Sydney (until WSA, 2026) • Small number of airports with a very large market share (Melbourne, Sydney, Brisbane all competing for international passengers heading into the east coast of Australia)	Until 2026 (at the earliest), SYD is the only airport in NSW offering services interstate and internationally. The only real current competition for SYD is Brisbane and Melbourne, who are both competing for international passengers coming into Australia form the East. It is, however, often the destination rather than the airport that dictates where a passenger chooses to fly to. In the short term there is relatively low competition, however, once operating, WSA will offer fresh competition in NSW.
Threat of New Entrants | LOW	
• High cost of entry (large capital requirement, e.g. land, terminal/s, runway/s, aeroplane/other storage) • Strict government policy/legal requirements within the aviation industry lead to difficulties for new entrants	Predominately due to the large capital requirement, the threat of new entrants is very low. Furthermore, strict regulations within the aviation industry make it very difficult as a new operator. Although we do see WSA as a new entrant in the medium term, we believe this is somewhat an outlier given this government owned and not being constructed for the purpose of competition, but rather to help with the expected increase demand in air travel.
Power of Suppliers | LOW	
• There is a relatively higher number of suppliers than buyers (airports), lowering their bargaining power • Disregarding potential long-term contracts, there is a relatively low cost of switching suppliers – reducing their power • Suppliers have a high reliance on the industry SYD operates, with profits being closely correlated to the overall performance of the industry. This is a weak sign of bargaining power	Suppliers of airports have a low bargaining power, given the comparably larger number of suppliers than customers within the industry. Furthermore, suppliers have a high reliance on their consumers, who have a low cost of switching. This combination of factors makes renders very low power to the suppliers.
Power of Customers | LOW	
• Customers have very few options amongst airports, e.g. airlines only have [currently] one airport in Sydney to fly out from, as a result – flying passengers must go through the airport the airline is flying from	The customers of airports, such as airlines and passengers, have very little bargaining power. This is because airports are a utility to air travel. Tying into the threat of substitutes, there are little to no alternatives when it comes to flying, meaning they have somewhat of a monopoly. This renders the power of customers low.
Threat of Substitute Products | LOW	
• Substituting SYD will require the consumer to fly to a different city (until 2026), or arrive on ship	There are very little to no substitutes for SYD. Ultimately, passengers would need to travel to a different city if they wanted to go to a new airport. Airports themselves have essentially no alternatives when it comes to air travel.

APPENDIX 7: SWOT ANALYSIS

<table>
<tr><th colspan="2">Analysis of Strengths, Weaknesses, Opportunities and Threats</th></tr>
<tr><th colspan="2">Strengths</th></tr>
<tr><th>Notes</th><th>Commentary</th></tr>
<tr><td>Prime location 8 kilometres south of Sydney's CBD
High-class airport ranking 26th in the 2020 World's Top 100 Airports
Sydney's gateway to international travel and freight
High tourism attractions in Sydney (Sydney Harbor Bridge and Sydney Opera House)
Multiple revenue streams (Aeronautical, Retail, Property & Car Rental and Parking and Ground Transport)
Home to the main Qantas hub</td><td>SYD is a world-class airport with the advantage of being located only eight kilometres from the CBD of both Australia’s largest and arguably most popular tourism city. As a result, SYD is somewhat a gateway to Australia for both inbound and outbound international passengers. Although correlated to passenger numbers, SYD also has multiple revenue streams. This in some instances can act as a diversification of income. For example, although throughout the COVID-19 pandemic passenger numbers have been down, they have maintained very high lease rates. Furthermore, SYD is home to the main hub of Australia’s largest airline, Qantas.</td></tr>
<tr><th colspan="2">Weaknesses</th></tr>
<tr><th>Notes</th><th>Commentary</th></tr>
<tr><td>Curfew limitations around operations (20 movements per 15 mins between 6am - 11pm)
Limited opportunity for physical expansion due to location of airport
High reliance on a very small number of airlines (Qantas and Virgin account for 54.8% of passenger traffic)</td><td>SYD, like many companies, has some profound weaknesses. They have government regulations restricting their operations, limited opportunities for expansions and a relatively high reliance on a small number of airlines for a large portion of their passenger traffic. Movement caps of 80 take-off or landings per hour limit the number of passengers who can be moved throughout the day. This also makes it hard for the airport to catch up when delays arise. Additionally, their two largest airlines, Qantas and Virgin, account for over 50% of passenger traffic. This is a weakness as there is a high risk of financial impact in the event one of these airlines can (or will) no longer use the airport.</td></tr>
<tr><th colspan="2">Opportunities</th></tr>
<tr><th>Notes</th><th>Commentary</th></tr>
<tr><td>Transition into a superior airport targeting premium customers (also targeting international passengers when WSA opens)
Aeronautical advancements allowing for reduced noise pollution to reduce movement curfew
Sustainability and efficiency improvements, reducing SLL interest rates
Increasing the size of the airport "catchment" (advancements in aircraft - can fly further distances and to more locations [internationally])
Potential to restructure operations as air travel grows beyond the COVID-19 pandemic (becoming more efficient)</td><td>Through the current and future challenges of COVID-19 and WSA, we see many opportunities for SYD. Although having a restructure in recent years, there is a great potential for SYD to rebuild to become more efficient after the impact of COVID-19. Additionally, once WSA begins operations they may be able to transition into targeting international or higher-end passengers, given they return more value. Further opportunities are centred around the improvement of aircraft. As aeronautical advancements allow for reduced noise pollution and further flying distances, there is an opportunity to increase the movement cap and “catchment” – the locations for which SYD can attract passengers from.</td></tr>
<tr><th colspan="2">Threats</th></tr>
<tr><th>Notes</th><th>Commentary</th></tr>
<tr><td>Western Sydney International (Nancy-Bird Walton) Airport commencing operations in 2026
COVID-19
Government policies on border restrictions
Political risks
Local interstate airport competition</td><td>With the construction underway for WSA, there is a threat due to the inbound competition within the NSW airport sector. Additionally, government policy such as aircraft movement caps and COVID-19 boarder restrictions have been a huge threat operationally and financially.</td></tr>
</table>

APPENDIX 8: LONG-TERM GROWTH RATE

The long-term growth applied from year 2028 through to end of SYD's land lease and airport operating license in 2097 is the 20-year average growth rate of Australia's GDP.

Year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Average
GDP Growth	3.93%	1.93%	4.00%	2.99%	4.06%	3.20%	2.79%	3.84%	3.66%	1.94%	2.07%	2.46%	3.92%	2.58%	2.53%	2.19%	2.77%	2.37%	2.94%	1.90%	2.90%

Data Source: World Bank - World Development Indicators
Last Updated: 16/09/2020

APPENDIX 9: PASSENGER RECOVERY AND GROWTH RATES

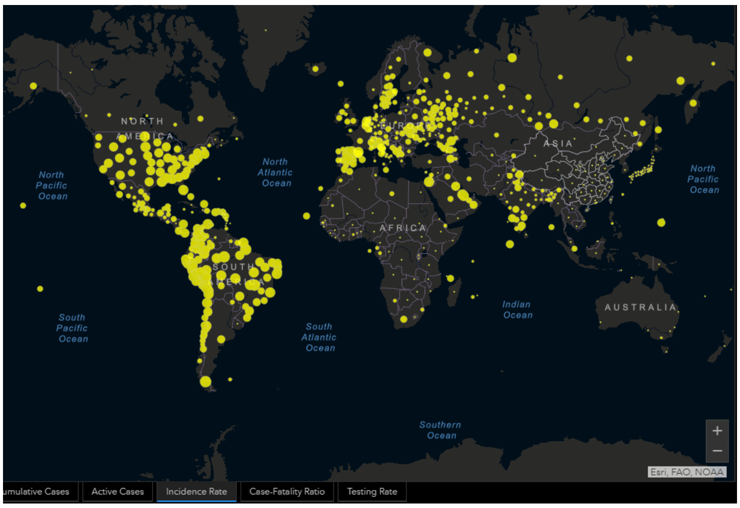
Passenger recovery estimates have been based on a mix of historical events including the 1989 Australian pilot strike, 9/11 terrorist attack and 2008 Global Financial Crisis. Passenger numbers have been added on as percentage pre-COVID levels, until pre-COVID quantities have been restored. Pax then grows at a constant 1% for domestic and 3.1% for international, as SYD outlined in their 20-year Masterplan. When and what percentages were applied to pre-COVID pax are a factor of global COVID incidence rates and reputable news reports, including statements from SYD. Specialist advisers TFI worked with SYD to produce the 20-year Masterplan (released April 2019) long term growth rates. Factors which were taken into consideration include, but are not limited to, Australia GDP, visiting countries GDP, NSW gross state product, global exchange rates, Australian trade weighted index, consultation with numerous relevant airlines, airline aircraft orders, passenger demand, aircraft types, aircraft seat utilisation and peak and off-peak operations.

