

# QCLNG pipeline acquisition, Australia

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Against the fanfare of Australia's state privatisation programmes, APA Group in June 2015 closed its \$4.6 billion acquisition of the Queensland Curtis LNG (QCLNG) pipeline from BG Group with minimal fuss.

The final acquisition price was higher than had been expected - equivalent to an earnings before interest, tax, depreciation and amortisation (Ebitda) multiple of roughly 13x. Most pipeline acquisitions tend to coalesce at 10-11x Ebitda.

But QCLNG's acquisition price fits within the context of Australia's infrastructure M&A frenzy. IFM and its partners paid roughly 25x Ebitda for the [A\\$5.1 billion \(\\$3.8 billion\) Botany and Kembla ports acquisition](#) in 2013, while a Hastings-China Merchants consortium paid roughly 27x Ebitda for its nearly [A\\$1.8 billion acquisition of the port of Newcastle](#) in 2014.

Whereas yield-hungry financial investors have driven prices in recent Australian M&A deals, APA's acquisition of QCLNG was more strategic. The 543km QCLNG connects to APA's existing 7,000km pipeline grid on Australia's east coast, and links the coal seam gas fields in Queensland's Surat Basin to a processing facility and export terminal in Gladstone owned by BG and China National Offshore Oil Corporation (CNOOC).

APA's acquisition was not without detractors. Some questioned the size of the acquisition, equivalent to about half of the company's enterprise value. But APA crafted a prudent financial structure, which left the company's credit rating intact.

The QCLNG deal is Australia's largest infrastructure acquisition since [Transurban paid A\\$7.1 billion to purchase Queensland Motorways in mid-2014](#) from Queensland Investment Corporation (QIC).

## APA's nexus

In December 2014 APA signed an agreement with BG to acquire QCLNG for \$5 billion; the final acquisition price was reduced following the finalising of certain financial parameters.

APA held off competition from at least two other bidding groups - an IFM-QIC consortium and an AMP Capital-led group supported by several unnamed Chinese investors.

When APA submitted its bid, it provided a fully funded offer. This comprised a roughly \$1.8 billion pro-rata accelerated entitlement offer, which was fully underwritten by Macquarie, Deutsche Bank and Morgan Stanley, and a \$4.2 billion bank facility from a club of 10 banks:

- Australia & New Zealand Banking Group (ANZ)
- Commonwealth Bank of Australia
- DNB Bank
- HSBC
- Mitsubishi UFJ Financial Group
- National Australia Bank (NAB)
- Oversea-Chinese Banking Corporation
- RBS
- Scotiabank
- Westpac

Among bidders, APA proposed the highest price. Although its acquisition was valued solely on existing BG contracts, APA can easily expand QCLNG's services to third-party users, and thus increase the asset's returns.

"We wouldn't have bought the pipeline if it was purely a financial transaction," says Peter Fredricson, chief financial officer at APA Group in Sydney. "Whilst we have the obligation to deliver the capacity that each of the foundation shippers has contracted for the next 20 years, we

have also the ability to offer services to other customers and to expand the pipeline to other users."

### Sources of funding

APA completed the A\$860 million institutional component of its entitlement offer in December 2014 and completed the retail component in January. These efforts raised gross proceeds of A\$593 million.

APA then turned its attention to the debt financing. In March it refinanced the existing bridge facility in the euro, sterling and US capital markets.

Low interest rates have attracted Australian and US corporates to the European and UK bond markets. But tenor attracted APA to these markets.

"The two-year bank facility was very price-competitive, but it was only two years," Fredricson explains. "If you look at our business model over the last five years or so, [we prefer] to push our debt maturity as far as possible to match the long-term nature of our assets."

APA priced the euro and sterling issuance first. BNP Paribas, HSBC, NAB and RBS led that issue, which carried an all-in weighted average fixed rate of about 4.2%. The issuance comprised:

- €700 million (\$775 million) of seven-year notes at a fixed coupon of 1.375%
- €650 million of 12-year notes issued at a fixed coupon of 2.0%
- £600 million (\$935.4 million) of 15-year notes issued at a fixed coupon of 3.5%

ANZ, JP Morgan, Morgan Stanley and JP Morgan then led a \$1.4 billion aggregate offering in the US 144A market. That offering comprised \$1.1 billion of 10-year notes issued at a fixed coupon of 4.2%, and \$300 million of 20-year notes issued at a fixed coupon of 5.0%.

### Cost effective

QCLNG's long-term, US dollar-denominated take-or-pay contracts with BG and CNOOC gave APA access to a deep pool of funding sources - deeper than contracts denominated in Australian dollars. To mitigate the foreign exchange risk, APA pledged to swap any surplus following debt service into Australian dollars, which can be used to pay for operating expenditure and security-holder distributions.

Given that APA is acquiring an operational asset, the deal is a boost to the company's funds from operations (FFO). This, coupled with APA's entitlement offer, allowed the company to take on additional debt without jeopardising its rating.

"We have made commitments to our investors to maintain our BBB and Baa2 ratings and have said that if we enter into a significant transaction we will fund to maintain those ratings," Fredricson says. "We went through a rating assessment service with S&P and Moody's [respectively], and both rating agencies immediately came out after the acquisition to confirm the existing ratings as stable."

Australian assets are fetching high prices today. Early indications are that competition for New South Wales' [A\\$20 billion 'poles and wires' privatisation](#) will be fiercer than previous auctions; Ebitda multiples in the late 20s are possible. In this context, APA's acquisition of QCLNG seems like good business.

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