



CIMIC Group Limited
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28 August 2019

Singapore Exchange (SGX)
2 Shenton Way
19-00 SGX Centre 1
Singapore 068804

CIMIC GROUP RATING AFFIRMED BY MOODY'S INVESTORS SERVICE

Please find attached a copy of a media release issued by CIMIC Group Limited, parent company of CIMIC Finance (USA) Pty Ltd.

Yours faithfully
CIMIC GROUP LIMITED

Company Secretary



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28 August 2019

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

CIMIC GROUP RATING AFFIRMED BY MOODY'S INVESTORS SERVICE

Moody's Investors Service (Moody's) has affirmed CIMIC Group's credit rating at Baa2.

Moody's has also affirmed the Baa2 backed senior unsecured rating assigned to CIMIC Finance (USA) Pty Ltd.

The outlook remains stable.

The Moody's report is appended.

Sincerely,

CIMIC GROUP LIMITED
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MOODY'S

INVESTORS SERVICE

CREDIT OPINION

27 August 2019

Update

 Rate this Research

RATINGS

CIMIC Group Limited

Domicile	New South Wales, Australia
Long Term Rating	Baa2
Type	LT Issuer Rating - Fgn Curr
Outlook	Stable

Please see the [ratings section](#) at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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CIMIC Group Limited

Update to Credit Analysis

Summary

CIMIC Group Limited's (Baa2 stable) credit profile benefits from: (1) its strong market position in the Australian construction, services and mining industries; (2) income diversity across business lines; and (3) a strong financial profile despite the higher leverage due to factoring.

Conversely, CIMIC's credit profile is constrained by: (1) business risks around complex projects; and (2) linkage to its parent entities HOCHTIEF AG and Actividades de Construcción y Servicios SA (ACS), both of which we consider to have weaker credit profiles.

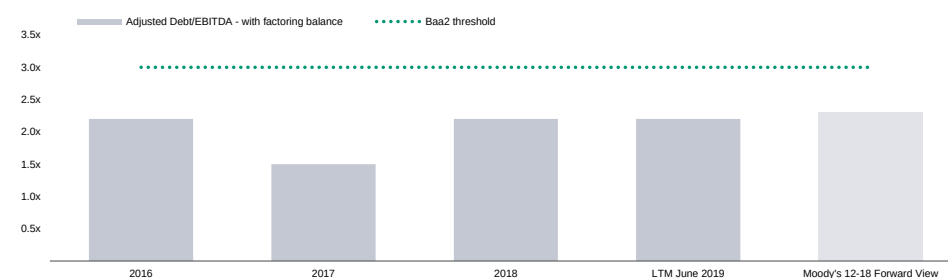
While CIMIC's large and complex engineering contracts are a core component of its business, it has a lower risk tolerance than in the past. The potential for material write-downs is also lower than in the past. At the same time, the company is focused on de-risking the business by increasing the proportion of recurrent or annuity-like revenue by placing greater emphasis on services and public-private partnerships (PPPs).

CIMIC has maintained a strong financial profile, with a reported net cash position and strong EBITA/interest cover of around 8x-9x. Leverage, as measured by adjusted debt (including factoring)/EBITDA increased to around 2.2x from around 1.3x at June 2019.

CIMIC has an excellent liquidity position with unrestricted cash on hand of around \$AUD1.4 billion at June 2019. In addition to its cash holdings, CIMIC has access to undrawn facilities of around AUD2.7 billion at June 2019.

Exhibit 1

CIMIC's financial leverage continues to be within the thresholds set for the rating



Source: Moody's Investors Service

Credit strengths

- » Well-established position as the largest construction and mining contractor in Australia
- » Income diversity across business segments, geography and contract type
- » Strong financial profile, which provides a buffer against downside risks
- » Excellent liquidity

Credit challenges

- » Weaker shareholder credit profile
- » Business risks around complex projects constrain rating
- » Increase in leverage due to factoring

Rating outlook

The stable outlook reflects Moody's expectation that CIMIC's credit profile will remain within the financial parameters set for the rating, and that the level of any problem contracts will remain manageable and within earnings guidance.