Passenger Recovery and Growth																SYD Master Plan Pre-COVID Forecast
Dom Growth Rate							1.00%	1.00%	1.00%	1.00%	-10.78%	1.00%	1.00%		1.00%	
Int Growth rate										3.10%	-10.78%	3.10%	3.10%		3.10%	
Year	2019A	1H - 2020A	2H - 2020E	2020E	2021F	2022F	2023	2024F	2025F	2026F	2027F	2028F	2029F	Assumed	2039F	2039F
Domestic	**27,538,404**	5,830,998	1,114,597	6,945,595	23,412,740	27,813,788	28,091,926	28,372,845	28,656,574	28,943,139	25,822,183	26,080,405	26,341,209	Long Term	29,097,082	31,400,000
% of Pre-COVID	100.00%			25.2%	85.02%	101.00%	102.01%	103.03%	104.06%	105.10%	93.77%	94.71%	95.65%	Constant	105.66%	114.02%
International	**16,890,441**	1,150,000	404,662	1,554,662	3,317,075	9,499,478	14,902,408	16,393,718	16,901,923	17,425,882	15,546,839	16,028,791	16,525,683	Growth	22,425,704	31,500,000
% of Pre-COVID	100.00%			9.20%	19.64%	55.99%	88.23%	97.06%	100.07%	103.17%	92.05%	94.90%	97.84%	To Lease	132.77%	186.50%
Total	**44,428,845**			8,500,257	26,729,816	37,271,106	42,994,335	44,766,564	45,558,497	46,369,023	41,369,023	42,109,197	42,866,893	End	51,522,787	62,900,000
% of Pre-COVID	100.00%			19.13%	60.16%	83.89%	96.77%	100.76%	102.54%	104.37%	93.11%	94.78%	96.48%		115.97%	141.57%
% Dom Pax	61.98%			81.71%	87.59%	74.63%	65.34%	63.38%	62.90%	62.42%	62.42%	61.94%	61.45%		56.47%	49.92%
% Int Pax	38.02%			18.29%	12.41%	25.37%	34.66%	36.62%	37.10%	37.58%	37.58%	38.06%	38.55%		43.53%	50.08%

West Syd Pax		- 5,000,000
Dom Pax	62.42%	- 3,120,956
% Reduction		-10.78%
Int Pax	37.58%	- 1,879,044
% Reduction		-10.78%

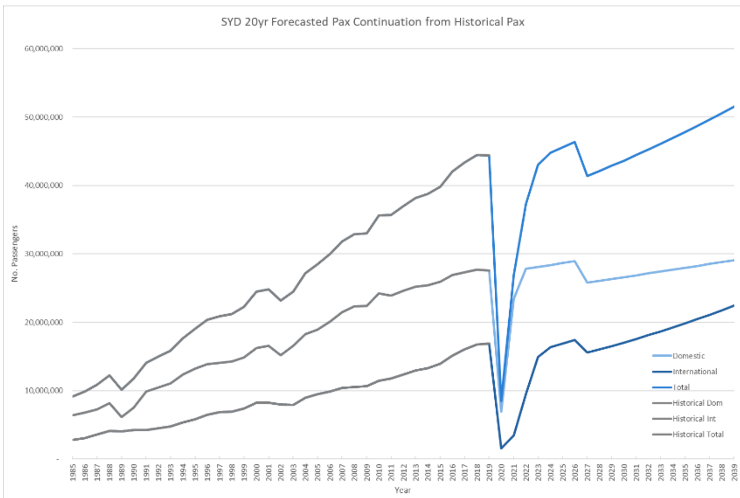
International Passenger Breakdown Summary																
	Year	1H 2020A	2H 2020E	2020E	2021F	2022F	2023	2024F	2025F	2026F	2027F	2028F	2029F		2039F	
Predicted Travel Bubble	Canada - BC		-		88,401	130,562	163,202	168,261	173,477	178,855	159,569	164,516	169,616		230,172	
	Hong Kong		-		174,304	1,070,722	1,195,224	1,232,276	1,270,476	1,309,861	1,168,618	1,204,845	1,242,195		1,685,686	
	NZ		173,919		1,936,302	1,996,327	2,058,213	2,122,018	2,187,800	2,255,622	2,012,397	2,074,781	2,139,100		2,902,804	
	Singapore		-		224,167	1,377,028	1,537,148	1,584,800	1,633,928	1,684,580	1,502,931	1,549,522	1,597,557	Long Term	2,167,919	SYD
Remainder of Key Travel Regions	Asia (ex China)		-		193,078	1,576,807	2,647,933	2,730,019	2,814,650	2,901,904	2,588,990	2,669,248	2,751,995	Constant	3,734,516	Master
	China		-		291,667	1,791,667	2,000,000	2,062,000	2,125,922	2,191,826	1,955,480	2,016,100	2,078,599	Growth	2,820,703	Plan
	Japan		-		-	84,961	521,902	582,588	600,648	619,268	552,492	569,620	587,278	Through	796,948	Pre-COVID
	Korea		-		-	63,048	387,297	432,331	445,733	459,551	409,997	422,707	435,811	to 2039	591,405	2039
	Europe + Middle East		-		-	335,417	1,772,917	2,300,000	2,371,300	2,444,810	2,181,185	2,248,802	2,318,514		3,146,273	Forecast
	Americas		-		-	340,783	1,801,282	2,336,798	2,409,239	2,483,925	2,216,082	2,284,781	2,355,609		3,196,611	
	Pacific		-		119,188	732,157	817,291	842,627	868,748	895,680	799,098	823,870	849,410		1,152,667	
	Misc.		230,742		378,369	-	-	-	-	-	-	-	-		-	
	Total	1,150,000	404,662	1,554,662	3,317,075	9,499,478	14,902,408	16,393,718	16,901,923	17,425,882	15,546,839	16,028,791	16,525,683		22,425,704	31,500,000

Global COVID-19 infection incidence rates:



Source: John Hopkins University – Coronavirus Research Centre

Resumption of historical passenger growth:



Source: Historical Data from BITRE and Team Analysis

APPENDIX 10: RETAIL AND INDUSTRIAL PROPERTY GROWTH RATES

Growth rates for the retail and industrial lease agreements within Retail and Property and Carparks segments have been calculated as per the below table. Two sources were selected to contribute to the final applied growth rates. The Asking Price Index (API) from Commercial Property Guide is an aggregate indicator from numerous real estate and property management agents for the direction of pricing. API data was filtered for Sydney retail and industrial rents. API was factored in to provide a more conservative growth rate than simple historical SYD revenue growth rates.

Revenue from passenger charges was removed by estimating a per passenger charge that reflects the decline in revenue with passenger numbers, while accounting for rent abatements and expected credit loss provisions.

