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ASX Market Announcements
Australian Securities Exchange Limited
Level 4
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STANDARD & POOR'S PLACES CIMIC GROUP'S RATING ON CREDITWATCH

CIMIC Group announced on 19 October 2020 that it has entered into an agreement with funds advised by Elliott Advisors (UK) Ltd ("Elliott") regarding the acquisition by Elliott of a 50% equity interest in Thiess, the world's largest mining services provider. CIMIC advised that the transaction values Thiess at A\$4.3 billion (100% enterprise value) and will realise cash proceeds of A\$1.7 to A\$1.9 billion to CIMIC upon completion.

As is common in large M&A transactions, Standard & Poor's (S&P) is analysing the impact of the transaction and has placed CIMIC's 'BBB/A-2' credit rating on 'CreditWatch negative' in the meantime.

The S&P update (appended) states: "We aim to resolve the CreditWatch negative over the next few months, when all key approvals for the proposed Thiess transaction are received."

Sincerely,

CIMIC GROUP LIMITED

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Authorised by the CIMIC Group Continuous Disclosure Committee

Research Update:

Spain-Based ACS And Its Subsidiaries 'BBB/A-2' Ratings Placed On CreditWatch Negative On Sale Of 50% Thiess Stake

October 21, 2020

Rating Action Overview

- Actividades de Construcción y Servicios SA (ACS) group core subsidiary CIMIC Group has announced an agreement with funds advised by Elliott Advisors (UK) Ltd. (Elliott) for the disposal of a 50% equity interest in Thiess, the world's largest mining services provider.
- We understand that, post transaction, CIMIC and Elliot will jointly control Thiess.
- In our view, the disposal could reduce ACS's business scale and diversity, add complexity to the group structure and governance, and have implications for its adjusted credit metrics.
- We are therefore placing the 'BBB/A-2' long- and short-term issuer credit ratings on ACS and its core subsidiaries HOCHTIEF AG (Hochtief), ACS SE, and CIMIC on CreditWatch with negative implications.
- We aim to resolve the CreditWatch over the next few months after meeting with management and discussing the key terms of the transaction, including the governance of the joint venture and the potential operational constraints inherent with it--key areas of analysis include ACS' business and financial risk profile post transaction, its updated business strategy, structure, and financial policy.

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Rating Action Rationale

The disposal could reduce ACS group's business scale and diversity. Thiess delivers open cut and underground mining in Australia, Asia, Africa, and the Americas--providing services to 25 projects across a range of commodities--and is part of CIMIC's mining and mineral processing segment. It has a diverse fleet of plant and equipment and is 100% owned by CIMIC. Thiess generated EBITDA of about €793 million in 2019--65% of CIMIC's adjusted EBITDA or 25% of ACS group's adjusted EBITDA. Its reported EBITDA margin, at 34% based on 2019 data, is well above the group's adjusted EBITDA margin of 8.3%. In our view, mining activities have supported the group's business diversification and profitability margin, and they complement its civil

engineering construction business.

The transaction could add complexity to the group's structure and governance. We understand that CIMIC and Elliott will jointly control Thiess in accordance with a shareholder agreement, which contains governance arrangements as well as Thiess' financial and dividend policies, among other items. The transaction involves customary future share transfer options including a potential initial public offering or sale to a third party, and an option for Elliott to sell its interest in Thiess to CIMIC three-to-six years from completion. The exercise of Elliott's option would enable CIMIC to potentially repurchase the 50% interest. In our view, the joint control of Thiess raises questions about the strategic relevance of mining activities for the ACS group. We need to review the governance agreement between the parties and assess their interest alignment for business management.

We will assess the implications of the sale on the group's adjusted credit metrics. According to ACS group, the transaction would strengthen CIMIC's balance sheet by generating cash proceeds on completion of A\$1.7 billion-A\$1.9 billion and reducing its factoring balance by approximately A\$700 million and lease-liability balance by approximately A\$500 million. This is because CIMIC's investment in Thiess following completion of the transaction would be recorded as an equity-accounted joint venture. However, our assessment of the agreement between the two parties may lead us to apply a different analytical treatment when calculating our adjusted credit metrics, such as a proportional or full consolidation of the joint venture. We would also need to assess the joint venture's financial policy post transaction.

