

WESTERN AUSTRALIAN  
**TREASURY CORPORATION**



**Town of Port Hedland**  
**Debt Assessment**  
**April 2019**

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# 1. Introduction

Following a successful tender process, in 2016 the Town of Port Hedland (“TOPH”) contracted to lease the Port Hedland International Airport (“PHIA”) on a 50 year term to a private consortium. TOPH received a c. \$165 million upfront payment representing the full value of the 50 year lease stream.

- TOPH is holding the proceeds from the PHIA transaction in interest bearing term deposit accounts which for the purpose of this analysis are collectively assumed to earn interest at a rate of 2.6% per annum.

TOPH currently holds 14 loans of varying amounts, interest rates and maturity dates with Western Australian Treasury Corporation (WATC), with a collective total market value of c. \$24 million.

**TOPH has asked WATC to determine whether it would be economically advantageous to pay off the loans it currently holds with WATC using partial proceeds from its PHIA deposit.**

## 2. Approach

WATC has adopted the following approach for this project:

- Identify all outstanding TOPH loans with WATC
- For each loan, identify:
  - Applicable interest rate
  - Current outstanding balance
  - Timing of payments
  - Scheduled payments of principal and interest
  - Accrued unpaid interest
  - WATC guarantee fee
  - Current market value (all in cost to repay a loan)
- Calculate the Internal Rate of Return (IRR) of repaying each loan based on current market value
- Calculate aggregate IRR for repayment of all loans

### 3. TOPH Loans with WATC

TOPH's outstanding loans with WATC as at 27 February 2019 were as follows:

#	WATC Loan ID	Start Date	Maturity Date	Interest Rate	Repayments	Outstanding Balance
1	326563W	26-Mar-10	26-Mar-25	6.48%	Monthly	261,861
2	344369W	25-May-11	26-May-26	6.02%	Monthly	148,647
3	420736W	21-Jun-16	21-Jun-26	2.59%	Quarterly	263,817
4	313736W	29-Jun-09	29-Jun-29	6.75%	Semi-Annual	1,024,499
5	327255W	16-Apr-10	30-Dec-29	6.78%	Semi-Annual	1,524,892
6	345147W	16-Jun-11	16-Jun-31	6.05%	Semi-Annual	1,169,132
7	345149W	16-Jun-11	16-Jun-31	6.05%	Semi-Annual	626,052
8	354081W	03-Feb-12	03-Feb-32	5.22%	Semi-Annual	3,368,728
9	354083W	03-Feb-12	03-Feb-32	5.22%	Semi-Annual	5,935,124
10	373072W	24-Apr-13	24-Apr-33	4.73%	Semi-Annual	1,215,739
11	373520W	24-Apr-13	24-Apr-33	4.63%	Semi-Annual	1,169,645
12	375566W	21-Jun-13	21-Jun-33	4.82%	Semi-Annual	2,029,833
13	384168W	26-Feb-14	26-Feb-34	5.21%	Semi-Annual	1,353,999
14	384170W	26-Feb-14	26-Feb-34	5.21%	Semi-Annual	418,418
						<b>20,510,386</b>

## 4. Individual Loan Repayment Costs and IRRs

Market value repayment costs and associated IRRs for each loan as at 27 February 2019 were as follows:

