ASX RELEASE

mirvac

1 November 2017

S&P REVISE MIRVAC'S CREDIT RATING OUTLOOK

Mirvac Group (Mirvac) [ASX: MGR] is pleased to announce Standard & Poor's credit rating agency has revised Mirvac's credit rating outlook from stable to positive, while reaffirming its BBB+ credit rating.

Mirvac's Chief Financial Officer, Shane Gannon, said the revised outlook underscored the strength of the Group's capital position and reinforced its capital management strategy.

"We have a disciplined and conservative approach to managing our capital, and have undertaken a number of key initiatives over the past 12 months that ensures we are well-placed for the future.

"The revised outlook is also a testament to the quality of our investment portfolio and our significant development pipeline," he said.

The revised outlook follows the Group's recent credit rating upgrade from Moody's Investor Services from Baa1 to A3.

Please refer to the attached release by Standard & Poor's.

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S&P Global
Ratings

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Research Update:

Mirvac Group Outlook Revised To Positive On Continued Improvement In Investment Portfolio; 'BBB+/A-2' Ratings Affirmed

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Research Update:

Mirvac Group Outlook Revised To Positive On Continued Improvement In Investment Portfolio; 'BBB+/A-2' Ratings Affirmed

Overview

- Australian property group Mirvac continues to grow its investment portfolio and sell noncore assets, strengthening the group's investment portfolio.
- We consider successful execution of the group's development program could materially increase the quality and magnitude of its investment earnings.
- As a result, we are revising the outlook on the long-term issuer rating to positive from stable. At the same time, we are affirming the 'BBB+' long-term and 'A-2' short-term ratings on the group.
- The positive outlook reflects our view that we may raise the ratings over the next 24 months if the group executes its development program and meaningfully lifts its investment earnings, enabling the group to withstand any deterioration in its more-cyclical development earnings.

Rating Action

On Oct. 31, 2017, S&P Global Ratings revised the outlook on the long-term issuer rating to positive from stable on Mirvac Group, an Australian stapled property company. At the same time, we affirmed the 'BBB+' long-term and 'A-2' short-term corporate credit ratings on the group.

Rationale

We revised the outlook to positive because continued improvement in Mirvac's office, retail, and industrial investment portfolio could materially boost its investment earnings. This potential uplift could raise the rating to 'A-' over the next two years.

An upgrade could occur if the group's investment earnings become more robust, enabling the company to withstand material deterioration in its cyclical development earnings. We consider Mirvac's successful execution of its A$2.4 billion development program could materially lift the quality and magnitude of its investment earnings over the next three to four years. Such higher earnings could strengthen the group's business risk profile.

Over the past four years, Mirvac has continued to reposition its portfolio by selling noncore assets and improving the underlying quality of the group's investment portfolio via acquisitions and developments. Mirvac's development program, which is focused on its office and industrial assets, could add about A$90 million per annum of investment earnings from its office and industrial portfolio by 2021. If successfully completed, it would support overall growth in investment earnings by over 20% from current 2017 levels.

Currently, the group's earnings mix remains weighted to its development earnings in light of buoyant residential market conditions. As of June 30, 2017, Mirvac's development earnings represented about 40% of total group earnings. The rating factors in our view that the business will maintain at least about two-thirds of its earnings from recurring investment earnings.

The ratings on Mirvac Group reflect our opinion of the relatively stable earnings generated from the group's diverse property investment portfolio, a well-spread and long-term lease-expiry profile, and Mirvac's moderate financial policies. Tempering these strengths are the group's exposure to cyclical property markets, and the volatile cash flow and lumpy capital requirements of the group's property-development operations.

Underpinning the rating is our view that Mirvac's investment portfolio will contribute substantially to future earnings. We expect Mirvac's earnings to remain robust over the next two to three years following completion and settlement of various development projects and steady earnings growth from its investment portfolio.

Development earnings are likely to remain elevated. We expect a substantial portion to come in toward the end of the next three-year period, primarily due to the scheduled completion timing of its current residential pipeline. A higher rating would be dependent on a more normalized earnings mix that is sustainable, with a greater weight toward higher-quality investment earnings.