Factors that could lead to an upgrade

Upward pressure on the rating would arise only if Hochtief and ACS, excluding CIMIC, demonstrate materially stronger financial profiles. Moody's would also look to CIMIC maintaining adjusted debt/EBITDA below 2.0x, on a sustained basis.

Factors that could lead to a downgrade

The ratings could be downgraded if financial leverage and liquidity deteriorate, such that adjusted debt/EBITDA exceeds 3.0x on a sustained basis. The ratings could also come under pressure if liquidity (cash and undrawn facilities) fell below a level sufficient to meet the company's debt maturities over the next 12-18 months, or in the case of a material disruption to cashflow from one or more major contracts.

The incurrence of material losses on projects due to cost overruns may also place negative pressure on the rating; such a development may be evidenced by EBITA margins falling below 5% on a sustained basis. A material weakening in the credit quality and/or liquidity position of Hochtief on a standalone basis could also lead to a rating downgrade.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

Key indicators

Exhibit 2

CIMIC Group Limited

AUS\$ Millions	Dec-15	Dec-16	Dec-17	Dec-18	LTM (Jun-19)	12-18 month forecast
Revenue	13,273.0	10,846.7	13,429.5	14,670.2	14,687.9	15,000-16,000
EBITA	1,045.5	759.8	1,171.1	1,219.5	1,244.7	1,200-1,300
EBITA / Interest Expense	5.0x	6.0x	9.6x	6.9x	6.5x	6.0x-7.5x
Debt / EBITDA	1.4x	1.9x	1.2x	2.2x	2.1x	2.0x-2.5x
FFO / Debt	45%	55%	73%	42%	43%	35%-45%

[1] Moody's Forecasts (F) are Moody's opinion and do not represent the views of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.

[2] In 2015, John Holland was divested, while CIMIC reduced its stake in Ventia with the entity becoming a joint venture and de-consolidated from CIMIC's balance sheet.

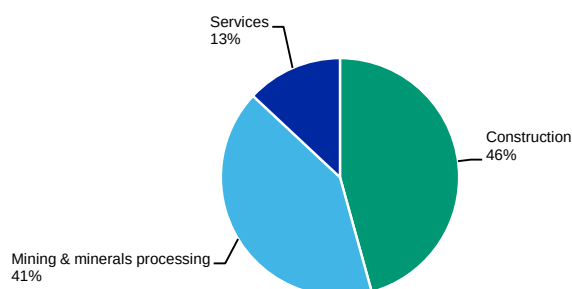
Source: Moody's Investors Service, Moody's Financial Metrics

Profile

Headquartered in Sydney, Australia, CIMIC Group Limited (CIMIC) is the largest construction and mining contractor in Australia. CIMIC operates across construction, mining and mineral processing, operation and maintenance services, public private partnerships and engineering. The Company operates in more than 20 countries throughout the Asia Pacific, the Middle East, North and South America and Sub-Saharan Africa.

Exhibit 4

EBIT contribution by segment (1H2019)



Note: Corporate segment excluded

Source: Company reports

Detailed rating considerations

Well-established market position

CIMIC holds a pre-eminent position in the Australian mining and construction industries. The depth and breadth of CIMIC's technical and management capabilities provide a high level of assurance that the company will be short-listed for most major infrastructure projects and mining contracts that involve both scale and complexity.

CIMIC has significant diversification across the civil, mining and building/construction sectors. In a normal business cycle, this diversification, combined with an extensive forward work book and good cash reserves, provides a sound buffer against problems being encountered in several jobs concurrently and slowdowns in any one sector or market.

