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10 March 2021

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

STANDARD & POOR'S RATINGS ACTION

Standard & Poor's (S&P) has revised CIMIC Group's credit rating to 'BBB-/A-3' with stable outlook.

S&P placed CIMIC's 'BBB/A-2' credit rating on 'CreditWatch negative' in October 2020 after CIMIC entered into an agreement to divest a 50% equity interest in Thiess.

S&P's action follows Moody's Investors Service's confirmation of CIMIC's 'Baa2' issuer rating with stable outlook in January 2021, following the completion of CIMIC's sale of 50% of Thiess.

S&P's announcement notes that its "assessment of CIMIC's liquidity [is] strong" and that this "reflects the group's large cash reserves and [its] expectation of positive operating cash flow".

The S&P announcement is appended.

Sincerely,

CIMIC GROUP LIMITED
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Authorised by the CIMIC Group Continuous Disclosure Committee

Research Update:

CIMIC Group Downgraded To 'BBB-/A-3'; SACP To 'bbb-' On Thiess Disposal, Weaker Financial Performance; Outlook Stable

March 9, 2021

Rating Action Overview

- Australia-based construction group CIMIC Group Ltd. sold a 50% equity interest in Thiess, the world's largest mining services provider, in December 2020. In our view, the disposal reduces the business scale and diversity of CIMIC and its ultimate parent, Spain-based construction group Actividades de Construccion y Servicios SA (ACS), and adds complexity to the group structure and governance.
- CIMIC's financial performance deteriorated significantly in fiscal 2020, well below our expectations. A COVID-related slowdown in new project awards and a temporary suspension of a tendering license in Hong Kong (now regained) led to significant working capital outflows and squeezed the company's earnings and cash flow.
- As a result, we project CIMIC's adjusted leverage (S&P adjusted debt to EBITDA) will likely exceed 2.5x in the fiscal year ending Dec. 31, 2021, and remain above 2x in the next two years. Given the higher financial leverage and CIMIC's reduced business scale and diversity, we have revised down the SACP on CIMIC by two notches to 'bbb-' from 'bbb+'.
- On March 10, 2021, S&P Global Ratings lowered its issuer and issue credit ratings on CIMIC to 'BBB-/A-3' from 'BBB/A-2' following the same action on the company's parent, ACS. We are removing the ratings and issue ratings from CreditWatch, where we had placed them with negative implications on Oct. 21, 2020.
- The stable outlook on CIMIC mirrors that on its parent company, ACS, because we continue to view CIMIC as a core subsidiary of the ACS group.

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Rating Action Rationale

We lowered the ratings on CIMIC following the same rating action on the parent, ACS. Our ratings on CIMIC are equalized with those on ACS. ACS currently owns 50.4% of Hochtief AG, which in turn owns 78.6% of CIMIC. We assess CIMIC as a core subsidiary of the ACS group because of its strategic importance to the group. We expect CIMIC (including 50% of Thiess) to contribute about 20%-25% of ACS group's revenue and 30%-35% of its adjusted EBITDA going forward. (See "Spanish Construction Group ACS Downgraded To 'BBB-/A-3' On 50% Thiess Disposal and Higher Debt; Outlook Stable," published March 9, 2021.)

At the same time, we revised downward the stand-alone credit profile (SACP) on CIMIC to reflect its weaker credit profile due to the 50% disposal in Thiess and the company's materially weaker financial performance. In our opinion, CIMIC's disposal of 50% of Thiess to Elliott Investment Management L.P. (Elliott) reduces the company's business scale, profit margins, and cash flow. Thiess is the world's largest contract mining services provider across both surface and underground contract mining. We note that mining services represented about 60% of CIMIC's EBITDA and 65% of its funds from operations (FFO) prior to the sell down. As such, the transaction significantly reduces CIMIC's cash flow and dilutes its margins. Over the past three years, Thiess reported an adjusted EBITDA margin in the mid-30% range, well above CIMIC's adjusted EBITDA margin of 12%-13%. Although these higher margins reflect, in part, the higher capital intensity of Thiess, we also consider Thiess' cash flow to be more predictable than that of its construction businesses. Accordingly, the Thiess sell down is likely to increase CIMIC's cash flow volatility, in our view.

We also note that CIMIC's financial performance deteriorated significantly in fiscal 2020, well below our expectations. The company's earnings and cash flow suffered under a COVID-related slowdown in the award of new projects, the suspension of a tendering license in Hong Kong (now regained), and significant working capital outflows. Furthermore, CIMIC reported a number of one-off costs associated with asset impairments, restructuring, project settlement, and provisions to cover ongoing uncertainty linked to the COVID-19 pandemic, which totaled about A$840 million gross of taxes. Despite an attractive pipeline of new project work in Australia, which we expect to move forward this year, we project adjusted leverage is likely to exceed 2.5x in fiscal 2021 and remain above 2x in the next two years. As a consequence of this elevated financial leverage, together with the group's reduced scale and diversity from the Thiess sell down, we have revised down the SACP on CIMIC by two notches to 'bbb-' from 'bbb+'.

