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20 August 2020

ASX Market Announcements
Australian Securities Exchange Limited
Level 4
20 Bridge Street
SYDNEY NSW 2000

STANDARD & POOR'S CONFIRMS CIMIC GROUP'S RATING

Standard & Poor's has released a rating update CIMIC Group.

This affirms CIMIC Group's strong investment grade credit rating of BBB/Stable/A-2, with a stable outlook.

The Standard & Poor's rating update is appended.

Sincerely,

CIMIC GROUP LIMITED
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S&P Global Ratings

RatingsDirect®

CIMIC Group Ltd.

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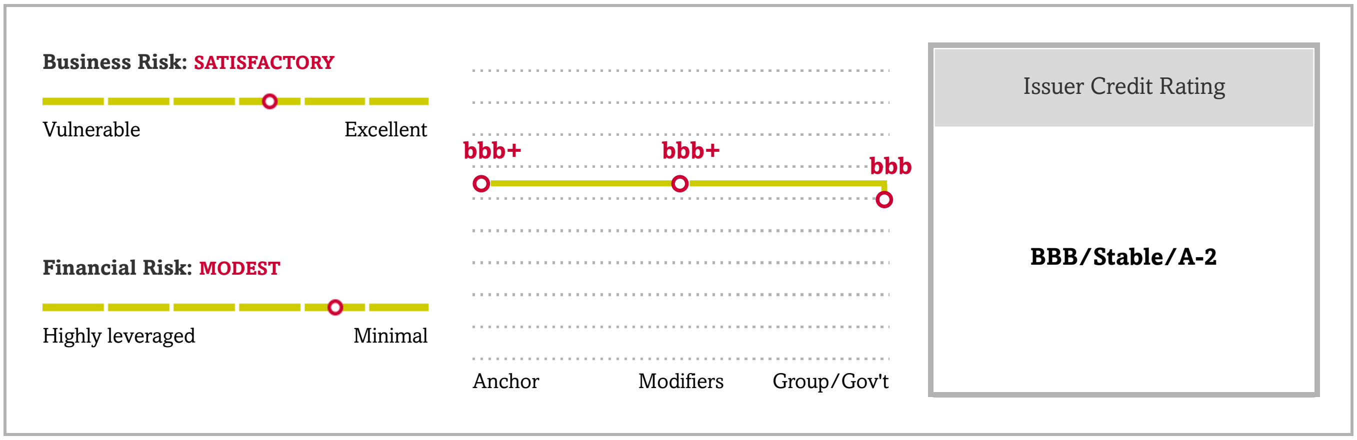
CIMIC Group Ltd.



Credit Highlights

Overview

Key Strengths	Key Risks
Leading market position in Australia's infrastructure construction, engineering, and contract mining sectors.	Exposure to operating risks, uneven project tenders, and above average cyclicality inherent in the engineering and construction industry.
Significant project and geographic diversity.	Limited financial buffer under its stand-alone credit profile (SACP) of 'bbb+'.
Moderate earnings visibility underpinned by some long-term contracts, high renewal rates, and solid project pipeline.	Constrained credit quality due to status as a core subsidiary of ACS.

CIMIC Group Ltd.'s significant geographic diversity, wide end-market exposure, and a solid order backlog provide support to navigate the recessionary economic environment following COVID-19. We expect the management to take decisive actions to strengthen the company's financial position and maintain a strong liquidity position, including reducing costs and discretionary expenditure, strictly managing cash flow and working capital, and reducing nonessential capital expenditure. We expect CIMIC's financial policy to remain supportive of the rating and SACP, including the company maintaining a debt-to-EBITDA ratio below 2x over the next two years. Furthermore, CIMIC's liquidity position remains strong, bolstered by the company's decision to suspend interim dividends.

The weaker credit quality of parent Actividades de Construccion y Servicios SA (ACS) continues to constrain the rating. Despite CIMIC's SACP of 'bbb+', the issuer credit rating is constrained by our assessment that CIMIC remains a core subsidiary of the weaker parent, ACS. As a result, our rating on CIMIC is in line with the long-term issuer credit rating on ACS (BBB/Stable/A-2). ACS owns 50.4% of Hochtief AG, which in turn, owns 76.6% (up from 73.8% at year-end 2019) of CIMIC. The issuer credit ratings on CIMIC are linked to those on Hochtief and Grupo ACS because of its strong relevance to the group. In fiscal 2019, CIMIC contributed 25% of the ACS-adjusted revenues and about 42% of its adjusted EBITDA.

Although CIMIC's proposed 50% divestment of Thiess will reduce business diversity, it has the potential to reduce leverage and strengthen its balance sheet. We will assess the rating implications for the group when the terms of the transaction are finalized. Key transaction details that are yet to be announced include: the structure of the transaction; use of proceeds; terms of the joint control; Thiess' capital structure, financial policies, operating strategy, and growth funding.

Outlook: Stable

The stable outlook on CIMIC reflects that on the ultimate parent ACS, given our view that CIMIC and its immediate parent Hochtief are core subsidiaries of the ACS group, and its ratings and outlook are equalized with the ultimate parent's.