Retail and Industrial Lease Growth Rates

Growth Rate Source	Retail Growth	Applied Weight	Industrial Growth	Applied Weight
SYD Rev. Growth	8.4%	20%	5.40%	35%
API 5yr Average	4.15%	80%	3.11%	65%
Applied Rate	5.00%	100%	3.91%	100%

APPENDIX 11: WACC CALCULATION

Cost of Equity		
Risk-free Rate	Proxy	Weight
5Y CGS Yield Spot Rate (12/10/20)	0.31%	80%
10Y CGS Yield Spot Rate (12/10/20)	0.85%	20%
Weighted Average	0.42%	100%
Beta		
CAPM Regression (5Y Monthly)	0.91	80%
CAPM Regression (10Y Monthly)	0.74	20%
Weighted Average	0.88	100%
Equity Market Return		
25Y All Ordinaries Average Return	5.48%	100%
Capital Asset Pricing Model (CAPM)		
Risk-free Rate (R_f)	0.42%	
Beta (β)	0.88	
Market Risk Premium ($R_m - R_f$)	5.06%	
Cost of Equity	**4.86%**	

$$\boxed{R_i = R_f + \beta_i(R_m - R_f)}$$

Cost of Debt

Original Currency	Debt Instrument	Maturity	Carrying Amount	Fair Value	Principal Drawn	Weight	Interest rate	Weighted Interest
AUD	Bilateral facility[1]	Feb-23	$150.00	$150.00	$150.00	1.29%	4.76%	0.0616%
AUD	Syndicated facility[1]	Apr-22	$565.70	$565.70	$570.00	4.88%	3.12%	0.1522%
AUD	Syndicated facility[1]	Apr-23	$66.90	$66.90	$68.00	0.58%	5.60%	0.0323%
AUD	Wrapped domestic bond[1]	Nov-21	$199.60	$199.60	$200.00	1.72%	3.28%	0.0565%
AUD	Wrapped domestic bond[1]	Oct-22	$746.40	$746.40	$750.00	6.44%	3.38%	0.2176%
AUD	Wrapped domestic bond[1]	Oct-27	$651.50	$651.50	$659.00	5.62%	3.38%	0.1899%
AUD	USPP bond[1]	Aug-28	$99.50	$99.50	$100.00	0.86%	4.90%	0.0420%
AUD	USPP bond[1]	Nov-28	$99.50	$99.50	$100.00	0.86%	4.90%	0.0420%
AUD	USPP bond	Nov-28	$179.10	$227.10	$180.00	1.96%	6.04%	0.1183%
AUD	USPP bond	Nov-28	$57.70	$71.20	$58.00	0.61%	5.60%	0.0344%
AUD	USPP bond	Nov-29	$135.30	$172.30	$136.00	1.49%	5.70%	0.0847%

USD	USPP bond	Feb-34	$86.00	$81.30	$62.50	0.70%	4.25%	0.0298%
AUD	USPP bond	Feb-39	$134.20	$171.30	$135.00	1.48%	4.76%	0.0703%
AUD	USPP bond	Feb-44	$99.40	$132.20	$100.00	1.14%	4.85%	0.0553%
AUD	USPP bond	Feb-49	$99.40	$136.60	$100.00	1.18%	4.90%	0.0577%
USD	USPP bond (2)	Jun-35	$74.90	$79.90	$77.10	0.69%	2.83%	0.0195%
EUR	USPP bond (2)	Jun-35	$80.90	$79.20	$80.80	0.68%	1.06%	0.0072%
AUD	USPP bond (2)	Jun-40	$99.40	$104.00	$100.00	0.90%	3.28%	0.0294%
AUD	USPP bond (2)	Jun-40	$218.60	$228.70	$220.00	1.97%	3.28%	0.0647%
AUD	USPP bond (2)	Jun-50	$119.30	$128.60	$120.00	1.11%	3.53%	0.0391%
EUR	Euro bond	Apr-24	$1,230.20	$1,197.40	$1,033.40	10.33%	2.75%	0.2840%
EUR	Euro bond	Apr-28	$889.70	$821.00	$796.10	7.08%	1.75%	0.1239%
USD	US144A/RegS bond (8)	Feb-21	$727.40	$740.80	$518.70	6.39%	5.13%	0.3277%
USD	US144A/RegS bond	Mar-23	$1,278.10	$1,251.80	$802.40	10.80%	3.90%	0.4210%
USD	US144A/RegS bond	Apr-25	$724.10	$740.10	$643.00	6.38%	3.38%	0.2157%
USD	US144A/RegS bond	Apr-26	$1,299.60	$1,414.50	$1,163.40	12.20%	3.63%	0.4428%
AUD	CIB (3,8)	Nov-20	$768.90	$783.70	$777.20	6.76%	3.76%	0.2541%
AUD	CIB (3)	Nov-30	$404.80	$455.20	$409.00	3.93%	3.12%	0.1225%
[1]Floating Rate			$11,286.10	$11,596.00	$10,109.60	**Weighted average**		**3.5963%**

APPENDIX 12: DDM, DCF AND FCFF

Dividends Discount Model	
SAT1: Constant Dividends	**$ 0.11**
SAL: Constant Payout Ratio	2.2
Required Rate of Return	4.706%
TV of Dividends	$ 6.094
PV of TV	$ 4.417
Sum of PV Forecasted DIV	$ 2.026
Implied Share Price	$ 6.443
TV of Franking Credits	$ -
PV of TV of Franking Credits	$ -
Sum of PV Forecast of Franking Credits	$ -
Implied Share Price	$ 6.443

At first, we see Dividend Discount Model (DDM) serves as a relevant valuation method in evaluating SYD intrinsic value. This is because SAT1's Constitution consists of a dividend policy requiring SAT1 to pay-out all income to shareholders, which reflected in the dividend payout of $0.10-$0.11 in the last 10 years. Meanwhile, despite SAL's Constitution having the dividend amount at the discretion of the SAL directors, historical data shows that SAL has a payout ratio averaging around 2.2 while having steady growth over years.

As a result, DDM displayed an implied share price of $6.44, which we believe is not an accurate reflection of the fair price of SYD. The abrupt decision of not paying dividends raised our concerns regarding the stability of future dividends payout, especially in the occurrence of a black swan event like the COVID-19 pandemic. Therefore, we excluded the DDM from the valuation of SYD's share price.

