VICINITY
CENTRES

ASX Announcement

24 January 2017

Standard & Poor's raises credit rating to 'A' with stable outlook

Vicinity Centres (Vicinity, ASX:VCX) today announces that Standard & Poor's has raised its credit rating to 'A/stable' from 'A-/positive' on strengthening portfolio quality. As a result, Vicinity's corporate credit and senior unsecured issue ratings have been raised to 'A' from 'A-', and the rating on Vicinity's senior secured debt has been raised to 'A+' from 'A'.

Standard & Poor's Research Update is attached.

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About Vicinity Centres
Vicinity Centres (Vicinity or the Group) is one of Australia's leading retail property groups with a fully integrated asset management platform, and over $23 billion in retail assets under management across 85 shopping centres, making it the second largest listed manager of Australian retail property. The Group has a Direct Portfolio with interests in 75 shopping centres (including the DFO Brisbane business) and manages 37 assets on behalf of Strategic Partners, 27 of which are co-owned by the Group. Vicinity is listed on the Australian Securities Exchange (ASX) under the code 'VCX' and has approximately 24,000 securityholders. Vicinity also has European medium term notes listed on the ASX under the code 'VCD'. For more information visit the Group's website vicinity.com.au, or use your smartphone to scan this QR code.

S&P Global Ratings

RatingsDirect®

Research Update:

Vicinity Centres Ratings Raised To 'A' On Strengthening Portfolio Quality; Outlook Stable

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Research Update:

Vicinity Centres Ratings Raised To 'A' On Strengthening Portfolio Quality; Outlook Stable

Overview

- We believe that execution risks associated with Vicinity's portfolio repositioning strategy have meaningfully reduced.
- We expect the overall asset quality to incrementally improve over the longer term, which should enhance its earnings stability.
- As a result, we are raising our corporate credit and senior unsecured issue ratings on the company to 'A' from 'A-', and our rating on the senior secured debt to 'A+' from 'A'.
- At the same time, we have revised our liquidity assessment to strong from adequate.
- The outlook is stable, reflecting our expectation that the improving quality and diversity of Vicinity's portfolio will reduce earnings volatility through the cycle.

Rating Action

On Jan. 24, 2017, S&P Global Ratings raised its corporate credit rating on Australian REIT (AREIT) Vicinity Centres and the issue rating on the AREIT's senior unsecured debt to 'A' from 'A-'. The outlook is stable. At the same time, we raised the issue rating on the group's senior secured debt to 'A+' from 'A'.

Rationale

The upgrades reflect our increased confidence that the group will deliver on its portfolio repositioning strategy, raising the overall asset quality and enhancing earnings stability. In our opinion, Vicinity has adopted a more rigorous approach to operational performance and portfolio allocation since the merger between Federation Centres and Novion Property Group was implemented on June 11, 2015.

Vicinity is the second-largest retail landlord in Australia and benefits from a geographically diverse portfolio of shopping centers that straddle the full spectrum of major retail property classes. However, at the time of merger, we believed that a material part of Vicinity's portfolio suffered from underinvestment and faced market challenges. While the group had a long-term strategy to improve the overall portfolio quality, we believed there were material execution risks associated with the sizable redevelopment pipeline as well as the scale and timing of noncore asset divestments.

We have increased confidence that the group is appropriately managing the scale, breadth, and complexity of the repositioning strategy since the merger. A number of new appointments across its investment, construction, and leasing teams have bolstered the management team. Moreover, the renewed senior management team has a long association with the portfolio and a track record of delivery.

While the portfolio repositioning task remains ongoing, recent activity underscores management's ability to execute. Vicinity has divested interests in 12 properties worth A$1.4 billion that we view to be of weaker quality. The group has also made good progress against its A$3.7 billion redevelopment pipeline (Vicinity's share: A$1.7 billion). The successful redevelopment of flagship Chadstone Shopping Centre as well as smaller centers--including Cranbourne Park, Victoria, and Warriewood Square, New South Wales--demonstrates management's ability to manage concurrent projects across different property types and geographies.

While a large redevelopment task remains, we believe Vicinity's management has a clear and credible strategy. We also note that the group has exceeded its announced merger synergy targets and we expect the group's operational performance to remain solid.