The stable outlook on ACS and its core subsidiary Hochtief reflects our view that the ACS group's adjusted funds from operations (FFO) to debt should stand comfortably above 30% in 2021-2022, after a temporary drop in 2020. In our view, the group's solid order backlog and still positive prospects for civil infrastructure construction should support ACS' operating performance. ACS will likely continue to focus on cash flow generation, alongside disciplined working capital management. We forecast the group's adjusted EBITDA margins at 8%-8.5% in 2020-2021, underpinned by an already secured order backlog and intake of new projects, and a stable dividend stream from Abertis Infraestructuras S.A. We view ACS' commitment to maintaining a conservative financial policy as positive for the ratings.

Downside scenario

We could downgrade the group if its adjusted FFO-to-debt ratio dropped materially below 30%, without short-term recovery prospects. We believe this could happen if:

- The effects of the COVID-19 pandemic and resulting global recession do not ease in the second half of 2020 and extend beyond it, with prolonged shutdowns and suspension of construction projects.
- ACS receives significantly lower dividends from Abertis than in our base-case scenario.
- There is markedly higher debt, stemming, for example, from unexpected sizable investments or higher shareholder returns than in our base case, or much higher factoring usage and increased working capital.
- The group's liquidity weakens.

In our base-case scenario, we assume that the group will not control Abertis but will continue to control Hochtief.

Upside scenario

An upgrade is unlikely in 2020-2021 since it would require a clear commitment from ACS to a more conservative financial policy, and the group to maintain stronger credit metrics, including FFO to debt comfortably above 40% and discretionary cash flow (DCF) to debt higher than 10%. An upgrade would also require a solid track record of dividends received from Abertis.

Our Base-Case Scenario

Assumptions

- A global recession this year, with global GDP declining by 2.5%. We expect the economy to contract by 4% in Australia, 5% in New Zealand, and 1% in Asia-Pacific. We anticipate a rebound next year with GDP growth of 5.3%, 6%, and 6.3%, respectively.

- We expect revenue declining about 15%-20% and EBITDA falling in the mid-to-high single digits in 2020 compared with those in 2019;
- Capital expenditure at around A$650 million–A$750 million over the next two years;
- Share buyback of around A$150 million; and
- The divestment of Thiess is not included in our forecasts.

Key Metrics

CIMIC Group Ltd.--Key Metrics*

	--Fiscal year ended Dec. 31--		
	2019a	**2020f**	**2021f**
FFO to debt (%)	37.5	35-55	35-55
Debt to EBITDA (x)	2	Below 2	Below 2

a--Actual. f--Forecast. FFO--Funds from operations. *Fully adjusted by S&P Global Ratings.

We expect CIMIC to withstand the recessionary environment over next 12 months resulting from COVID-19, but with limited headroom to absorb further deterioration. Disciplined working capital management will be a key consideration during the global downturn. We expect CIMIC to maintain a sizable cash cushion to help withstand unexpected cost overruns, potential swings in working capital, and decline in demand.

Focus on costs will partly offset COVID-19-related revenue pressure. We expect CIMIC's adjusted margins to remain relatively stable due to a higher proportion of high-margin mining earnings and cost discipline.

In our view, CIMIC will maintain prudent financial policies. We expect CIMIC to maintain a disciplined approach to financial policy decisions. The group's management has reiterated its commitment to a conservative financial policy that supports a strong investment-grade rating.

Company Description

CIMIC Group Ltd. is an engineering-led global infrastructure company with core activities in construction, mining, mineral processing, services, and public-private partnership (PPP) projects that are focused on Australia, the Asia-Pacific, Sub-Saharan Africa, North and South America. The company constructs roads, rails, tunnels, airports, buildings, and social infrastructure projects, as well as water, energy, and resources facilities; oil and gas structures; and renewable energy infrastructure projects, such as utility-scale wind, geothermal energy, and waste-to-power installations.

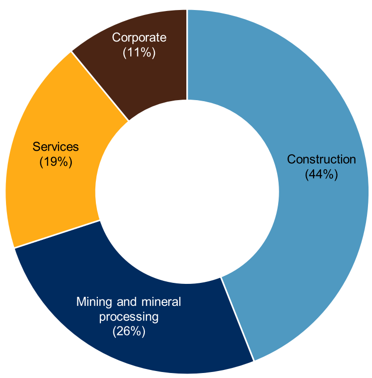
The company also provides contract mining services for metallurgical and thermal coal, iron ore, gold, diamond, nickel, copper production, as well as the design, construction, and operation of mineral processing plants and associated mine site infrastructure. Further, the company develops infrastructure projects comprising road and rail infrastructure, hospitals, and water projects.

The company was formerly known as Leighton Holdings Ltd. and changed its name to CIMIC Group Ltd. in April 2015. CIMIC Group Ltd. is a subsidiary of Hochtief AG. As of June 30, 2020, Hochtief had 76.6% share ownership in CIMIC. The ultimate parent is Spanish Actividades de Construccion y Servicios SA (ACS). ACS has 50.4% share ownership in Hochtief.