DISCOUNTED CASHFLOW MODEL	2017A	2018A	2019A	1H 2020A	2H 2020E	2020E	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029 - 2097F
REVENUE															
Aeronautical	$ 670.60	$ 721.70	$ 739.30	$ 86.33	$ 21.82	$ 108.16	$ 312.30	$ 542.67	$ 724.27	$ 788.55	$ 823.41	$ 860.24	$ 782.91	$ 818.52	
Security Recovery	$ 91.30	$ 98.70	$ 105.00	$ 41.50	$ 26.75	$ 68.25	$ 90.00	$ 93.74	$ 97.63	$ 101.68	$ 105.90	$ 110.29	$ 114.87	$ 119.63	
Retail	$ 333.10	$ 357.00	$ 374.90	$ 103.20	$ 146.72	$ 249.92	$ 316.20	$ 348.85	$ 376.18	$ 396.48	$ 415.68	$ 435.83	$ 444.12	$ 465.74	
Property and Car Rental	$ 221.40	$ 238.10	$ 251.20	$ 82.60	$ 137.80	$ 220.40	$ 229.00	$ 237.93	$ 247.21	$ 256.85	$ 266.86	$ 277.27	$ 288.08	$ 299.32	
Parking and Transport	$ 159.50	$ 162.10	$ 162.00	$ 25.03	$ 7.60	$ 32.62	$ 144.85	$ 174.84	$ 176.74	$ 178.65	$ 180.59	$ 182.54	$ 161.27	$ 163.03	
Others	$ 7.40	$ 7.10	$ 7.20	$ 3.58	$ 3.61	$ 7.19	$ 7.18	$ 7.19	$ 7.19	$ 7.20	$ 7.19	$ 7.19	$ 7.19	$ 7.19	
Total	$ 1,483.30	$ 1,584.70	$ 1,639.60	$ 342.24	$ 344.29	$ 686.53	$ 1,099.51	$ 1,405.21	$ 1,629.21	$ 1,729.39	$ 1,799.63	$ 1,873.35	$ 1,798.45	$ 1,873.44	
OPEX															
Employee Benefits	$ (57.50)	$ (64.60)	$ (56.80)	$ (22.30)	$ (14.62)	$ (36.92)	$ (51.69)	$ (52.72)	$ (53.78)	$ (54.85)	$ (55.95)	$ (57.07)	$ (58.21)	$ (59.37)	
Services and Utilities	$ (84.20)	$ (83.70)	$ (83.40)	$ (31.20)	$ (23.01)	$ (54.21)	$ (73.18)	$ (77.23)	$ (81.50)	$ (86.00)	$ (90.76)	$ (95.77)	$ (101.07)	$ (106.66)	
Property and Maintenance	$ (31.40)	$ (29.80)	$ (29.60)	$ (11.50)	$ (7.74)	$ (19.24)	$ (30.27)	$ (32.85)	$ (35.66)	$ (38.70)	$ (42.01)	$ (45.60)	$ (49.49)	$ (53.72)	
Security Recoverable	$ (83.60)	$ (91.50)	$ (98.30)	$ (38.60)	$ (25.30)	$ (63.90)	$ (81.00)	$ (84.36)	$ (87.86)	$ (91.51)	$ (95.31)	$ (99.26)	$ (103.38)	$ (107.67)	
Other Operational Costs	$ (27.80)	$ (32.70)	$ (35.30)	$ (15.50)	$ (7.45)	$ (22.95)	$ (23.88)	$ (24.86)	$ (25.88)	$ (26.94)	$ (28.04)	$ (29.18)	$ (30.38)	$ (31.62)	
Expected Credit Loss	$ -	$ -	$ -	$ (68.40)	$ -	$ (68.40)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	
Total	$ (284.50)	$ (302.30)	$ (303.40)	$ (187.50)	$ (78.11)	$ (265.61)	$ (260.02)	$ (272.02)	$ (284.67)	$ (298.00)	$ (312.06)	$ (326.89)	$ (342.53)	$ (359.04)	
EBITDA	$ 1,198.80	$ 1,282.40	$ 1,336.20	$ 154.74	$ 266.18	$ 420.92	$ 839.49	$ 1,133.18	$ 1,344.54	$ 1,431.39	$ 1,487.57	$ 1,546.47	$ 1,455.92	$ 1,514.40	
Depreciation	$ 300.40	$ 330.30	$ 352.70	$ 177.10	$ 191.95	$ 369.05	$ 312.85	$ 327.28	$ 343.32	$ 355.74	$ 368.66	$ 382.12	$ 395.04	$ 408.49	
Amortization	$ 85.80	$ 85.80	$ 85.80	$ 42.90	$ 42.90	$ 85.80	$ 85.80	$ 85.80	$ 85.80	$ 85.80	$ 85.80	$ 85.80	$ 85.80	$ 85.80	
EBIT	$ 812.60	$ 866.30	$ 897.70	$ (65.26)	$ 31.33	$ (33.93)	$ 440.85	$ 720.10	$ 915.42	$ 989.85	$ 1,033.11	$ 1,078.55	$ 975.09	$ 1,020.11	
Net Interests	$ (295.12)	$ (303.45)	$ (294.63)	$ (146.23)	$ (146.37)	$ (292.60)	$ (297.87)	$ (303.23)	$ (308.69)	$ (314.24)	$ (319.90)	$ (325.66)	$ (331.52)	$ (337.49)	
Unusual Expense	$ (1.80)	$ 0.20	$ -	$ (67.40)	$ (44.30)	$ (111.70)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	
Tax	$ (116.76)	$ (129.90)	$ (85.83)	$ 101.39	$ 65.54	$ 166.93	$ -	$ -	$ (53.23)	$ (73.18)	$ (83.73)	$ (94.90)	$ (61.35)	$ (72.30)	
CAPEX	$ (375.70)	$ (392.20)	$ (303.90)	$ (152.80)	$ (147.50)	$ (300.30)	$ (125.00)	$ (438.15)	$ (487.00)	$ (377.09)	$ (392.41)	$ (408.48)	$ (392.15)	$ (408.50)	
Changes in NWC	$ 391.00	$ (588.00)	$ 1,240.00	$ 69.67	$ 69.37	$ 139.04	$ (59.65)	$ (44.94)	$ (32.93)	$ (14.73)	$ (10.33)	$ (10.84)	$ 11.01	$ (11.02)	
Depreciation + Amortization	$ 386.20	$ 416.10	$ 438.50	$ 220.00	$ 234.85	$ 454.85	$ 398.65	$ 413.08	$ 429.12	$ 441.54	$ 454.46	$ 467.92	$ 480.84	$ 494.29	
Sydney Gateway Project Subsidy							$ 197.00								
Free Cash Flow	$ 800.42	$ (130.95)	$ 1,891.84	$ (40.62)	$ 62.92	$ 22.30	$ 553.97	$ 346.86	$ 462.69	$ 652.15	$ 681.21	$ 706.59	$ 681.92	$ 685.09	$ 150,712.27
Discount Factor							0.962	0.925	0.890	0.856	0.823	0.792	0.761	0.732	
Present Value							$ 532.80	$ 320.86	$ 411.65	$ 558.03	$ 560.62	$ 559.29	$ 519.13	$ 501.61	$ 24,616.24

WACC	3.97%
Long Term Growth Rate 2029 - 2097	2.90%
Enterprise Value	$ 28,580.22
MV of Debt	$ 9,790.00
SYD Valuation	$ 18,790.22
Number of Shares	2700
SYD Target Price	**$ 6.96**

APPENDIX 13: RELATIVE VALUATION

EV/EBITDA	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Sydney Airport	13.21	15.86	14.31	14.52	16.85	18.36	22.37	21.34	20.04	20.98	20.85
Auckland Airport	11.83	12.22	12.39	14.06	17.19	19.89	22.24	22.23	19.95	25.38	29.24
Qantas	4.2	3.73	3.34	3.12	5.85	4.06	2.84	4.47	4.11	3.6	5.91
QUBE	18.46	12.42	22.2	11.23	12.9	11.81	13.85	20.74	18.33	22.22	18.83
Transurban	11.87	19.91	19.59	21.68	23.68	24.67	27.46	24.97	24.81	28.41	32.96
Median for Peers	11.85	12.32	15.99	12.645	15.045	15.85	18.045	21.485	19.14	23.8	24.035
Average for Peers	11.59	12.07	14.38	12.5225	14.905	15.1075	16.5975	18.1025	16.8	19.9025	21.735
Premium of SYD against peers	11.48%	28.73%	-10.51%	14.83%	12.00%	15.84%	23.97%	-0.67%	4.70%	-11.85%	-13.25%
Premium of SYD against average	13.98%	31.40%	-0.49%	15.95%	13.05%	21.53%	34.78%	17.88%	19.29%	5.41%	-4.07%
Average Premium for Median	6.84%										
Average Premium for Average	15.34%										

