



# ASX Release

9 July 2021

## S&P's rating placed on CreditWatch

S&P Global Ratings (S&P's) has placed Boral's "BBB" credit rating on CreditWatch Negative. S&P undertakes to resolve the CreditWatch on the rating within 90 days.

In its release, S&P states this action has been taken because it believes *'the current shareholding increases the likelihood that Seven can exert direct or indirect control over Boral to the extent that it could influence Boral's strategy and disposition of cash flows.'*

Boral's CEO & Managing Director, Zlatko Todorcevski, said:

"Boral disagrees with the decision by S&P to place the Company's credit rating on CreditWatch. Boral also disagrees with the rationale used by S&P that speculates on what may or may not happen in the future.

"As outlined in Boral's Third Supplementary Target's Statement dated 25 June 2021, following the completion of the sale of Boral's North American Building Products business, and based on Boral's financial framework, Boral estimates it will have surplus capital (prior to any reinvestment alternatives) of ~\$3.6 billion which equates to \$3.02 per Boral share<sup>1</sup>.

"We continue to recognise that maintaining a strong balance sheet is in the best interests of investors and remain focused on being disciplined in the allocation of capital."

A copy of the S&P ratings report is attached.

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Authorised for lodgement by Dominic Millgate, Company Secretary

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<sup>1</sup> Based on cash balance and number of shares as at 31 May 2021. Includes additional proceeds of US\$125 million (A\$167 million) expected from the announced divestment of Meridian Brick, anticipated to complete in the first quarter of FY22.

Research Update:

# Boral Ltd. 'BBB' Rating Placed On CreditWatch Negative As Seven Group's Stake Exceeds 40%

July 9, 2021

## Rating Action Overview

- On July 8, 2021, Seven Group Holdings Ltd. (Seven) announced that it has secured 40.95% of Boral Ltd.'s ordinary shares.
- We believe the current shareholding increases the likelihood that Seven can exert direct or indirect control over Boral to the extent that it could influence Boral's strategy and disposition of cash flows.
- On July 9, 2021, S&P Global Ratings placed its 'BBB' long-term issuer credit rating on Boral and the issue ratings on the company's debt on CreditWatch with negative implications.
- The CreditWatch negative placement reflects our opinion that the combined credit quality of the Seven/Boral group is likely to be lower than Boral's on a stand-alone basis, which could act as a drag on Boral's credit profile.

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## Rating Action Rationale

We placed the ratings on Boral on CreditWatch with negative implications because Seven's increased shareholding in Boral could act as a drag on Boral's credit profile. We apply our group rating methodology to assess whether ownership, control, influence, or support by or to another entity could have a material bearing on a company's credit quality. We expect to identify Seven as the group parent and Boral as a group member for analytical purposes.

Our preliminary view is that the combined credit quality of the Seven/Boral group is likely to be somewhat weaker than what would be commensurate with the 'BBB' rating on Boral. Further, it is not immediately clear whether sufficient conditions exist to insulate Boral from the potentially negative influence of the Seven group.

Seven's increased shareholding in Boral is likely to be accompanied by greater board representation. We believe this will increase Seven's influence over Boral's strategy and disposition of its cash flows. Seven's interests may not be fully aligned with Boral's existing strategy and financial framework. The completed sale of USG Boral and pending sale settlement of the North American building products business will generate a sizable pool of capital, and it is not immediately clear whether Seven will maintain Boral's balance between shareholder returns

and balance sheet repair.

## CreditWatch

We aim to resolve the CreditWatch in the next 90 days once we finalize our assessment of Seven's group credit profile and determine the extent to which Boral may be insulated from Seven's influence. Our assessment of the Seven group will include its operating entities and investments, look-through capital structure, financial policies, and strategic objectives. Based on our preliminary assessment, we do not expect downside pressure on the rating on Boral to exceed one notch. This incorporates our expectation that Boral will continue to have effective independent board representation and significant minority shareholders.

## 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
- 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

## Ratings List

### Ratings Affirmed; CreditWatch/Outlook Action

	To	From
<b>Boral Ltd.</b>		
Issuer Credit Rating	BBB/Watch Neg/NR	BBB/Stable/NR
<b>Boral Finance Pty Ltd.</b>		
Senior Unsecured	BBB/Watch Neg	BBB
<b>Boral Industries Inc.</b>		
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](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating

## Research Update: Boral Ltd. 'BBB' Rating Placed On CreditWatch Negative As Seven Group's Stake Exceeds 40%

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