Since 2011, ACS has gradually increased its share of ownership in Hochtief and has simplified the corporate structure, enhanced integration, and aligned strategy and risk management within the consolidated group. However, as a result of the agreement between the ACS group and Atlantia SpA to acquire Abertis, ACS has diluted its ownership rate in Hochtief to 50.4%, and instead, Atlantia has become the largest minority shareholder with an 18% stake in Hochtief.

Chart 1a

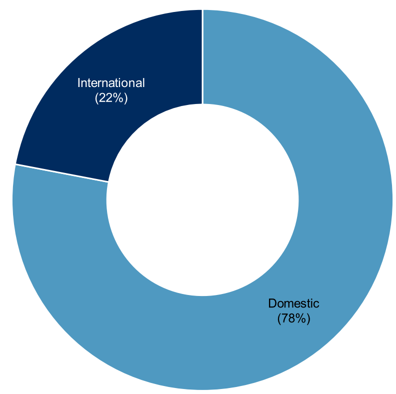
CIMIC Group's Revenue By Activity As Of December 2019



Source: CIMIC's company filings, S&P Global Ratings.

Chart 1b

CIMIC Group's Australian Market Dominates Revenue



Source: CIMIC's company filings, S&P Global Ratings.

Peer Comparison

Table 1

CIMIC Group Ltd.--Peer Comparison

Industry sector: Engineering and construction

	CIMIC Group Ltd.	Strabag SE	Fluor Corp.	Power Construction Corp. of China	Ferrovial S.A.
Ratings as of Aug. 5, 2020	BBB/Stable/A-2	BBB/Stable/--	BBB-/Negative/NR	BBB+/Negative/--	BBB/Stable/A-2
	--Fiscal year ended Dec. 31--				
	2019	2019	2018	2019	2019
(Mil. A$)					
Revenue	15,828.9	25,028.3	27,194.2	95,043.6	8,688.0
EBITDA	2,169.2	1,852.8	1,076.6	7,366.0	674.1
Funds from operations (FFO)	1,641.4	1,598.4	996.8	2,600.7	567.8
Interest expense	137.6	71.3	135.2	3,851.3	120.7
Cash interest paid	176.6	58.4	120.1	3,803.6	8.9
Cash flow from operations	1,322.7	1,629.6	329.2	(1,050.9)	1,408.0
Capital expenditure	789.8	1,034.2	299.4	16,547.8	418.5

Table 1

CIMIC Group Ltd.--Peer Comparison (cont.)					
Free operating cash flow (FOCF)	532.9	595.4	29.8	(17,598.7)	989.5
Discretionary cash flow (DCF)	2.9	413.9	(299.7)	(18,548.2)	(39.2)
Cash and short-term investments	1,382.1	3,857.5	2,808.7	14,222.1	7,373.4
Debt	4,381.8	0.0	954.4	64,988.8	0.0
Equity	723.0	6,159.2	4,424.0	42,645.0	(1,078.2)
Adjusted ratios					
EBITDA margin (%)	13.7	7.4	4.0	7.8	7.8
Return on capital (%)	25.9	16.7	11.9	5.6	5.4
EBITDA interest coverage (x)	15.8	26.0	8.0	1.9	5.6
FFO cash interest coverage (x)	10.3	28.4	9.3	1.7	64.8
Debt/EBITDA (x)	2.0	0.0	0.9	8.8	0.0
FFO/debt (%)	37.5	N.M.	104.4	4.0	N.M.
Cash flow from operations/debt (%)	30.2	N.M.	34.5	(1.6)	N.M.
FOCF/debt (%)	12.2	N.M.	3.1	(27.1)	N.M.
DCF/debt (%)	0.1	N.M.	(31.4)	(28.5)	N.M.

N.M.--Not meaningful.

Business Risk: Satisfactory

Our SACP on CIMIC Group reflects the company's significant project and geographic diversity. CIMIC generates the majority of revenues and work in hand (WIH) from projects that are domiciled in Australia. We, therefore, view that the economic health of Australia's economy and the mining sector will influence CIMIC's business prospects.

CIMIC has leading market positions in Australia's infrastructure construction, contract mining sectors, and presence in annuity income derived from the services business. Over the past few years, CIMIC has significantly grown its presence in the services and PPP businesses, which enhances its diversification and bolsters the earnings margins. Similar to the ACS group, CIMIC operates through strong local brands and companies that enjoy a long track record of project performance. This strategy supports its market position and customer retention. The group's proven ability to deliver large-scale and technically complex projects--including tunnels and bridges--supports its ability to win new contracts.

Under the Thiess and Sedgman brand names, CIMIC is the largest contract miner globally with experience in mineral processing. CIMIC has an established strong franchise in large infrastructure construction predominantly in road and rail via the CPB Contractors, Leighton Asia, and Broad brand names. CIMIC undertakes private sponsorship of government infrastructure through CIMIC's Pacific Partnership brand that bids on PPPs. Further, CIMIC's services business UGL and CIMIC's 47% ownership of Ventia Pty Ltd. also undertake operations and maintenance activities in road and rail infrastructure, oil and gas, water, defence, renewable energy, and telecommunications infrastructure.