EV/Sales	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Sydney Airport	9.15	10.98	11.1	11.72	13.67	15.1	18.15	16.96	16.2	17.03	16.92
Auckland Airport	9.04	9.16	9.27	10.37	12.83	14.86	16.68	16.71	14.77	18.94	19.49
Qantas	0.51	0.45	0.38	0.38	0.4	0.58	0.51	0.82	0.78	0.69	0.84
QUBE	14.86	3.56	2.33	1.93	2.25	2.2	2.37	3.38	2.94	3.71	4.06
Transurban	8.8	11.24	10.81	12.26	15.82	16.06	17.14	13.99	12.56	13.78	16.84
Median for Peers	8.92	6.36	5.8	6.15	7.54	8.53	9.525	8.685	7.75	8.745	10.45
Average for Peers	8.3025	6.1025	5.6975	6.235	7.825	8.425	9.175	8.725	7.7625	9.28	10.3075
Premium of SYD against median	2.58%	72.64%	91.38%	90.57%	81.30%	77.02%	90.55%	95.28%	109.03%	94.74%	61.91%
Premium of SYD against average	10.21%	79.93%	94.82%	87.97%	74.70%	79.23%	97.82%	94.38%	108.70%	83.51%	64.15%
Average Premium for Median	78.82%										
Average Premium for Average	79.58%										

P/CF	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Sydney Airport	232.98	20.59	13.09	15.9	25.15	24.32	23.77	22.9	21.3	28.35	21.69
Auckland Airport	25.49	16.92	14.21	14.91	19.5	20.38	23.07	20.67	11.01	19.03	28.84
Qantas	3.85	2.78	2.12	2.08	3	3.92	2.51	4.66	4.28	3.06	69.58
QUBE	9.3	12.12	37.39	11	13.7	12.41	13.61	20.97	12.23	15.34	15.94
Transurban	15.28	18.51	23.01	20.54	19.81	99.91	40.22	29.04	22.81	35.44	37.42
Median for Peers	12.29	14.52	18.61	12.955	16.6	16.395	18.34	20.82	11.62	17.185	33.13
Average for Peers	13.48	12.5825	19.1825	12.1325	14.0025	34.155	19.8525	18.835	12.5825	18.2175	37.945
Premium of SYD against peers	1795.69%	41.80%	-29.66%	22.73%	51.51%	48.34%	29.61%	9.99%	83.30%	64.97%	-34.53%
Premium of SYD against average	1628.34%	63.64%	-31.76%	31.05%	79.61%	-28.80%	19.73%	21.58%	69.28%	55.62%	-42.84%
Average Premium for Median	28.81%										
Average Premium for Average	23.71%										

	EV/EBITDA	EV/Sales	P/CF
Sydney Airport	27.28	20.83	33.57
Auckland Airport	53.29	32.61	75.37
Qantas	8.44	1.65	194.96
QUBE	18.40	2.99	17.12
Transurban	28.77	21.10	29.38
Average	27.24	15.84	70.08
Premium	0.15	0.80	0.24
Adjusted	31.41	28.44	86.70
Forecasted 2021	EBITDA	Revenue	CF
	$ 839.49	$ 1,099.51	$ 0.08
	EV	EV	P
	$ 26,370.55	$31,268.06	$ 0.15
MV of debt	$ 9,790.00	$ 9,790.00	$ 0.23
No. of shares	2700.00		
Price	$ 6.14	$ 7.95	$ 19.62
Weightings	0.50	0.50	0.00
Final Price	$ 7.05		

FINANCIAL ANALYSIS

APPENDIX 14: FINANCIAL ANALYSIS FORECASTS

	2016A	2017A	2018A	2019A	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E
Profitability												
EBITDA Margin (%)	79.60	80.80	80.90	81.50	71.57	76.35	80.64	82.53	82.77	82.66	82.55	80.95
Pre-tax Margin (%)	23.50	26.20	27.40	17.50	-45.55	1.39	20.42	29.12	31.28	32.01	32.74	27.88
Net Margin (%)	23.40	23.50	23.40	13.10	-27.06	1.39	20.42	25.85	27.05	27.36	27.67	24.47
Fixed Asset Turnover	0.41	0.43	0.45	0.46	0.21	0.32	0.41	0.46	0.47	0.49	0.51	0.49
Return on Assets (%)	2.60	3.20	3.40	2.20	-2.43	0.12	2.22	3.72	4.35	4.72	5.01	4.12
Return on Invested Capitals (%)	2.80	3.10	3.20	1.80	-1.53	0.13	2.65	4.08	4.63	4.65	5.19	4.18
Liquidity												
Cash ratio	0.11	0.10	0.35	0.28	1.97	1.24	0.71	0.44	0.26	0.35	0.26	0.36
Current ratio	0.89	0.60	1.40	0.53	2.05	1.34	0.81	0.53	0.37	0.50	0.38	0.52
EBITDA coverage	2.65	2.84	2.96	3.17	1.19	1.97	2.62	3.05	3.19	3.26	3.32	3.07
Solvency												
Debt-to-assets	0.91	0.95	0.99	1.04	0.72	0.73	0.72	0.71	0.71	0.73	0.75	0.78
Free operating CF to debt (%)	9.68	10.13	9.50	10.39	4.78	9.01	7.05	8.60	11.08	11.17	11.21	10.71
Shareholder Indicators												
EPS	0.14	0.15	0.16	0.17	-0.07	0.01	0.11	0.16	0.17	0.18	0.19	0.16
EPS Growth (%)	16.7	7.1	6.7	6.3	-140.9	-108.2	1772.7	46.8	11.1	5.3	5.3	-15.1

APPENDIX 15: INCOME STATEMENT ASSUMPTIONS

Item	Assumptions
Aeronautical Revenue	The forecasted aeronautical revenue is based on historical $ per domestic and international passengers with a growth rate of 0.17% for the domestic and 2.84% for the international figure. The $ per passenger charge is derived from PAX charges as reported by the ACCC. The rate is based on a four-year average for each domestic and international passenger.
Retail Revenue	The retail revenue consists of a flat rate and a variable per passenger income. We anticipated a constant growth of the flat rate of 5% for the forecasted horizon. The variable part is derived of past proportions.
Property and Car Rental Revenue	We assumed a steady growth rate of 3.9% for the property and car rental income.
Parking and Transport Revenue	As the revenue stream is directly linked to domestic patronage, we investigate the relationship by running a regression model. The result proved to be significant and able to deploy in the future forecast based on the domestic passenger volume.
Aeronautical Security Recovery	After an anticipated increase of security costs due to COVID-19, we used the historical growth rate of 4.15%.
Other Revenue	This item was derived as the previous 5 years' average.
Employee Benefits	As SYD performed organisational restructure in 2019, an increase similar to the GDP growth rate at 2% is forecasted rather than high historical growth.
Service and Utilities	We forecasted this item with the average historical growth of 5.53%.
Property and Maintenance	We forecasted this item with the average historical growth of 8.54%.

Security Recoverable	This item is estimated by assuming that the past approximately 10% profit margin on the aeronautical security recovery income will continue.
Depreciation	The forecast for this item is calculated by a regression of depreciation on PPE.
Amortisation	We derived from the amount of intangible assets which include goodwill which do not experienced huge changes for the last 10 years.
Net interest	We assumed a constant growth of 1.8% and constant interest payments from SAL to SAT1 to be $297m due to the constant dividend payments of $0.11 from SAT1 historically.
Taxes	We forecasted the company tax rate to be ongoing at 30%.
Dividends	We used the average historical payout ratio of 2.17 multiplied by the forecasted net income to estimate the dividends.