CIMIC's 'bbb-' SACP is contingent on the company's disciplined approach to capital management, including maintaining an adjusted debt-to-EBITDA ratio of below 2.5x. We expect management to continue to take decisive actions to navigate the challenging operating environment. Our assessment of CIMIC's commitment to grow earnings while limiting pressure on its balance sheet will be a key rating consideration. We expect CIMIC to maintain a strong liquidity position, strictly managing cash flow, working capital and dividends. CIMIC intends to resume its 65% dividend policy in 2021.

In our view, CIMIC's leading market position in Australia's infrastructure construction and contract mining sectors will continue to support its standalone credit profile. CIMIC's favorable end-market exposure and work in hand should help mitigate the group's exposure to the operating risks, uneven project tenders, and inherent cyclicality of the construction industry. CIMIC operates through strong local brands, which 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. CIMIC's work in hand as of Dec. 31, 2020, was about A$30.1 billion (adjusted for Thiess at 50%) and provides revenue visibility for approximately the next two years. Having said that, the lower level of work awarded in the past 12 months will likely weigh on revenues in fiscal 2021.

The Thiess disposal adds complexity to CIMIC's structure and governance. CIMIC and Elliott have joint control of Thiess in accordance with a shareholder agreement, which contains Thiess' financial and dividend policies, among other items. Importantly, Elliott has a put option to sell its 50% interest in Thiess back to CIMIC during an option exercise period in years four to six from transaction completion. The put option exercise price is set at Elliott's purchase price adjusted for any downward movement in the value of the ASX200 Total Return Index. Accordingly, we view the substance of the sell down to Elliott as a financing transaction for CIMIC, with CIMIC retaining downside exposure in the event of a fall in the value of Thiess.

In our view, the joint control of Thiess also raises questions about the strategic importance of mining services for the ACS group. We also do not have a track record on the effectiveness of governance at the joint venture (JV) and do not regard the interests of CIMIC and Elliot in the JV as completely aligned. We view Elliot as a financial investor rather than a strategic partner.

We believe the proportional consolidation of the Thiess JV better reflects the credit profile of CIMIC and the broader ACS group. As of 2021, to determine CIMIC's credit metrics, we will proportionally consolidate 50% of the Thiess JV. In addition, we will proportionally consolidate 50% of Elliot's preference shares in Thiess, which we treat as debt and the associated dividends as interest expense. However, Thiess is under no legal obligation to make payments under the preference shares. The preference shares are subordinated, perpetual, and nonpayment would not cause a default (for details, see "Global Contract Miner Thiess Group Holdings, Guaranteed Notes Assigned 'BBB-' Ratings; On CreditWatch Negative," published Feb. 22, 2021).

We believe proportional consolidation better reflects our opinion of the underlying economic drivers of CIMIC's financial risk profile, given the JV's size and ongoing contribution to group cash flow. This differs from CIMIC's reported accounts, which reflect the 50% stake in Thiess as an equity-accounted investment.

Outlook

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. In this regard, we equalize the ratings and outlook on CIMIC with those on the ultimate parent.

The stable outlooks on ACS and its core subsidiaries reflect our view that the ACS group's adjusted FFO to debt should stand above 25% in 2021-2022. In our view, the group's solid order backlog and still positive prospects for civil infrastructure construction should support operating performance. We forecast the group's adjusted EBITDA margin at 7.5%-8.0% in 2021-2022, underpinned by an already secured order backlog, intake of new projects, and dividends from Abertis Infraestructuras, S.A. ACS is currently negotiating the disposal of a large portion of its industrial services assets; we will assess the rating implications of the transaction once the terms are agreed and we know how the group intends to use the proceeds.

Downside scenario

We could lower the ratings if ACS group's adjusted FFO-to-debt ratio dropped below 25%, without short-term recovery prospects.

We believe this could happen if:

- There is markedly higher debt, stemming, for example, from unexpected large investments or higher shareholder returns than in our base case.

- Operational setbacks that results in increased working capital, or prolonged suspension of construction projects as a consequence of the current recession.
- ACS receives significantly lower dividends from Abertis Infraestructuras, S.A. than in our base-case scenario.
- The disposal of the Industrial Service division results in a weaker business risk position, which is not offset by the group's commitment to preserve credit metrics at a much higher level.
- ACS group's liquidity weakens.

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

Upside scenario

An upgrade would hinge on a clear commitment from ACS to a more conservative financial policy related to investments and shareholder remuneration, and consistently stronger credit metrics, including FFO to debt comfortably above 35% and DCF to debt of at least 5%.

Company Description

CIMIC is an engineering-led global infrastructure company with core activities in construction, mining, mineral processing, services, and public-private partnership projects that are focused on Australia, the Asia-Pacific, Sub-Saharan Africa, and 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.

CIMIC is a subsidiary of Hochtief. As of Dec. 31, 2020, Hochtief had 78.6% share ownership in CIMIC. The ultimate parent is ACS. ACS has 50.4% share ownership in Hochtief.