ACS group's available rating headroom is limited. ACS group is using most of its available rating headroom in coping with the effects of the pandemic. We anticipate an about 10% drop in reported EBITDA in 2020, with funds from operations (FFO) to debt declining to 28%-31% from 32.3% in 2019, and then recovering to above 30% in 2021. At the current 'BBB' ratings, we would expect FFO to debt of 30%-40%. As such, available rating headroom in 2020 would be too limited to withstand deterioration beyond our base-case scenario. We also note that ACS and Hochtief's dividend policies are unchanged in 2020, notwithstanding the pandemic, and both Hochtief and CIMIC performed share buy backs, thus depressing group discretionary cash flow. We note that ACS is negotiating the disposal of its industrial services division (see "ACS Group's Disposal Of Its Industrial Services Division Would Significantly Reduce Business Diversity," published Oct. 7, 2020, on RatingsDirect), although it has yet to receive a binding offer for it.

CIMIC's stand-alone credit profile (SACP) faces increasing pressure associated with the proposed Thiess transaction and elevated financial and operating risks. The proposed transaction raises several questions regarding CIMIC's operational and strategic direction, such as:

- The role of Thiess in CIMIC's future operations and growth strategy;
- The nature, role, and effect of Elliott's put option over its 50% stake;
- The impact of the Thiess' transaction on CIMIC's business risk profile; and
- Operating constraints inherent within a joint-venture structure.

Separately, CIMIC's financial buffer has materially eroded over the past three years. In addition, a weaker operating environment and COVID-19 disruptions have translated into lower earnings, compounding the financial deterioration. As a result, we expect the company's credit metrics will weaken regardless of how the cash proceeds from the Thiess sale are applied, with debt to EBITDA

expected to exceed 2.0x for full-year 2020, from our previous expectation of below 2.0x. CIMIC's elevated leverage, combined with potential downside risks associated with the Thiess transaction are likely to increase downward pressure on CIMIC's current 'bbb+' SACP.

CreditWatch

We aim to resolve the CreditWatch negative over the next few months, when all key approvals for the proposed Thiess transaction are received. We will meet with management and discuss the key terms of the transaction, including the governance of the joint venture, the potential operational constraints inherent with it, and outgoing obligations linked with the put option. In resolving the CreditWatch, key areas of analysis include ACS group's business and financial risk profile post transaction, as well as its updated business strategy, structure, and financial policy, including at the Thiess joint venture level. We will also assess the transaction's implications for both CIMIC and Hochtief's SACPs.

We would most likely lower the ratings if we believe that the transaction would add complexity to the group structure and governance or reduce business scope and diversity, while not significantly strengthening adjusted credit metrics.

We would most likely affirm the ratings if we believe that the transaction would result in a stronger group balance sheet and significantly better adjusted credit metrics, which would offset the reduced business scope and diversity.

In resolving the CreditWatch, we will also assess to what extent the transaction affects our current view of CIMIC being a core subsidiary for the parent group.

Company Description

ACS is one of the largest international construction companies in the world, performing extensive civil and building construction activities, mining contracts, as well as industrial and other services. According to Engineering News-Record, ACS has led the ranking of the world's top 250 international contractors over the past few years. The company operates through three segments: construction (79% of group sales in 2019); industrial services (17%); and environmental services (4%). The group is highly diversified both geographically and in terms of activities. It derives approximately 80% of its revenue outside Europe, with a permanent presence in 40 countries. In 2019, ACS reported consolidated revenue of €39 billion and net profit of €962 million. The group's order backlog stood at a solid €78 billion. As a result of the agreement with Atlantia in 2018, ACS's ownership of Hochtief was diluted to 50.4%. Hochtief holds a 77.4% stake in CIMIC.

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- 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 | 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: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- HOCHTIEF AG, Oct. 12, 2020
- ACS Group's Disposal Of Its Industrial Services Division Would Significantly Reduce Business Diversity, Oct. 7, 2020
- ACS, Actividades de Construcción y Servicios SA, Sept. 21, 2020

Ratings List

Ratings Affirmed; CreditWatch Action

	To	From
ACS, Actividades de Construcción y Servicios SA		
HOCHTIEF AG		
ACS Servicios Comunicaciones y Energía S.L.		
CIMIC Group Ltd.		
Issuer Credit Rating	BBB/Watch Neg/A-2	BBB/Stable/A-2
ACS, Actividades de Construcción y Servicios SA		
Senior Unsecured	BBB-/Watch Neg	BBB-
CIMIC Group Ltd.		
ACS Servicios Comunicaciones y Energía S.L.		
CIMIC Finance (USA) Pty Ltd.		
CPB Contractors Pty Ltd.		
HOCHTIEF AG		
CIMIC Finance Ltd.		
Sedgman Pty Ltd.		
Thiess Pty Ltd.		
UGL Pty Ltd.		
Senior Unsecured	BBB/Watch Neg	BBB

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. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at

https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceId/504352 Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

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