APPENDIX 16: BALANCE SHEET ASSUMPTIONS

Item	Assumptions
Cash and Short-term Investments	This item is calculated from the past 5 years' average of cash and short-term investments to revenue of 31.63%. We also added $2b cash in 2020 as the result of the equity raising.
Total Receivables	We used the historical 5-year median of total receivables to revenue of 12.00% to estimate this item.
Other Current Assets	Other current assets are forecasted by using the 5-year average of other current assets to revenue of 1.69%.
Property, Plant and Equipment	PPE consists of the previous year figure combined with the difference between CAPEX and depreciation.
Capital Expenditures	CAPEX for 2021 is capped at $125m as mentioned in the latest report. We assumed an increase in 2022 and 2023 as a result of deferred investments. The basic figure for our forecast is the 10-year median of CAPEX to revenue of 21.81%.
Goodwill	This item was straight-lined over the period from FY2019.
Other Intangible Assets	We used the 5-year average growth rate of -1.26% to estimate this item.
Receivables – long-term	Long-term receivables are calculated from the 5-year median of long-term receivables to total receivables of 39.5%.
Other long-term Assets	This item is based on the 5-year average of other long-term assets to revenue of 52.15%.
Payables / Accrued	Payables / accrued are 16.71% of the total revenue, which represents the 5-year average of payable / accrued to revenue.
Accrued Expenses	We forecasted this item from the 5-year average of accrued expenses to total expenses of 4.08%.
Current Port. of long-term Debt	These figures are based on the debt maturity information in the 2020 interim report.
Other Current Liabilities	We used the 5-year average of other current liabilities to revenue (33.72%) to forecast this figure.
Total long-term Debt	To estimate this item, we used the median growth rate of the past 10 years (2.77%). Additionally, we assumed that the $2b cash from the recent equity raising will be used until 2025 to reduce the long-term debt obligations.
Deferred Tax Liabilities	This item was straight-lined over the period from the past 5-year average.
Other Liabilities	We used the median of other liabilities to revenue from the previous 5 years (14.32%) to forecast this item.
Common Stock	This item is forecasted with a growth rate at the past 5-year average of 1.04%. We also added $2b to the 2020 figure from the equity raising.
Retained earnings	We forecasted this item by adding the net income less dividends to the previous year's retained earnings.

APPENDIX 17: SENSITIVITY ANALYSIS 1 – DISCOUNTED CASH FLOW MODEL (DCF)

		Terminal Growth Rate								
		1.90%	2.15%	2.40%	2.65%	2.90%	3.15%	3.40%	3.65%	3.90%
Weighted Average Cost of Capital	2.97%	$7.74	$8.53	$9.40	$10.37	$11.46	$12.67	$14.02	$15.53	$17.22
	3.22%	$6.85	$7.54	$8.31	$9.17	$10.12	$11.18	$12.36	$13.68	$15.16
	3.47%	$6.06	$6.67	$7.35	$8.10	$8.94	$9.87	$10.91	$12.07	$13.36
	3.72%	$5.35	$5.89	$6.49	$7.16	$7.90	$8.72	$9.63	$10.64	$11.78
	3.97%	$4.71	$5.20	$5.73	$6.32	$6.96	$7.69	$8.50	$9.39	$10.38
	4.22%	$4.15	$4.58	$5.05	$5.57	$6.15	$6.79	$7.50	$8.28	$9.16
	4.47%	$3.64	$4.02	$4.44	$4.90	$5.42	$5.98	$6.61	$7.30	$8.07
	4.72%	$3.18	$3.52	$3.89	$4.31	$4.76	$5.26	$5.82	$6.43	$7.11
	4.97%	$2.76	$3.07	$3.40	$3.77	$4.18	$4.62	$5.12	$5.66	$6.26

		Growth International Pax Charges				
		1.84%	2.34%	2.84%	3.34%	3.84%
Growth Domestic Pax Charges	0.00%	$6.64	$6.79	$6.94	$7.09	$7.25
	0.07%	$6.65	$6.80	$6.95	$7.10	$7.26
	0.17%	$6.67	$6.81	$6.96	$7.11	$7.27
	0.27%	$6.68	$6.82	$6.97	$7.13	$7.29
	0.37%	$6.69	$6.84	$6.99	$7.14	$7.30

APPENDIX 18: SENSITIVITY ANALYSIS 2 – DIVIDEND DISCOUNT MODEL (DDM)

		Terminal Growth Rate								
		0.00%	0.25%	0.50%	0.75%	1.00%	1.25%	1.50%	1.75%	2.00%
Cost of Equity	3.71%	$7.07	$7.45	$7.90	$8.42	$9.03	$9.77	$10.68	$11.82	$13.29
	3.96%	$6.66	$6.99	$7.37	$7.81	$8.32	$8.93	$9.66	$10.56	$11.69
	4.21%	$6.30	$6.59	$6.92	$7.29	$7.73	$8.23	$8.83	$9.56	$10.44
	4.46%	$5.98	$6.23	$6.52	$6.84	$7.21	$7.64	$8.14	$8.74	$9.45
	4.71%	$5.69	$5.92	$6.17	$6.45	$6.77	$7.14	$7.56	$8.05	$8.64
	4.96%	$5.44	$5.63	$5.85	$6.10	$6.38	$6.70	$7.06	$7.48	$7.97
	5.21%	$5.20	$5.38	$5.57	$5.79	$6.04	$6.31	$6.63	$6.98	$7.40
	5.46%	$4.99	$5.15	$5.32	$5.52	$5.73	$5.97	$6.25	$6.55	$6.91
	5.71%	$4.79	$4.94	$5.09	$5.27	$5.46	$5.67	$5.91	$6.18	$6.48

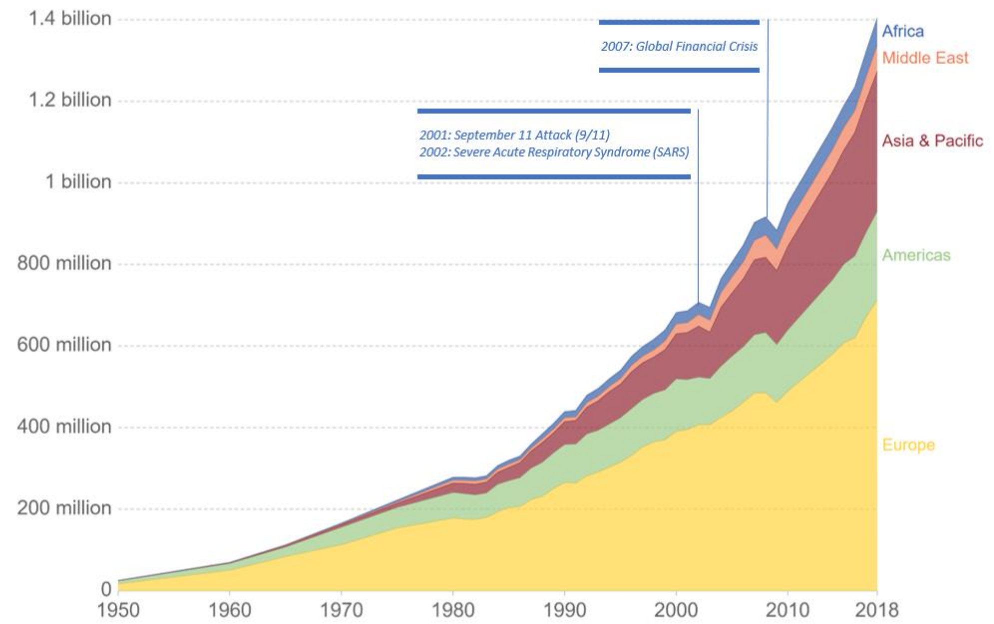
APPENDIX 19: SENSITIVITY ANALYSIS 3 – KEY REVENUE DRIVERS

Sensitivity – FY21E Earnings						
		International Passengers (in million)				
		1.47	2.47	3.47	4.47	5.47
Domestic Passengers (in million)	18.41	-13.00%	-10.13%	-7.26%	-4.39%	-1.51%
	20.91	-9.37%	-6.50%	-3.63%	-0.76%	2.12%
	23.41	-5.75%	-2.87%	0.00%	2.87%	5.75%
	25.91	-2.12%	0.76%	3.63%	6.50%	9.37%
	28.41	1.51%	4.39%	7.26%	10.13%	13.00%