Engineering and technical services are provided in-house by its brand EIC Activities.

CIMIC's risk management approach and modest financial risk appetite should help counter above-average risks inherent in the construction industry, which requires a sufficient financial buffer to offset performance risks. Contractors bear several operating risks, including the complexity of project implementation, potential cost overruns, and misjudging project timing and expenses, which is especially relevant under fixed-cost contracts. Furthermore, about 25% of CIMIC's construction WIH are now alliance-style contracts, which limit downside risks compared to fixed-price contracts, while providing exposure to an appropriate share of any cost savings.

CIMIC's EBITDA margins also benefit from a diverse portfolio of projects and a partnering of large complex projects that facilitate risk sharing. In addition, profitability has been supported by the company's restructuring and cost-cutting efforts, and a bidding discipline that supports cash-backed profit generation.

In our opinion, CIMIC's exit from the Middle East strengthens the company's earnings profile. Following an extensive strategic review of its noncontrolling 45% interest in BIC Contracting LLC (BICC; a joint venture, formerly HLG Contracting LLC), in January 2020 CIMIC initiated a process for its disposal.

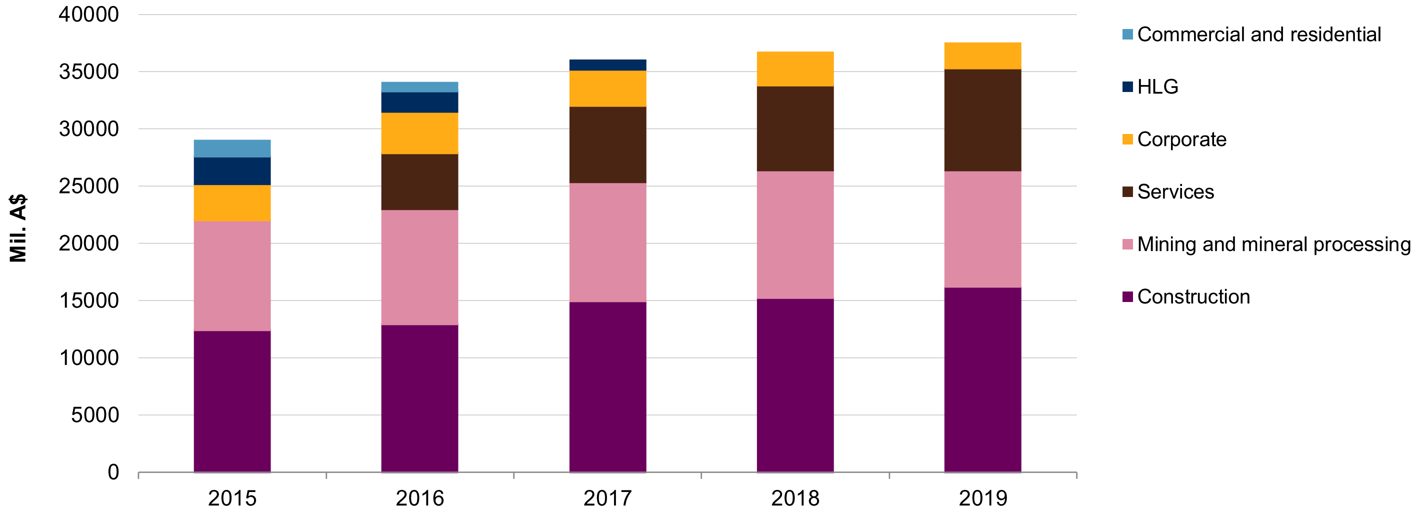
We note that BICC has been historically loss making, requiring ongoing financial support from CIMIC. CIMIC's financial results for the year ended Dec. 31, 2019, included provisions and asset impairments post-tax of A$1.8 billion and represent all of its exposure to BICC. The write-down primarily reflects an impairment of CIMIC's shareholder loan to BICC, and its obligation to settle financial guarantees extended to BICC. CIMIC's decision to exit required a cash outlay, gross of tax, of about A$1.5 billion in fiscal 2020. As of June 30, 2020, CIMIC had settled A$1.3 billion of the BICC-related financial liability, with a remaining balance of about A$230 million. Even though the exit increased CIMIC's leverage, it is consistent with the group's operating strategy and within tolerances for the current rating level. This is because we had already viewed CIMIC's financial liability to BICC as debt.

At this point in time, in most jurisdictions, CIMIC's key construction and mining service operations in Australia are considered to be within the critical infrastructure, construction, and resource sectors that are permitted by the government and encouraged to continue as essential businesses. Key to CIMIC's earnings growth is its continued success at tendering and securing new work. As of June 30, 2020, CIMIC's WIH had expanded to A$38.1 billion, a 3.4% increase compared with the same period a year ago. CIMIC added A$4.9 billion of new work in the first half with an additional A$3.1 billion coming from Ventia's acquisition of Broadspectrum. This provides a solid platform for CIMIC's core business as the group enters the second half of 2020, albeit the adverse effects of COVID-19 continue to be uncertain.

