

Customer Story

How Sydney Airport Successfully Piloted Sustainability-Linked Finance in Australia

SYD
Sydney Airport





Turning Sustainable Finance Innovation into Company-wide Sustainability Success

Sydney Airport's treasury team successfully leveraged innovations in the corporate debt market to advance its company-wide sustainability targets. Through sustainability-linked debt financing, and with support from Sustainalytics, the organization met its financing goals and demonstrated its commitment to continuous environmental, social, and governance (ESG) improvement.



Industry
Transportation and
Infrastructure



Region
Asia Pacific



Sustainability Product
ESG Risk Ratings License

"The ESG Risk Rating and associated sustainable finance activities were really helpful in driving forward the airport's sustainability agenda."

Alicia Burgmann
Head of Sustainability, Sydney Airport





The Opportunity

Use sustainable finance to integrate the organization's ESG ambitions throughout the company, and become a leader in sustainable finance across Australia's corporate sector.



The Solution

A corporate ESG license used with Sustainalytics' ESG Risk Rating enabled Sydney Airport to structure and deliver sustainability-linked debt finance transactions.



The Results

Sydney Airport demonstrated its commitment to sustainability and its leadership in Australia's corporate funding market through its award-winning sustainable finance activities.

About Sydney Airport

Sydney Airport is Australia's international gateway and at the heart of the country's domestic aviation network. Part of the social and economic fabric of Sydney for more than 100 years, Sydney Airport is continually striving to deliver on its purpose – to make Sydney proud every day. Prior to COVID-19, Sydney Airport welcomed more than 44 million passengers annually, generated more than AU\$42 billion in economic activity, and directly and indirectly supported 336,000 jobs.



The Opportunity

Use Sustainable Finance to Move Into a Corporate Leadership Position

Sydney Airport had been exploring the integration of sustainable finance into its corporate funding strategy as sustainable finance products were starting to take off outside of Australia. The treasury team saw that adopting sustainable finance in-house presented an opportunity – to not only advance the organization’s sustainability agenda, but to be a leader in sustainable finance in Australia.

The company already had a strong sustainability program in place and was making a concerted effort to continually improve its ESG profile and embed sustainability across the entire organization. Sydney Airport was particularly focused on climate resilience, waste management, safety performance, customer satisfaction, and connecting with local Indigenous communities.

Despite wanting to integrate sustainable finance into its funding, the company didn’t have enough eligible green assets to support the issuance of green use of proceeds bonds, which were the most widely available at the time. The advent of sustainability-linked debt instruments in 2019 opened up the possibility for Sydney Airport to enter the sustainable finance space.



Explaining Sustainability-Linked Debt

Sustainability-linked debt instruments, such as [sustainability-linked bonds \(SLB\)](#) and [loans \(SLL\)](#), are forward-looking and performance based. The financial or structural characteristics of SLBs and SLLs, such as the coupon rate or interest rate, are adjusted based on the issuer’s or borrower’s achievement of pre-defined sustainability targets. The adjustment can be made in either direction; e.g., an SLB could have an increase in coupon rate if targets are not met or a decrease in coupon rate if targets are met.

The major difference between sustainability-linked instruments and other labeled instruments like green bonds or loans is that the proceeds can be used for general corporate purposes and do not have to be allocated to fund green projects or assets. This flexibility has made SLLs and SLBs a popular alternative to traditional capital raising and debt.

The Solution

A Holistic, Third-Party View of Global ESG Performance

Choosing a Tried-and-Trusted ESG Ratings Provider

To secure a SLL or SLB, Sydney Airport needed to select key performance indicators (KPIs) and sustainability performance targets (SPT) that were: 1) relevant to the company's business model and sustainability strategy, 2) ambitious, and 3) comparable to a benchmark or external reference.¹ To meet these criteria, it chose to use its ESG performance based on a third-party rating as the target for its SLL and SLB.

In deciding on a provider, Sydney Airport selected Sustainalytics due to its deep market experience and position as an innovator in the sustainability-linked finance space.² Sydney Airport already had an ESG Risk Rating since it was part of Sustainalytics' research coverage. The airport had communicated with Sustainalytics in the past and was familiar with how it rates the more than 14,000 companies in its universe.³

"I like that the ESG Risk Rating is a broad measure of sustainability performance, while also highlighting areas of potential risk that can be addressed."

Alicia Burgmann
Head of Sustainability, Sydney Airport



¹ See the Sustainability-Linked Loan Principles (2021) and the Sustainability-Linked Bond Principles (2021).