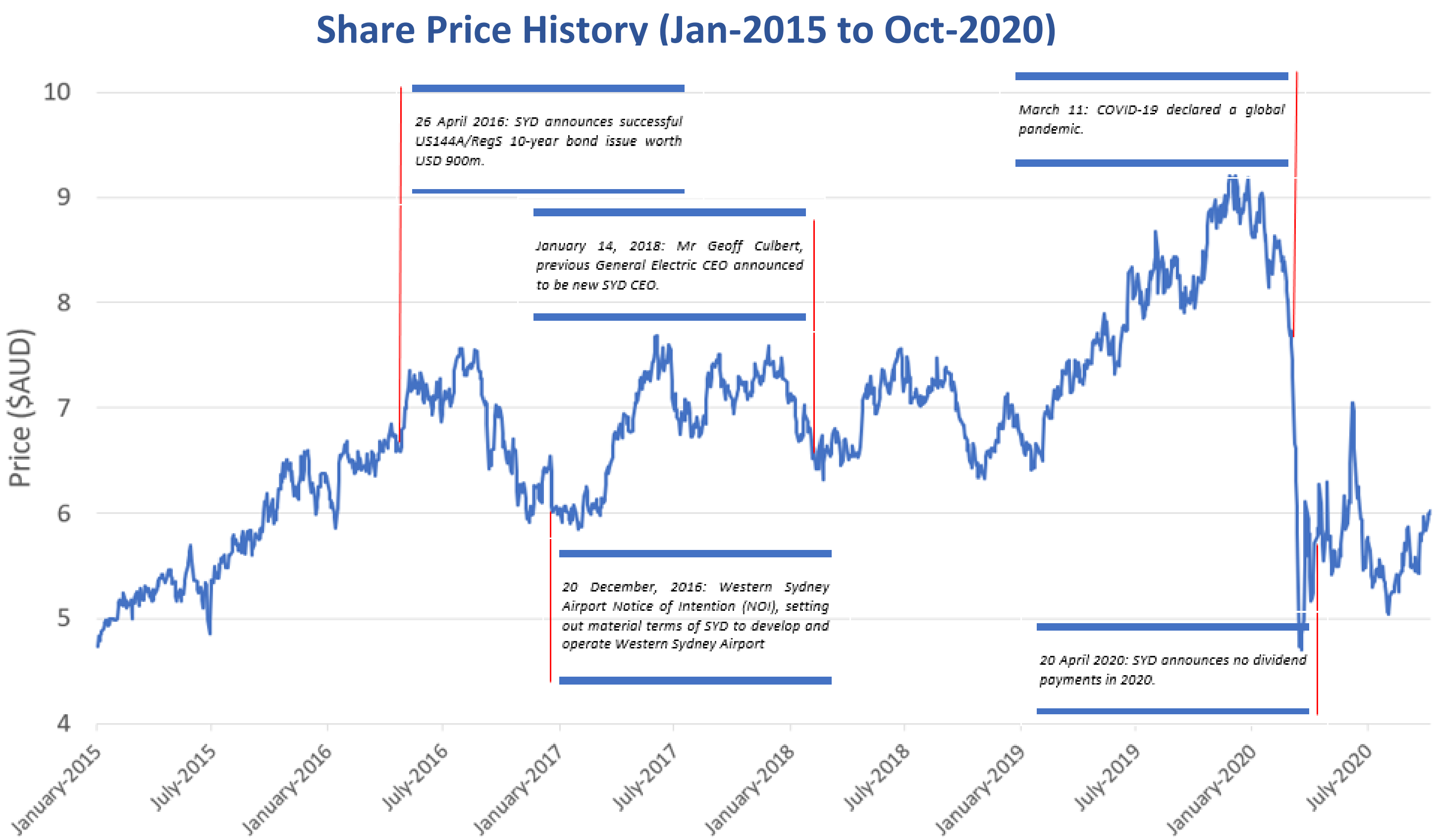
Sensitivity – FY22E Earnings						
		International Passengers (in million)				
		4.46	6.96	9.46	11.96	14.46
Domestic Passengers (in million)	22.81	-17.22%	-11.45%	-5.68%	0.08%	5.85%
	25.31	-14.38%	-8.61%	-2.84%	2.93%	8.70%
	27.81	-11.54%	-5.77%	0.00%	5.77%	11.54%
	30.31	-8.70%	-2.93%	2.84%	8.61%	14.38%
	32.81	-5.85%	-0.08%	5.68%	11.45%	17.22%

MISCELLANEOUS

APPENDIX 20: HISTORICAL GROWTH AND RECOVERY OF GLOBAL PAX



APPENDIX 21: SHARE PRICE HISTORY



APPENDIX 22: COVID-19 GLOBAL VACCINE PHASES

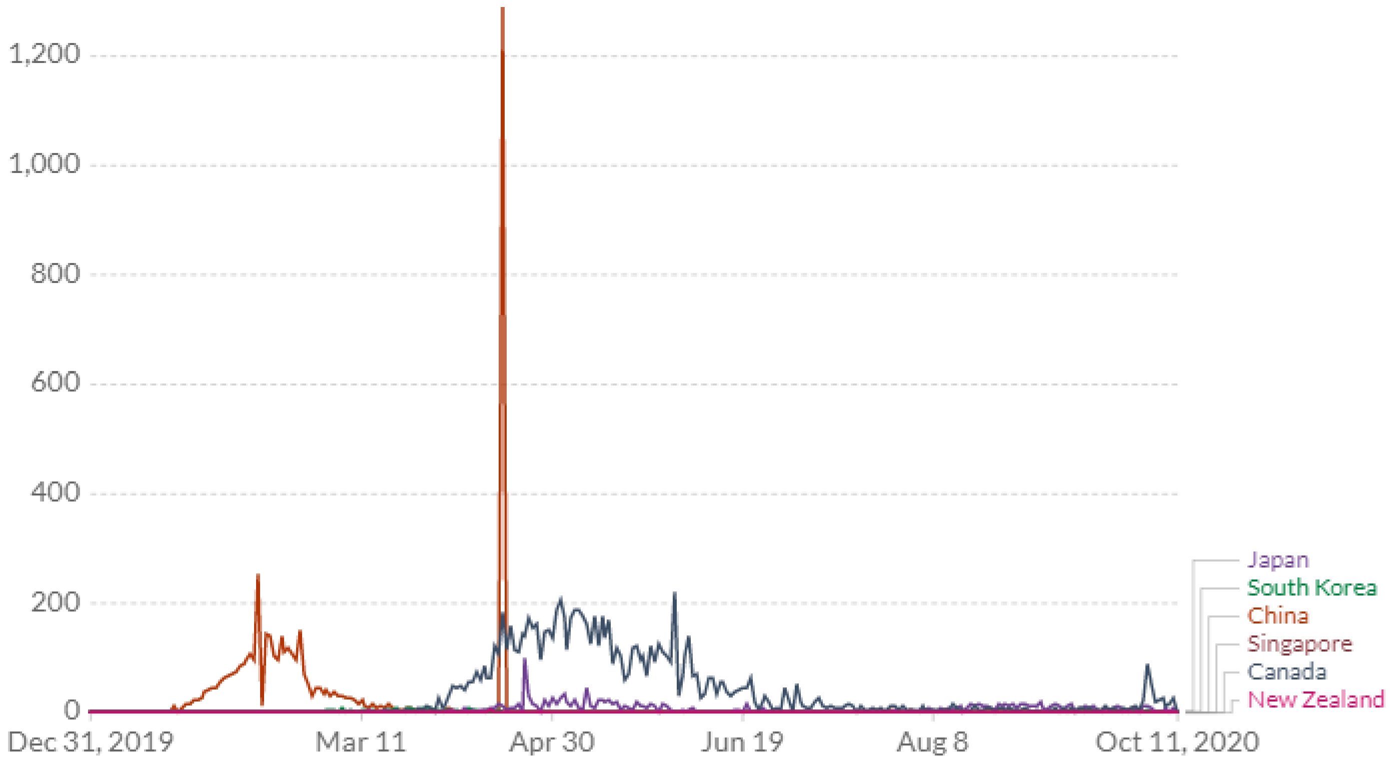
University/Pharmaceutical Company	Pre-Clinical Stage	Phase-1	Phase-2	Phase-3	Phase-4
University of Oxford/AstraZeneca					
BioNTech/Fosun Pharma/Pfizer					
Novavax					
CanSino Biologics Inc./Beijing Institute of Biotechnology					
Moderna/NIAID					
Sinovac					
Wuhan Institute of Biological Products/Sinopharm					
Janssen Pharmaceutical Companies					
Gamaleya Research Institute					
Beijing Institute of Biological Products/Sinopharm					
University of Melbourne/Murdoch Children's Research Institute					
Research Institute for Biological Safety Problems, Rep of Kazakhstan					
Curevac					
Inovio Pharmaceuticals/International Vaccine Institute					
Osaka University/AnGes/Takara Bio					
Arcturus/Duke-NUS					
Genexine Consortium					
Sanofi Pasteur/GSK					
Institute of Medical Biology, Chinese Academy of Medical Sciences					
SpyBiotech/Serum Institute of India					
Anhui Zhifei Longcom Biopharmaceutical/Institute of Microbiology, Chinese Academy of					
Kentucky Bioprocessing, Inc					
Cadila Healthcare Limited					
Bharat Biotech					
Imperial College London					
Vaxart					
Beijing Wantai Biological Pharmacy/Xiamen University					
Clover Biopharmaceuticals Inc./GSK/Dynavax					
Medicago Inc.					
Vaxine Pty Ltd/Medytox					
FBRI SRC VB Vector, Rospotrebnadzor, Koltsovo					
West China Hospital, Sichuan University					
ReiThera/LEUKOCARE/Univercells					
Medigen Vaccine Biologics Corporation/NIAID/Dynavax					
Institute Pasteur/Themis/Univ. of Pittsburg CVR/Merck Sharp & Dohme					
COVAXX					
University Hospital Tuebingen					
Institute of Biotechnology, Academy of Military Medical Sciences, PLA of China					
Instituto Finlay de Vacunas, Cuba					
University of Queensland/CSL/Seqirus					
People's Liberation Army (PLA) Academy of Military Sciences/Walvax Biotech					

