asx release+

Goodman notes Standard & Poor's rating affirmation

Date	29 September 2009
Release	Immediate

Please refer to the attached release by Standard & Poor's.

For further information, please contact Goodman:
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About Goodman: Goodman owns, develops and manages industrial property and business space globally. It is the largest industrial property group listed on the Australian Securities Exchange and one of the largest in the world, with offices across Asia Pacific, UK and Europe. At the core of the Group's success is its integrated customer service model, which reflects the organisation's commitment to creating long-term customer relationships.

RatingsDirect®

September 29, 2009

Research Update:

Goodman Group 'BBB' Ratings Affirmed, Off CreditWatch On Capital-Management Initiatives; Outlook Negative

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Research Update:

Goodman Group 'BBB' Ratings Affirmed, Off CreditWatch On Capital-Management Initiatives; Outlook Negative

Overview

- Goodman Group has announced capital-management initiatives that have significantly reduced our concerns regarding the group's liquidity profile in the next two years.
- We have removed the ratings on Goodman Group from CreditWatch with negative implications.
- We have assigned a negative rating outlook, as the group's near-term proforma look-through credit metrics remain weak for the 'BBB' rating.

Rating Action

On Sept. 29, 2009, Standard & Poor's Ratings Services affirmed its 'BBB' corporate credit and debt ratings on Goodman Group (GMG) and removed them from CreditWatch with negative implications, where they were initially placed on May 27, 2009. The outlook is negative.

Rationale

The rating affirmation and removal of the CreditWatch on GMG, an Australian-based real estate investment trust (AREIT), follows the group's A$1.8 billion of new equity raised and bank debt extensions, which have significantly alleviated our concerns regarding the group's liquidity position. However, we believe GMG is facing significant headwinds in managing its U.K. and European operations, where ongoing weak market conditions are expected to continue to pressure the group's earnings. In addition, due to the sizeable debt levels at the group's managed funds, coupled with GMG's increased ownership stakes in these funds, the group's look-through credit metrics are likely to be weak for the 'BBB' rating in the near term. We expect, however, that GMG will progressively reduce its ownership in these funds in the near term; this is expected to be a key driver of returning the rating to a stable footing.

Support from equity and debt providers has allowed GMG to undertake a number of capital-management initiatives, which we believe represent a significant endorsement of GMG's business model. The diversity of group operating earnings—which comprise rental income from directly held property and indirectly via an equity stake in managed property funds, management fee income, and development-related earnings—is a key credit strength. We note that GMG's income is sourced from a number of offshore geographic locations.

By refining its business model—through allocating less funds to development activities and seeking to introduce new capital partners—GMG management has successfully maintained its internally managed industrial property and business-space activities. The introduction of new capital partners, including China Investment Corp (CIC) and the Canada Pension Plan Investment Board (CPPIB), should help reduce GMG's reliance on traditional sources of capital, which have contracted in the global economic downturn.

Despite these capital-management initiatives and a significant reduction in debt levels, we expect GMG's credit metrics to remain static due to sizeable debt levels at the managed funds and the group's increased ownership stakes in these funds. We believe that look-through adjusted EBITDA interest cover is likely to remain about 2x, and funds from operations (FFO) to debt at about 6% in fiscal 2010. This compares with fiscal 2009 metrics of 1.9x interest cover and 5.5% FFO to debt. The equity raising has had an immediate impact on GMG's gearing, with adjusted debt to total assets likely to reduce to about 42%, from 58% in fiscal 2009. In our view, look-through credit metrics are more meaningful in our analysis of GMG's financial risk profile. We expect that over the medium term the group's credit metrics will improve as GMG reduces its equity interests in cornerstone investments and capitalizes on opportunities as its development markets re-open. We expect that GMG will seek to recycle capital by using its inventory to service its customer needs and continue to expand the participants in its managed funds.