² Sustainalytics worked with Philips on the first sustainability-linked loan in 2017. Read Philips press release here: [Philips couples sustainability performance to interest rate of its new EUR 1 billion Revolving Credit Facility - News center | Philips](#).

³ For more information on Sustainalytics' research process, please download the ESG Risk Ratings Methodology document here: <https://connect.sustainalytics.com/esg-risk-ratings-methodology>.

Using ESG Performance to Underpin Sustainability-Linked Debt Financing

Obtaining an ESG Risk Ratings License enabled Sydney Airport to use Sustainalytics' [ESG Risk Rating](#) as the KPI in its sustainability-linked financing.

In tying the loan and bond terms to improving its third-party ESG rating, Sydney Airport received an independent, holistic, year-over-year assessment of its ESG risk management and corporate sustainability that it could communicate to its lenders and use to assess its progress against its own goals.

About the ESG Risk Ratings

[Sustainalytics' ESG Risk Ratings](#) offer clear insights into company-level ESG risk by measuring the size of an organization's unmanaged ESG risk. This is measured by a unique set of material ESG issues, so it only considers issues which have a potentially substantial impact on the company's economic value.

The rating scores the ESG performance of more than 14,000 companies, from negligible to severe risk, and is used by the world's leading corporations, lenders, and banks to identify and understand the financially material ESG issues that can affect their organization's long-term performance.



"Sustainalytics has a track record of success with a tried-and-tested product, providing corporate issuers the confidence to establish their own presence in the sustainable finance space."

Michael Momdjian
General Manager of Treasury, Tax, and Insurance, Sydney Airport



The Results

Award-Winning Sustainability-Linked Financing

Sustainalytics' ESG Risk Ratings was the starting point for Sydney Airport to answer the questions: what do we need to improve and how can we do that? Upon receiving its rating, Sydney Airport's sustainability team closely analyzed the assessment, using the data to identify and help drive sustainability improvements across the organization.

In 2019, Sydney Airport established an SLL for AU\$1.4 billion and in 2020, it issued a \$600 million SLB, both tied solely to its ESG Risk Rating from Sustainalytics. The SLL and SLB were well received by banks and bond investors encouraging other companies in the country to also explore sustainability-linked debt financing. These award-winning SLL and SLB transactions helped to develop the broader corporate sustainable finance market in Australia, across the pacific region, and beyond.

A Beacon for Corporate Sustainable Finance Activity in Australia and Beyond

As a sustainable finance pioneer in Australia, Sydney Airport was the first corporation in the country to issue a syndicated SLL, the largest such transaction across the broader pacific region at the time. Soon after, the organization became the first issuer globally to issue an SLB with both discount and premium pricing.

Sydney Airport was already making progress on its ambition to be a sustainability leader when it decided to use sustainable finance to advance its goals. By linking the cost of capital to improvements in the company's ESG performance, the sustainability and treasury departments worked together to provide additional support internally, while guiding the organization on the right path to becoming an ESG leader.



Sydney Airport's Award-Winning SLL and SLB Transactions Supported by the ESG Risk Rating

- **2021** CorporateTreasurer Best Treasury & Finance Strategy
- **2021** KangaNews Australasian-Origin US Private Placement Deal of the Year
- **2020** FinanceAsia Issuer of the Year – Corporate
- **2020** FinanceAsia Best Sustainable Finance Deal – Corporate
- **2020** CorporateTreasurer Best Treasury & Finance Strategy
- **2020** The Asset Transport Deal of the Year
- **2020** The Asset Transport Deal of the Year – Airport
- **2020** IJ Global Asia Pacific ESG Finance Innovation
- **2019** GlobalCapital Most Impressive Green/SRI Loan Borrower
- **2019** GlobalCapital Green/SRI Loan of the Year
- **2019** FinanceAsia Issuer of the Year – Sustainability
- **2019** KangaNews Australian Syndicated Loan Deal of the Year
- **2019** KangaNews Market People of the Year – Michael Momdjian



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Sustainalytics, a Morningstar Company, is a leading ESG research, ratings and data firm that supports investors around the world with the development and implementation of responsible investment strategies. For 30 years, the firm has been at the forefront of developing high-quality, innovative solutions to meet the evolving needs of global investors. Today, Sustainalytics works with hundreds of the world's leading asset managers and pension funds who incorporate ESG and corporate governance information and assessments into their investment processes. Sustainalytics also works with hundreds of companies and their financial intermediaries to help them consider sustainability in policies, practices and capital projects. With 17 offices globally, Sustainalytics has more than 1,200 staff members, including more than 500 analysts with varied multidisciplinary expertise across more than 40 industry groups.

For more information, visit www.sustainalytics.com