Source: Our World in Data, 11 October 2020.

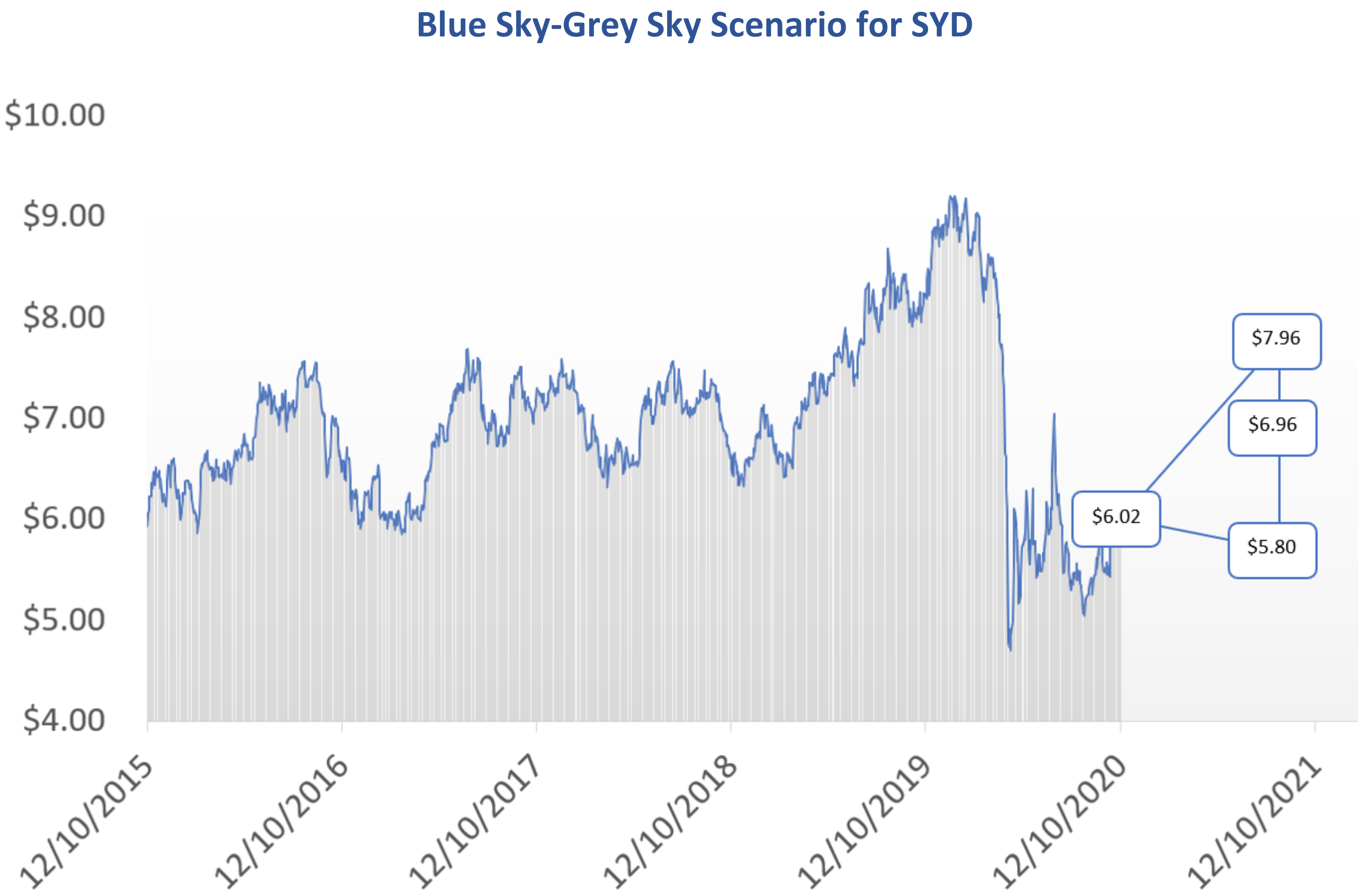
Source: Team Analysis

APPENDIX 23: DAILY NEW CONFIRMED COVID-19 DEATHS

Daily New Confirmed COVID-19 Deaths as at 11 October 2020



APPENDIX 24: BLUE SKY-GREY SKY SCENARIO



Bear Case: In our bear case, a COVID-19 vaccine does not occur until June 2022 with infection rates remaining significant. Consequently, recovery of domestic passengers remains, although at a lower rate, estimated to be recover back to pre-COVID levels at 2023. Similarly, the Australia Government will have stricter approach in assessing potential travel bubble candidates. Thus, we forecast a delayed increase in international passengers back to the airport, with a 3.72% recovered patronage in comparison to 2019 levels. We also forecast a lower consumer sentiment index, which leads to a stagnant retail growth rate of 2% for another year (2020 – 2021) as COVID-19 suppresses the number of customers in SYD. In our bear case scenario, we predict another year of rental abatements, deferrals and JobKeeper subsidies to remain. We arrive at a bear case valuation of $5.80 implying a discount of 3.65% on last close.

Bull Case: Our outlook of COVID-19 in our bull case scenario simulates a globally optimistic view on the economy. We forecast a higher propensity to travel with a 16.6% increase in international passenger growth per month. By adopting the 16.6% growth in our DCF model, we see a faster recovery with 70% increase in aeronautical revenue in 2021 compared to the base case. Overall, we forecast passenger traffic to fully recover one year earlier than our base case scenario. We arrive at bull case valuation of $7.96 implying a premium of 32.22% on last close.

REFERNCES

APPENDIX 25: CITATIONS

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