Chart 2

Construction, Mining And Mineral Processing Continues To Dominate Backlog

Work in hand by segment



Corporate segment mainly includes contributions from corporate, EIC activities, Pacific Partnerships, the commercial and residential business, and the former BICC segment. Source: CIMIC's company filings, S&P Global Ratings.

CIMIC's results for the first half ended June 30, 2020, partly reflect the effect of COVID-19 across the group's domestic and international markets. CIMIC's construction and services revenues declined by 12% and 17%, respectively, compared with that in first-half 2019, as a result of delays in new project awards and a slowdown in business activity. Meanwhile, CIMIC's mining and mineral processing business were supported by robust end-market demand.

We have not incorporated the announced divestment of Thiess into our current assessment of CIMIC's credit profile. On July 29, CIMIC Group announced exclusive negotiations to divest its 50% stake in Thiess with Elliott Advisers, the U.K. arm of U.S. hedge fund Elliott Management Corp. Advanced negotiations between the parties are likely to conclude in the coming weeks with a share purchase agreement that will be subject to customary conditions including all regulatory approvals. According to CIMIC, the introduction of an equity partner into Thiess would capitalize on the robust outlook for the mining sector and provide capital for Thiess' continued growth, while enabling CIMIC to reduce its leverage and strengthen its balance sheet.

We note that mining and mineral processing services represent about 60% of EBITDA and 65% of FFO based on CIMIC Group's consolidated financials. At the parent group ACS level, the mining service segment represents about 25% of total EBITDA, and adds diversity to the group's construction business. As such, the transaction would reduce CIMIC's and the group's EBITDA significantly, assuming a proportionate consolidation of the joint venture. However, if we assume that the group uses the proceeds from the divestment to reduce its debt or invest in cash-generating assets consistent with their operating strategy, the transaction could be largely neutral to the group credit profile.

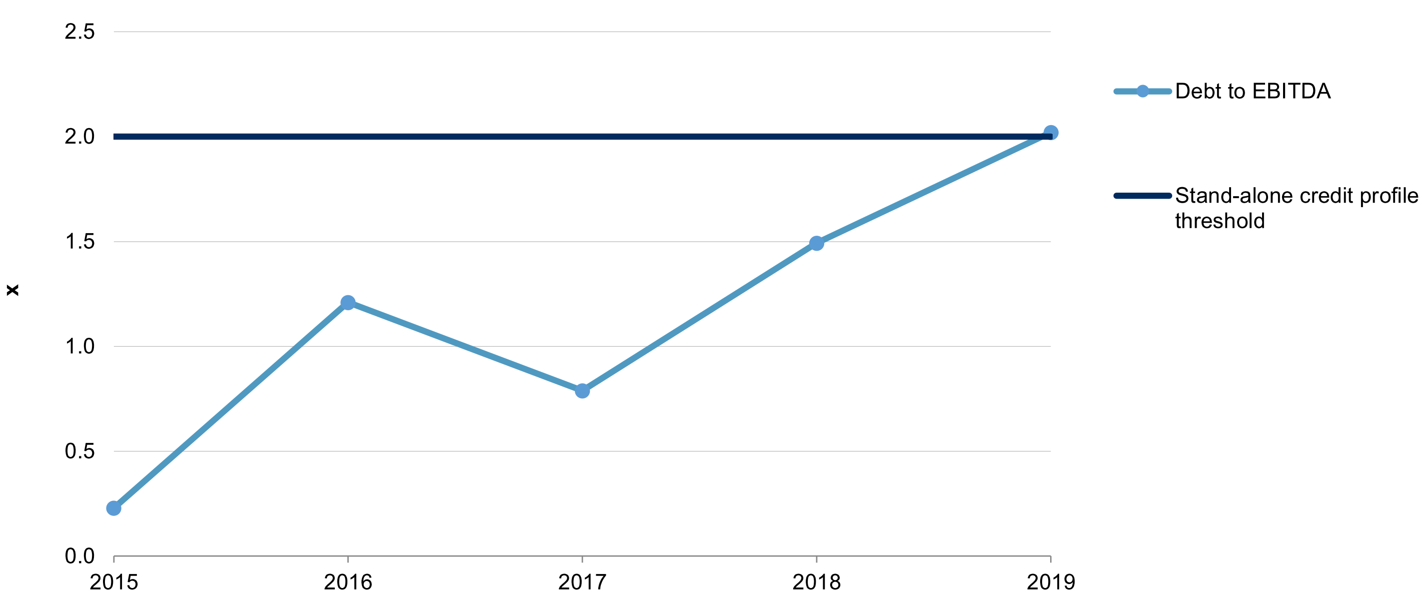
Financial Risk: Modest

Our assessment of the company's financial risk reflects its healthy cash balances and moderately leveraged balance sheet. That said, CIMIC's financial buffer has eroded significantly over the past three years partly due to a material increase in factoring obligations (factoring balance of about A$1.87 billion as of June 2020). In addition, the buffer has reduced because of the exit of BICC's operations in the Middle East and higher leverage at CIMIC's joint venture Ventia Pty Ltd. As a result, the company's FFO to debt materially weakened to 37.5% in 2019, while debt to EBITDA peaked at 2.0x.

