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ASX RELEASE

STABLE INVESTMENT GRADE CREDIT RATING FOR EDL

DUET Group notes the attached announcement by Standard & Poor's Ratings Services (S&P) assigning Energy Developments Limited (EDL) a BBB- investment grade credit rating with a stable outlook.

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Research Update:

Energy Developments Ltd. Assigned 'BBB-' Rating Following Acquisition By DUET Group; Outlook Stable

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Research Update:

Energy Developments Ltd. Assigned 'BBB-' Rating Following Acquisition By DUET Group; Outlook Stable

Overview

- Australian Stock Exchange (ASX)-listed DUET Group (DUET; not rated) has completed the acquisition of Energy Developments Ltd. (EDL) and has injected A$150 million of equity, which will be used to reduce EDL's debt.
- EDL's modest size and niche business in the unregulated power sector are balanced by its stronger financials.
- We are assigning our 'BBB-' corporate credit rating to EDL.
- The stable outlook reflects our expectations that EDL will fund future investments and shareholder returns in a manner that will maintain the company's debt-to-EBITDA in the range of 2.0x-2.1x over the medium term.

Rating Action

On Oct. 22, 2015, Standard & Poor's Ratings Services assigned its 'BBB-' corporate credit rating to Australia-based remote energy and clean energy generator Energy Developments Ltd. (EDL). The rating outlook is stable.

Rationale

The rating reflects EDL's operations in the unregulated power and gas industry, which we assess as being more risky than a company operating in the regulated utilities industry. EDL operates in the generation segment only, which is ultimately a price-taker, given the dynamics in the Australian energy market. However, mitigating this highly competitive environment is the fact that EDL has fixed a large portion of its revenue with long-dated off-take agreements with creditworthy counterparties, resulting in a relatively stable earnings profile.

Notwithstanding this, there could be some volatility in earnings associated with the revenues from sales of large-scale generation certificates (LGCs) and to a lesser extent the Australian Carbon Credit Units (ACCUs), the prices of which, as seen in the past can be less predictable in the absence of well-defined policies and markets. The portfolio mix comprises landfill gas, waste coal mine gas (about 28% each of total capacity), and remote energy (remaining 43% of total capacity).

With a total generation capacity of about 900 megawatts (MW), EDL has a relatively small size and market share compared with its peers, and high dependence on gas/diesel-fired generation. Balancing these weaknesses are EDL's good and established contractual arrangements, including tolling agreements and long-dated fuel supply contracts, which minimize cash flow volatility and leave EDL only with the risk of owning and operating the plants.

With the expansions and acquisitions undertaken over the past couple of years, EDL continues to diversify its portfolio and geographic presence. However, its scale is still much smaller than its peers in the Australian market. Also, some customer concentration risk exists, as each facility is dedicated to serve a particular client, which is mitigated through inherent redundancies at operational sites from the use of multiple, small-sized units.

DUET Group has completed the acquisition of EDL and will reduce EDL's current leverage by A$150 million to support a stronger financial profile. The current ratings incorporate EDL and the group's commitment to sustain this stronger financial and credit profiles. Further, the financial risk profile assessment is supported by our expectation that EDL will maintain its ratio of debt-to-EBITDA at about 2.1x over the next couple of years and will continue to generate positive free operating cash flows. This expectation is based on our view that EDL's aggressive dividend payout and sizable capital-expenditure (capex) program will require a portion of the capex to be financed through external borrowings, offsetting the increase in the earnings base and maintaining the ratio of debt-to-EBITDA at or around 2.1x.

We expect DUET to remain a supportive shareholder of EDL. In addition to the immediate debt reduction, our view is also derived from DUET's track record of supporting its regulated network investments in the Australian market over the past several years. Also, we see EDL as a strategically important subsidiary of DUET Group based on its full ownership of EDL, expected long-term commitment to the asset, and realistic medium-term prospects for EDL. Consequently, EDL's credit profile will continue to be linked to DUET's group credit profile, which we assess as being 'bbb-'.

Base-case scenario assumptions

- Flat EBITDA level for the year ending June 30, 2016, primarily a function of low growth capital expenditure in fiscal 2015;
- Post fiscal 2016, EBITDA growth of about 10% on average for the next couple of years, reflecting a combination of factors, including higher growth spending, higher LGC prices, and some higher revenues from the U.S. and U.K. operations;
- Total capital expenditures of about A$150 million in fiscal 2016, and about A$110 million in each of fiscal 2017 and 2018, with a greater bias toward growth capex;
- About 60%-70% of the total capex being debt-funded; and
- Significant step-up in dividend payments compared to fiscal 2015 levels.

Key metrics

Based on the above assumptions, we expect:

- Debt-to-EBITDA in the range of 2.0x-2.1x over the next couple of years;

and
- Free operating cash flow (FOCF)-to-debt in the range of 10%-20% over the next two to three fiscal years.

Liquidity

We assess EDL's liquidity as "adequate". This is based on our assessment that EDL's liquidity sources would remain more than 1.2x over the next 12 months, and that a 15% decline in EBITDA would not result in a liquidity deficit. We expect no material changes to the debt covenants post acquisition and that EDL will operate comfortably within the covenant levels.

Principal liquidity sources
- Cash and undrawn bank facilities (excluding the West Kimberly Power Project expansion facility) of about A$230 million at the end of June 2015; and
- FFO of about A$200 million over the next 12 months.

Principal liquidity uses
- Capex of about A$140 million; and
- Significant step-up in the quantum of distributions over the next 12 months.

Outlook

The stable outlook reflects our expectations that EDL will continue to drive its expansion strategy in a disciplined manner, with a continued focus on cost and earnings predictability. We also expect that EDL will fund future investments and shareholder returns in a manner that will maintain its debt-to-EBITDA at about 2.0x-2.1x over the medium term.

Downside scenario

We would consider lowering the rating if:
- There were a significant deterioration in operating performance that could impair EDL's ability to re-contract, leading to loss of revenues and weakened profitability;
- There is deterioration in financial performance, from higher debt-funded investments or debt-funded shareholder dividends, such that its debt-to-EBITDA was forecast to remain consistently above 2.4x.

Upside scenario

The prospects for higher ratings are unlikely given our view that any material financial upside is likely to be utilized for the benefit of the shareholders rather than debt holders.

Ratings Score Snapshot

Corporate Credit Rating: BBB-/Stable/--

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)
- Liquidity: Adequate (no impact)
- Financial policy: Neutral (no impact)
- Management and governance: Fair (no impact)
- Comparable rating analysis: Positive (+1 notch)

Stand-alone credit profile: bbb-
- Group credit profile: bbb-
- Entity status within group: Strategically Important (no impact)

Related Criteria And Research

Related Criteria

- Methodology And Assumptions: Liquidity Descriptors for Global Corporate Issuers, Dec. 16, 2014
- Key Credit Factors For The Unregulated Power And Gas Industry, March 28, 2014
- Corporate Methodology, Nov. 19, 2013
- Corporate Methodology: Ratios and Adjustments, Nov. 19, 2013
- Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010

Ratings List

New Rating; CreditWatch/Outlook Action

Energy Developments Ltd.	
Corporate Credit Rating	BBB-/Stable/--

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 Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.

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