Vicinity's financial policies include gearing (net debt-to-net tangible assets) between 25% and 35%. Proceeds from the divestments as well as capital partnering have supported the redevelopment strategy, while limiting pressure on the balance sheet. The group has also successfully completed a large refinancing task. As a result, we have revised our liquidity assessment to strong from adequate.

Liquidity

Vicinity's strong liquidity reflects our expectation that over the next 12 months, its sources of funds will exceed the uses by more than 1.5x. We also expect Vicinity to achieve positive sources less uses in the short term, even if EBITDA falls by 15%. Also supporting liquidity are the fund's strong standing in credit markets and sound relationships with its banks, which we expect to enable timely refinancing of debt maturities and establishment of new facilities when required.

Our key assumptions for the group's sources and uses of liquidity over the next 12 months are as follows:

Principal Liquidity Sources:

- Funds from operations of greater than A$700 million;
- Approximately A$1.4 billion of committed undrawn facilities beyond one year; and
- Cash holdings of about A$100 million.

Principal Liquidity Uses

- Capital expenditure of up to A$550 million;
- Distribution payout ratio of 100%-105% of operating cash flows; and
- Debt maturity of approximately A$180 million.

Outlook

The stable outlook reflects our expectation that the quality and diversity of Vicinity's portfolio will reduce earnings volatility through the cycle. In addition, we expect Vicinity will continue to recycle assets and seek capital partners to achieve its investment objectives while limiting pressure on its balance sheet. Over the longer term, we expect the asset quality to improve further as the group executes its repositioning strategy.

Downside scenario

Downward pressure could occur if Vicinity's operating performance persistently weakens or if it were to adopt a more-aggressive growth strategy. In addition, we would consider downward rating action if its fund from operations-to-debt ratio falls below 12% or if the gearing (net debt-to-net tangible assets) exceeds 35%.

Upside scenario

We are not likely to raise the ratings in the foreseeable future. However, we would consider an upgrade if Vicinity adopts more-conservative financial policies. Over the longer term, we may upgrade Vicinity if we believe that its scale and asset quality have improved materially.

Ratings Score Snapshot

Corporate Credit Rating: A/Stable/--
- Business risk: Strong
- Country risk: Very low
- Industry risk: Low

Competitive position: Strong

Financial risk: Intermediate
- Cash flow/Leverage: Intermediate

Anchor: a-

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)

Recovery Analysis

Vicinity's senior secured debt comprises the medium-term notes (MTN) originally issued by Federation Centres. These notes rank ahead of new unsecured bank and existing debt-capital-markets instruments.

We rate Vicinity's existing secured MTN one notch above the corporate credit rating, reflecting overcollateralization of pledged assets to secured debt and our view of Australia as being a creditor-friendly jurisdiction. While this MTN program, under certain circumstances, allows the merged group to release assets without the expressed consent of note holders, we believe that the outstanding issuance will remain sufficiently overcollateralized to warrant a 'A+' issue rating. We also assess the proportion of consolidated net operating income generated by encumbered assets to be comfortably less than 50%, and therefore, the unsecured debt rating is not notched.

Under our hypothetical default scenario, we expect Vicinity's secured debt to be overcollateralized by greater than 2.0x, resulting in a one-notch uplift on the group's existing senior secured debt, from the corporate credit rating. We expect all future bank and debt capital market issuance to be on an unsecured platform.

Related Criteria

- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- Criteria - Corporates - Industrials: Key Credit Factors For The Real Estate Industry, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, 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
- Criteria - Corporates - General: 2008 Corporate Criteria: Rating Each Issue, April 15, 2008

Ratings List

Upgraded

	To	From
Vicinity Centres Trust		
Senior Unsecured	A	A-
Vicinity Finance Pty Ltd.		
Senior Secured	A+	A
Vicinity NVN Trust		
Senior Unsecured	A	A-

Upgraded; CreditWatch/Outlook Action

	To	From
Vicinity Centres		
Corporate Credit Rating	A/Stable/--	A-/Positive/--
Vicinity NVN Trust		
Corporate Credit Rating	A/Stable/--	A-/Positive/--

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.globalcreditportal.com and at www.spcapitaliq.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.

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