Our Base-Case Scenario

- Australia's real GDP growth of 4% in 2021 and 3.2% in 2022;
- Following a significant decline in revenue in 2020, we expect CIMIC's revenue growth to be around 8% in 2021 and 2022, reflecting a recovery in work in hand, and good prospects for the Australian infrastructure sector due to government initiatives and investment and CIMIC's regaining of its operating license in Hong Kong;
- Adjusted EBITDA margin of 11%-12% over the next two years;
- Adjusted capital expenditure (capex; including 50% of Thiess and 50% of Ventia) of A$500 million-A$600million over the next two years;

- Manageable working capital outflows;
- Sustained shareholder remuneration with a payout ratio of 65%;
- Remaining liability for CIMIC's BIC Contracting (BICC) operations in the Middle East at A$151.2 million;
- CIMIC's operating leases are reflected on the balance sheet and considered as debt of about A$314.8 million;
- Factoring assumed $975.8 million per year over 2021-2022;
- No share buybacks;
- No acquisitions.

Table 1

Key Metrics

	--Fiscal year ended Dec. 31--			
	2019a	2020a*	2021f**	2022f**
Debt to EBITDA (x)	2	N.M.	Above 2.5	Below 2.5
FFO to debt (%)	37.7	N.M.	25-30	Above 30
EBITDA margin (%)	13.8	N.M.	About 11%	11%-12%

a--Actual. f--Forecast. FFO--Funds from operations. *Fully adjusted by S&P Global Ratings and fiscal 2020 metrics are distorted due to the 50% sale of Thiess and asset write-downs. **Includes 50% consolidation of Thiess Group Holdings Pty Ltd. (a newly formed joint venture between CIMIC and Elliott Investment Management, L.P.) and 50% consolidation of Ventia Pty Ltd. N.M.--Not meaningful.

Liquidity

Our assessment of CIMIC's liquidity as strong reflects our expectation that the company's sources of cash will exceed uses by more than 1.5x over the next 24 months and net sources will be positive even if EBITDA declines by 30%. This reflects the group's large cash reserves and our expectation of positive operating cash flow, which will more than offset short-term debt maturities and seasonal working capital outflows over this period. We believe the group generally follows a prudent risk management policy aimed at maintaining a strong liquidity position.

We expect CIMIC to have the following sources and uses of liquidity over the 12 months ending Dec. 31, 2021:

Principal liquidity sources:

- Cash and cash equivalents of A$2.6 billion.
- Available undrawn committed credit lines of about A$800 million with maturities greater than one year.
- FFO of A$900 million-A$1.2 billion.

Principal liquidity uses:

- Minimal debt maturities of about A$210 million.
- Remaining amount paid for the BICC exit of about A$151 million.
- Capex (CIMIC stand-alone) of A$250 million-A$300 million.

- Dividend payout at about 65% of underlying net income.

Group Support

We consider CIMIC to be a core subsidiary of the ACS group. As a result, we equalize our ratings on CIMIC with the ratings on ACS (BBB-/Stable/A-3). ACS owns 50.4% of Hochtief, which in turn owns 78.6% of CIMIC.

Issue Ratings - Subordination Risk Analysis

Capital structure

As of Dec. 31, 2020, CIMIC's total debt was A$2,896.6 million with a weighted-average debt maturity of about three years. The company's funding is diversified through a mix of drawn bank facilities of A$2,646.7 million, U.S. 144A of A$261.4 million, and other debt of A$11.5 million, all of which are issued on an unsecured basis. CIMIC's undrawn bank facilities were about A$1,101.4 million.

Analytical conclusions

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

Ratings Score Snapshot

Issuer Credit Rating

BBB-/Stable/A-3

Business risk: Fair

- Country risk: Very low
- Industry risk: Moderately high
- Competitive position: Fair

Financial risk: Intermediate

- Cash flow/leverage: Intermediate

Anchor: bb+

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: Positive (+1 notch)

Stand-alone credit profile: bbb-

- Group credit profile: bbb-
- Entity status within group: Core (no impact)

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: The Treatment Of Non-Common Equity Financing In Nonfinancial Corporate Entities, April 29, 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

Ratings List

Downgraded; CreditWatch/Outlook Action

	To	From
CIMIC Group Ltd.		
Issuer Credit Rating	BBB-/Stable/A-3	BBB/Watch Neg/A-2
Senior Unsecured	BBB-	BBB/Watch Neg
CIMIC Finance (USA) Pty Ltd.		
Senior Unsecured	BBB-	BBB/Watch Neg
CPB Contractors Pty Ltd.		
Senior Unsecured	BBB-	BBB/Watch Neg
CIMIC Finance Ltd.		
Senior Unsecured	BBB-	BBB/Watch Neg

Downgraded; CreditWatch/Outlook Action

	To	From
Sedgman Pty Ltd.		
Senior Unsecured	BBB-	BBB/Watch Neg
UGL Pty Ltd.		
Senior Unsecured	BBB-	BBB/Watch Neg