The extension of GMG's finance facilities alleviates our concerns regarding whether the group had in place sufficient liquidity to meet its short-term capital commitments and debt maturities. In addition, our concerns that GMG had limited access to capital have been moderated by this equity issuance and the introduction of new strategic investors (CIC and CPPIB). While the group is now targeting a gearing (total debt-to-assets) range of 20%-30% (from a policy of 35%-40%), the combination of our partial debt-like treatment of the group's hybrid securities and the large cornerstone investments held in the managed funds inflates the look-through gearing to about the 45% level. The high look-through gearing reflects the group's historical debt-funded acquisitions, which have been purchased on the expectation that they would be sold down into managed funds and/or to third parties. Over time, GMG will seek to reduce its investment in the GMG funds in line with its long-term investment targets of 15%-25%, recognizing that its stake maintains an alignment of interest with the third-party investors.

Liquidity

We consider GMG's liquidity to be strong, with available liquidity of A$2.2 billion following recapitalization that covers all maturing group debt facilities to May 2012. With proceeds from the recent equity raising, GMG has repaid A$520 million of the syndicated facility due on May 24, 2010 and the Macquarie/CIC facility (drawn to A$300 million). After deducting these amounts, the group has the ability to allocate A$1.3 billion to cover forthcoming debt maturities between September 2009 and May 2012. The managed funds have also extended their debt-maturity profile with a weighted average unexpired debt term of 3.2 years, from 2.7 years.

There remains adequate covenant headroom for GMG's on-balance-sheet debt facilities and other managed funds. The amendments to GMG's covenants provide further headroom, with the gearing ratio set at 60% (net liabilities to net tangible assets), interest cover ratio lowered to 2x, and a tighter priority debt ratio that still provides flexibility to the business. A new covenant has been introduced that limits debt raised against cornerstone investments or intangibles.

In the short-to-medium term, we expect that Goodman will continue its strategy of further diversifying its sources of debt capital, lengthening its debt-maturity profile, and reducing its reliance on the banking sector.

Outlook

The outlook is negative. We consider GMG's current look-through credit metrics weak for the 'BBB' rating, reflecting the group's high levels of debt at managed funds and GMG's sizeable cornerstone shareholdings. Persistently weak credit metrics are likely to place further downward pressure on the rating. However, we consider the downside risk to the rating to be not more than one notch.

To return the rating to a stable footing, we would expect GMG to reduce its fund holdings or complete other asset sales to improve look-through metrics levels approaching 2.5x interest cover, and FFO to debt approaching 8%. Furthermore, in times of buoyant property development earnings, we would expect GMG's key credit measures to comfortably exceed these levels.

Related Research

"Corporate Ratings Criteria 2008," published April 15, 2008, on RatingsDirect.

Ratings List

Ratings Affirmed; CreditWatch/Outlook Action

	To	From
Goodman Group		
Corporate Credit Rating	BBB/Negative/--	BBB/Watch Neg/--
Goodman Australia Finance Pty Ltd.		
Senior Unsecured (1 issue)	BBB	BBB/Watch Neg
Goodman Finance (Lux) sarl		
Senior Unsecured (1 issue)	BBB	BBB/Watch Neg
Goodman Industrial Finance (Aust) Pty Ltd.		

Senior Unsecured (1 issue)	BBB	BBB/Watch Neg
Goodman PLUS Trust		
Subordinated (1 issue)	BB+	BB+/Watch Neg
Goodman Group		
Senior Unsecured (1 issue)	BBB	BBB/Watch Neg
Goodman Finance (Jersey) Ltd.		
Senior Unsecured (1 issue)	BBB	BBB/Watch Neg
Goodman Finance (Lux) sarl		
Senior Unsecured (1 issue)	BBB	BBB/Watch Neg
Goodman Industrial Trust		
Senior Unsecured (1 issue)	BBB	BBB/Watch Neg
MG Finance (Jersey) Ltd		
Senior Unsecured (1 issue)	BBB	BBB/Watch Neg
MG Finance Australia Trust		
Senior Unsecured (1 issue)	BBB	BBB/Watch Neg
MG Finance Luxembourg sarl		
Senior Unsecured (1 issue)	BBB	BBB/Watch Neg
MG Finance Singapore PTE LTD		
Senior Unsecured (1 issue)	BBB	BBB/Watch Neg
MG Property Opportunities sarl		
Senior Unsecured (1 issue)	BBB	BBB/Watch Neg
MGI HK Finance		
Senior Unsecured (1 issue)	BBB	BBB/Watch Neg

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