Disciplined working capital management remains a key consideration during the global downturn, CIMIC's cash flow and debt are very sensitive to working capital trends. While the group has introduced disciplined working capital management and a stricter project-selection process, at the same time, the use of receivables factoring significantly increased, to about A$1.96 billion in 2019, from A$600 million in 2017. Factoring is the most relevant addition we make to the group's reported debt. In our base-case scenario for the ratings, we assume limited working capital growth and unchanged use of factoring in fiscal 2021.

Chart 3

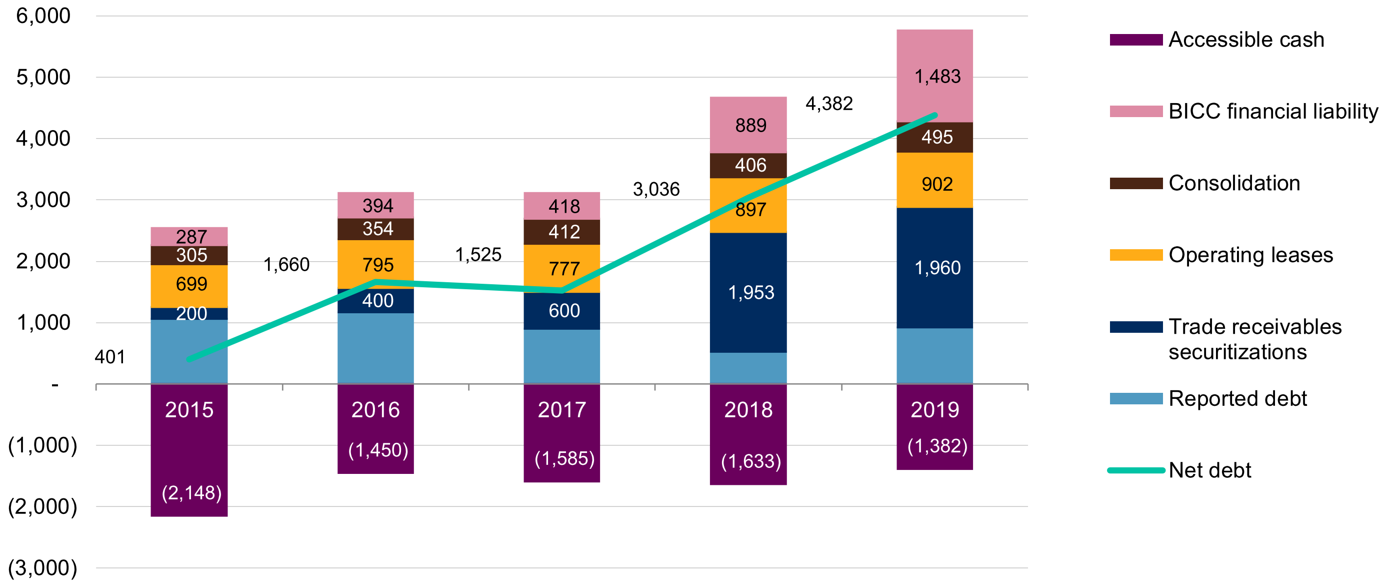
CIMIC's Leverage Peaked In Fiscal 2019



Source: S&P Global Ratings.

Chart 4

CIMIC Group's Adjusted Debt By Debt Type



Source: S&P Global Ratings.

We expect CIMIC's financial policy to remain supportive of the rating and SACP, including the company maintaining a debt-to-EBITDA ratio below 2x over the next two years. We also expect CIMIC to maintain a stronger balance sheet than the consolidated ACS group's, reflecting stronger debt metrics. Furthermore, CIMIC's liquidity position remains strong and will be bolstered by the company's decision to suspend interim dividends.

We make several adjustments to CIMIC's reported debt to calculate the company's financial ratios. For the year ended Dec. 31, 2019, material adjustments to CIMIC's reported financials include:

- Receivables factoring facilities: adding A$1,960.3 billion.
- Supply chain financing with financial institutions for suppliers: We do not incorporate CIMIC's working capital benefit associated with reverse factoring arrangements. According to the company, these terms mirror normal credit terms and do not extend the credit period. The level of supply chain finance across the group was A$360.6 million as of June 30, 2020 (June 30, 2019: A$662.3 million and Dec. 31, 2019: A$851.3 million).
- Operating leases: CIMIC adopted the new accounting standard AASB16 lease from Jan. 1, 2019. As a result, the S&P Global Ratings-adjusted debt will include total operating leases on the company's balance sheet adding A$902.1 million.
- Debt other: A$1,483.4 million of the BICC facilities secured and drawn.
- Proportional consolidation: we proportionally consolidate Ventia Pty Ltd. onto CIMIC's balance sheet. This

approach reflects our view that this affiliate is strategically important to CIMIC, despite its partial ownership. We note that Ventia's debt (CIMIC's share is A$495.2 million) is not guaranteed by CIMIC.