Our base-case scenario reflects the following assumptions over the next two years:

- Our base-case forecasts for Australian GDP growth of 2.8% in 2018 and 3.1% in 2019; and consumer price index growth of 2.2% in 2018 and 2019. These macro indicators should support tenant demand for Mirvac's Sydney and Melbourne investment properties;
- Revenue decline of about 3% to 5% in 2018, and relatively flat growth in 2019, driven by completion timing of developments, which will result in lower development revenues over the next two years;
- Profitability to remain solid over the next two years, with EBITDA margins approaching 35%, and supported by favorable residential market conditions;
- Investment in developments of between A$500 million and A$800 million per annum; and
- Dividends likely to be between 75% and 80% of the group's operating earnings.

Liquidity

Mirvac's strong liquidity reflects our expectation that over the next 12 months, the group's sources of funds will exceed uses by more than 1.5x and remain above 1x over the subsequent 12-month period. We also expect that Mirvac will achieve positive sources-less-uses in the short term, even if EBITDA were to fall by 15%.

The group targets a weighted-average debt maturity of greater than 3.5 years, which was 6.2 years as of June 30, 2017. The group maintains well-established relationships with its banks, and a generally high standing in credit markets, as indicated by the recent US$400 million issuance of euro medium-term notes.

As of June 30, 2017, the group had the following liquidity profile:

Principal liquidity sources:
- A$106 million cash balance as of June 30, 2017;
- A$643 million of undrawn committed bank facilities over the forthcoming 12 months;
- FFO of around A$590 million in the year ending June 30, 2018; and
- Completed US$400 million euro MTN issuance on Sept. 20, 2017.

Principal liquidity uses:
- Scheduled debt maturities over the next 12 months of about A$200 million;
- Dividends in 2018 of about 75%-80% of the group's operating earnings; and
- Capital commitments for developments underway.

Outlook

The positive outlook reflects our view that Mirvac's continued improvement in its office, retail, and industrial investment portfolio could lift the rating to 'A-' over the next two years. Successful execution of the development program may lead to a higher quality investment portfolio and recurrent earnings. We expect the company to maintain moderate financial policies, including adjusted funds from operations (FFO) to total debt of more than 15%.

Upside scenario

We could raise the ratings if the group's investment earnings become more robust, enabling the company to withstand inherent volatility in its development earnings. We believe this could occur if the group successfully executes its development program over the next two years, resulting in:
- a meaningful uplift in the quality and magnitude of recurring earnings; and
- normalization of the group's earnings mix, such that the group sustains a substantially higher proportion of higher quality recurring earnings.

Downside scenario

We could revise the outlook to stable if the group's development strategy does not meaningfully uplift its recurring earnings and the group was unlikely to sustain at least about two-thirds of its earnings to recurring earnings.

Ratings Score Snapshot

Corporate Credit Rating
BBB+/Positive/A-2

Business risk: Satisfactory
- Country risk: Very low
- Industry risk: Intermediate
- Competitive position: Satisfactory

Financial risk: Modest
- Cash flow/Leverage: Modest

Anchor: bbb+

Modifiers
- Diversification/Portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Liquidity: Strong (no impact)
- Financial policy: Neutral (no impact)
- Management and governance: Satisfactory (no impact)
- Comparable rating analysis: Neutral (no impact)

Stand-alone credit profile: bbb+

Related Criteria

- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings , April 7, 2017
- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria - Corporates - Industrials: Key Credit Factors For The Homebuilder And Real Estate Developer Industry, Feb. 3, 2014
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Corporates - Industrials: Key Credit Factors For The Real Estate Industry, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Ratings List

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Ratings Affirmed; CreditWatch/Outlook Action
                                        To                 From
Mirvac Group
Mirvac Property Trust
Mirvac Group Finance Ltd.
Mirvac Group Funding No.2 Ltd.
Mirvac Ltd.
 Corporate Credit Rating                BBB+/Positive/A-2  BBB+/Stable/A-2

Mirvac Group Finance Ltd.
 Senior Unsecured                       BBB+               BBB+
 Short-Term Debt Rating Issue            A-2                A-2

Mirvac Group Funding No.2 Ltd.
 Senior Unsecured                       BBB+               BBB+
 Short-Term Debt Rating Issue            A-2                A-2
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Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.