#	WATC Loan ID	Start Date	Maturity Date	Outstanding Balance	Pay-off Value	Difference	Pay-off IRR
1	326563W	26-Mar-10	26-Mar-25	261,861	296,154	34,294	2.88%
2	344369W	25-May-11	26-May-26	148,647	168,833	20,187	2.96%
3	420736W	21-Jun-16	21-Jun-26	263,817	267,779	3,962	2.98%
4	313736W	29-Jun-09	29-Jun-29	1,024,499	1,264,438	239,939	3.19%
5	327255W	16-Apr-10	30-Dec-29	1,524,892	1,897,634	372,741	3.22%
6	345147W	16-Jun-11	16-Jun-31	1,169,132	1,426,704	257,572	3.30%
7	345149W	16-Jun-11	16-Jun-31	626,052	763,977	137,926	3.30%
8	354081W	03-Feb-12	03-Feb-32	3,368,728	3,920,041	551,313	3.29%
9	354083W	03-Feb-12	03-Feb-32	5,935,124	6,906,444	971,319	3.29%
10	373072W	24-Apr-13	24-Apr-33	1,215,739	1,395,347	179,608	3.52%
11	373520W	24-Apr-13	24-Apr-33	1,169,645	1,333,661	164,016	3.52%
12	375566W	21-Jun-13	21-Jun-33	2,029,833	2,331,741	301,908	3.46%
13	384168W	26-Feb-14	26-Feb-34	1,353,999	1,590,599	236,600	3.43%
14	384170W	26-Feb-14	26-Feb-34	418,418	491,532	73,115	3.43%
				<b>20,510,386</b>	<b>24,054,886</b>	<b>3,544,500</b>	

- The cost to repay all loans as at 27 February 2019 after accounting for accrued interest and guarantee fees is \$24.055 million.
- WATC notes that the individual repayment IRRs for each loan (ranging from 2.88% to 3.52%) exceed the benchmark 2.6% PHIA term deposit interest rate.
- **Therefore, paying off each of the individual loans using partial proceeds from the PHIA deposit is to TOPH's economic advantage.**

## 5. Aggregate TOPH Loan Repayment Cost and IRR

- The IRR for paying off the total loan market value as at 28/1/2019 is **3.33%**.

<b>Market Value – all loans</b>	<b>\$24,054,886</b>
Pay-off IRR	3.33%

- The aggregate pay-off IRR of 3.33% exceeds the interest rate of 2.6% which TOPH is currently receiving in cash from its PHIA deposit.
- Accordingly, it would be to TOPH's economic advantage to utilize partial proceeds from its PHIA deposit to repay in full all outstanding loans held by TOPH with WATC.**

## 6. Considerations

- **TOPH should consider whether, over the residual term of the loans, the interest rate that TOPH is receiving on its term deposit (currently assumed to approximate 2.6%) will always lag the 3.33% aggregate repayment IRR:**
  - The interest rate forecast horizon adopted by WATC and the Big 4 banks is typically around 18 months;
  - WATC's current 18 month forward projection of short term rates essentially matches the current rate environment – i.e. no material increase in rates is forecast over this timeframe;
  - The 0.7% guarantee fee charged on each loan facility further underscores the likelihood that the repayment IRR will exceed the deposit interest rate on a go-forward basis.
- **The repayment values were calculated as at 27 February 2019, but WATC notes that variance in repayment IRRs over the short term is not deemed material.**
- **The repayment IRRs and the payout balances can readily be refreshed by WATC at short notice upon request by TOPH.**
- **Subject to TOPH's debt requirements and alternate demands on available funds, TOPH may consider prioritizing repayment for those WATC loans which carry higher IRR repayments.**

## 6. Considerations (con'd)

- **Given the current interest rate environment, TOPH asked WATC whether it should consider refinancing its existing fixed rate loans whose prevailing interest rates exceed current market rates.**
  - The key issue regarding a refinance strategy is that the premium relating to the buyback of the current fixed rate loans will offset any rate benefit gained from new refinanced loans.
  - In other words, under a refinance of fixed rate loans, the total quantum of debt service will remain the same after taking into account the buyback premium.
- **Due to the fixed interest rate nature of TOPH's existing loans, refinancing would only be an option to consider if TOPH is seeking (for budgetary reasons) to change the timing (but not the overall amount) of its debt service burden.**
  - Under a refinancing, current monthly loan payment amounts could be reduced going forward by spreading such repayments over a longer total repayment period.

# Important Information

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## **DISCLAIMER**

Any opinions, judgements, conclusions, forecasts, predictions or estimations contained in this advice are made in reliance on information provided by the Western Australian Treasury Corporation (WATC) which WATC believes to be reliable. Thus, any recommendations are made in good faith but they must be carefully considered because they are provided only to assist you with any decisions which you make.

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