- Surplus cash: applying a haircut of A$468.1 million to the group's reported cash balance, which accounts for the cash and liquid short-term investments that we believe would not be immediately available for debt repayment.

Financial summary

Table 2

CIMIC Group Ltd.--Financial Summary					
Industry sector: Engineering and construction					
	--Fiscal year ended Dec. 31--				
	2019	**2018**	**2017**	**2016**	**2015**
(Mil. A$)					
Revenue	15,828.9	15,786.8	14,506.8	11,921.7	14,317.7
EBITDA	2,169.2	2,034.6	1,933.8	1,372.2	1,748.9
Funds from operations (FFO)	1,641.4	1,797.6	1,691.8	1,213.7	1,159.1
Interest expense	137.6	169.5	176.8	137.4	274.4
Cash interest paid	176.6	178.1	161.2	137.5	276.8
Cash flow from operations	1,322.7	669.0	1,456.3	1,228.3	1,601.6
Capital expenditure	789.8	572.2	457.6	316.1	284.2
Free operating cash flow (FOCF)	532.9	96.8	998.7	912.3	1,317.4
Discretionary cash flow (DCF)	2.9	(403.4)	567.1	(96.7)	927.4
Cash and short-term investments	1,382.1	1,632.7	1,585.4	1,450.3	2,147.6
Gross available cash	1,382.1	1,632.7	1,585.4	1,450.3	2,147.6
Debt	4,381.8	3,035.5	1,525.3	1,659.8	400.7
Equity	723.0	2,336.8	3,357.2	3,312.4	4,115.3
Adjusted ratios					
EBITDA margin (%)	13.7	12.9	13.3	11.5	12.2
Return on capital (%)	25.9	24.2	23.2	19.1	18.0
EBITDA interest coverage (x)	15.8	12.0	10.9	10.0	6.4
FFO cash interest coverage (x)	10.3	11.1	11.5	9.8	5.2
Debt/EBITDA (x)	2.0	1.5	0.8	1.2	0.2
FFO/debt (%)	37.5	59.2	110.9	73.1	289.3
Cash flow from operations/debt (%)	30.2	22.0	95.5	74.0	399.7
FOCF/debt (%)	12.2	3.2	65.5	55.0	328.8
DCF/debt (%)	0.1	(13.3)	37.2	(5.8)	231.5

Reconciliation

Table 3

CIMIC Group Ltd.--Reconciliation Of Reported Amounts With S&P Global Ratings' Adjusted Amounts (Mil. A$)

	--Fiscal year ended Dec. 31, 2019--							
CIMIC Group Ltd. reported amounts								
	Debt	**Shareholders' equity**	**Revenue**	**EBITDA**	**Operating income**	**Interest expense**	**S&P Global Ratings' adjusted EBITDA**	**Cash flow from operations**
Reported	922.9	757.0	14,701.1	2,135.9	1,218.3	103.4	2,169.2	1,249.5
S&P Global Ratings' adjustments								
Cash taxes paid	--	--	--	--	--	--	(351.2)	--
Cash interest paid	--	--	--	--	--	--	(139.3)	--
Cash interest paid: Other	--	--	--	--	--	--	(37.3)	--
Trade receivables securitizations	1,960.3	--	--	--	--	--	--	(7.3)
Reported lease liabilities	902.1	--	--	--	--	--	--	--
Accessible cash and liquid investments	(1,382.1)	--	--	--	--	--	--	--
Capitalized interest	--	--	--	--	--	1.3	--	--
Deconsolidation/consolidation	495.2	--	1,127.8	100.0	82.4	32.9	--	80.5
Income (expense) of unconsolidated companies	--	--	--	(66.7)	--	--	--	--
Nonoperating income (expense)	--	--	--	--	56.7	--	--	--
Noncontrolling interest/minority interest	--	(34.0)	--	--	--	--	--	--
Debt: Other	1,483.4	--	--	--	--	--	--	--
Total adjustments	3,458.9	(34.0)	1,127.8	33.3	139.1	34.2	(527.8)	73.2
S&P Global Ratings' adjusted amounts								
	Debt	**Equity**	**Revenue**	**EBITDA**	**EBIT**	**Interest expense**	**Funds from operations**	**Cash flow from operations**
Adjusted	4,381.8	723.0	15,828.9	2,169.2	1,357.4	137.6	1,641.4	1,322.7

Liquidity: Strong

We view the group's liquidity as strong, based on our forecast that sources of liquidity will exceed uses by more than 1.5x over the next 24 months. This reflects the group's ample cash reserves and our expectation of solid positive cash flows, which will more than offset short-term debt maturities and seasonal working capital outflows over this period.

The company has solid relationships with leading international and domestic banks, perceived stability in financial markets and prudent financial risk management, which further support our strong liquidity assessment.

The increase in CIMIC's cash and equivalents year to date is a result of the drawdown of syndicated working capital facilities, mitigating the risk of potential financial market disruption due to COVID-19.

As of June 30, 2020, CIMIC had the following sources and uses of liquidity over the next 12 months:

Principal Liquidity Sources	**Principal Liquidity Uses**
• Unrestricted cash and cash equivalents of A$2,989.8 billion (after payments relating to BICC of A$1,361.8 billion); • Available undrawn committed credit lines of about A$100 million with maturities greater than one year; and • Cash FFO of about A$1.6 billion.	• Debt maturities of about A$264.3 million; • Seasonal working capital requirements of up to A$750 million, and a maximum A$250 million of nonseasonal working capital outflow; • Capital expenditure of about A$650 million-A$750 million; • Remaining amount paid for the the BICC exit of about A$230 million; and • Dividends of about A$200 million-A$300 million.

Debt maturities

As of June 30, 2020 (mil. A$):

- Current portion of long-term debt: 264.3
- Debt due in second year: 1,553
- Debt due in third year: 1587.6
- Debt due in fourth year: 950
- Debt due in fifth year: 963.3
- Debt due after fifth year: 0
- Total debt: 5,291.1

Covenant Analysis

There are no financial covenants in CIMIC's bond documentation.

Group Influence

Our rating on CIMIC is in line with the long-term issuer credit rating on its parent ACS, which currently owns 50.4% in Hochtief; and Hochtief owns 76.6% of CIMIC. We view CIMIC and Hochtief as core to ACS' operations. The ratings on CIMIC and Hochtief reflect the rating on ACS, despite their stronger SACPs, since we do not see the two companies as insulated subsidiaries.

Although ACS' stake in Hochtief has diluted from 72% as result of the Abertis acquisition jointly with Atlantia, in our view ACS has retained control of decision-making at Hochtief and CIMIC. ACS continues to appoint Hochtief's and CIMIC's top management. We assess CIMIC and Hochtief as core subsidiaries of the ACS group because of their strong relevance to the group.

Since 2017, ACS has significantly strengthened its integration with CIMIC, and aligned strategy and risk management within the consolidated group. In May 2017, Marcelino Fernández Verdes was appointed CEO of ACS while remaining CEO of Hochtief and Executive Chairman of CIMIC. ACS and Hochtief's joint investment in the Abertis SPV is further evidence that ACS is continuing to drive Hochtief's strategy and influence the subsidiary's creditworthiness. As such, we do not view CIMIC and Hochtief as insulated subsidiaries within the ACS group.

In 2010, CIMIC's immediate parent Hochtief adopted a ring-fencing policy to limit cash transfers to ACS. We understand that since 2017, Hochtief has discontinued this ring-fencing policy and is gradually refinancing the outstanding financial debt by issuing new debt instruments with no ring-fencing terms. Nevertheless, we believe that given the group's structure, the presence of sizable minority shareholders in Hochtief and CIMIC may, to some extent, constrain cash movement within the group.

Issue Ratings - Subordination Risk Analysis

Capital structure

As of June 30, 2020, total debt was A$5,291.1 million with a weighted-average debt maturity of about three years. The funding is diversified through a mix of drawn bank facilities A$4,853 million, 144A notes of A$287.6 million, and minimal other debt, U.S. private placements of A$164.3 million, and other debt of A$13.7 million; all of which are issued on an unsecured basis. CIMIC's undrawn bank facilities were about A$525 million.

Analytical conclusions

We rate CIMIC's notes 'BBB', the same as the issuer credit rating, because no significant elements of subordination risk are present in CIMIC's capital structure.

Ratings Score Snapshot

Issuer Credit Rating

BBB/Stable/A-2

Business risk: Satisfactory

- **Country risk:** Very low
- **Industry risk:** Moderately high
- **Competitive position:** Satisfactory

Financial risk: Modest

- **Cash flow/leverage:** Modest

Anchor: bbb+

Modifiers

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

Stand-alone credit profile : bbb+

- **Group credit profile:** bbb
- **Entity status within group:** Core (-1 notch from SACP)

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- 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 Engineering And Construction Industry, 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, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Business And Financial Risk Matrix

	Financial Risk Profile					
Business Risk Profile	Minimal	**Modest**	Intermediate	Significant	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	a+/a	a-	bbb	bbb-/bb+
Strong	aa/aa-	a+/a	a-/bbb+	bbb	bb+	bb
Satisfactory	a/a-	**bbb+**	bbb/bbb-	bbb-/bb+	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-

Ratings Detail (As Of August 19, 2020)*

CIMIC Group Ltd.	
Issuer Credit Rating	BBB/Stable/A-2
Senior Unsecured	BBB
Issuer Credit Ratings History	
16-May-2018	BBB/Stable/A-2
24-Oct-2017	BBB/Negative/A-2
10-May-2017	BBB/Stable/A-2
Related Entities	
ACS, Actividades de Construccion y Servicios SA	
Issuer Credit Rating	BBB/Stable/A-2
Senior Unsecured	BBB-
ACS Servicios Comunicaciones y Energia S.L.	
Issuer Credit Rating	BBB/Stable/A-2
Senior Unsecured	BBB
HOCHTIEF AG	
Issuer Credit Rating	BBB/Stable/A-2
Senior Unsecured	BBB

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.