CIMIC's market position provides it with the ability to win more contracts, particularly government-sponsored work. It also allows the company to market itself as a specialty provider of services in key areas such as infrastructure, tunneling and mining contracting. The spread, size and number of contracts at any point in time in the company's portfolio provide the company with a strong inherent risk

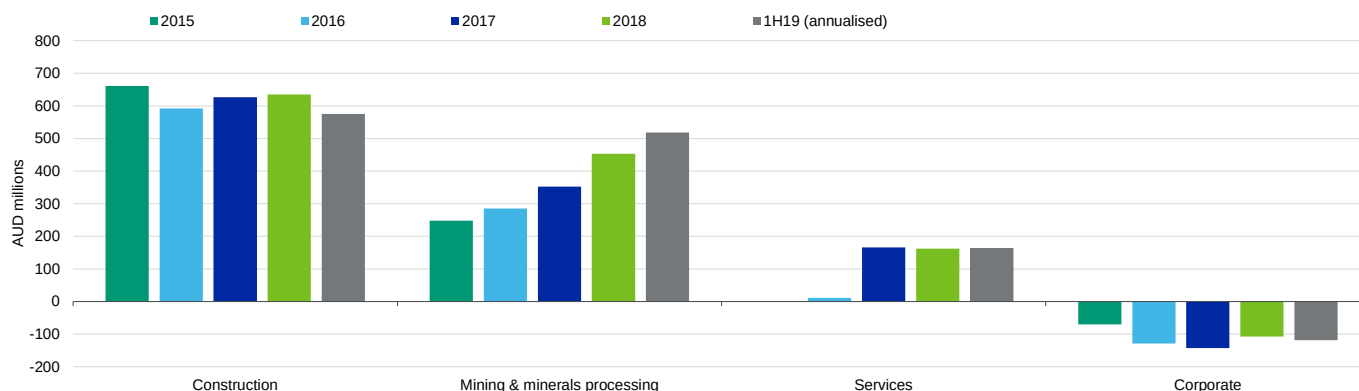
management tool, reducing exposure to any one subsector or counterparty. Additionally, CIMIC regularly delivers large infrastructure projects in joint venture, which helps to mitigate risk.

Large infrastructure projects, resilient resource sector activity and UGL acquisition support earnings growth

CIMIC achieved strong earnings growth during first half 2019, with the company delivering improved EBIT performance compared to first half 2018 across mining and mineral processing and services segments.

Exhibit 5

Solid operating performance across main segments EBIT from 2015 - 1H19 (annualized)



Note: Corporate includes PPPs, engineering, commercial and residential and BIC segments

Source: Company reports

In the first half of 2019, CIMIC's construction segment was impacted by weak operating conditions in Hong Kong. There was a 12% reduction in EBIT from the construction segment, driven in part by the ramp up of large scale transport infrastructure projects in Australia offset by market and trading conditions in Hong Kong.

The performance of the mining & minerals processing segment was particularly strong, with a 28% growth in EBIT. This segment benefited from resilient resource sector activity, with increased production levels and contract extensions. Margin performance across construction and mining divisions continue to be good as the company's disciplined focus on cost appears to have a positive impact.

CIMIC's Services segment, which includes the UGL business acquired in late 2016, adds a more recurring revenue source, providing a considerable uplift to overall earnings as well as increasing income diversity.

CIMIC has a substantial order book totaling AUD36.8 billion as of June 2019. This contractual work represents revenue for more than two years, which we consider to be good. While the order book provides support for future profitability, a track record of project delivery, on time and within budget, remains a key driver for the rating.

Business risks around complex projects constrain rating

CIMIC's exposure to large, complex engineering projects pose an inherent constraint to its rating, which is reflected in credit metrics that are materially stronger than those at the same rating level for other industries.

While CIMIC has had a number of issues relating to troublesome contracts at the beginning of the last decade, it now has a lower risk tolerance than in the past. The potential for material write-downs is also lower than in the past. Furthermore, a re-balanced portfolio of business activity, as well as a greater emphasis on partnering larger contracts, has lowered its overall risk profile. Improved risk-management practices and stricter oversight of contractual opportunities have strengthened contract execution and financial delivery.

Strong financial profile despite the increase in leverage due to factoring

In July 2019, CIMIC disclosed the amount of factoring it uses.

CIMIC also disclosed that it enters into supply chain factoring (or reverse factoring) with financial institutions for suppliers. These terms mirror normal credit terms and do not extend the credit period. Thus we do not view CIMIC's reverse factoring arrangements as having debt-like features and do not adjust leverage.

CIMIC's factoring is on a non-recourse basis, meaning CIMIC bears no liability for any uncollected invoices. CIMIC's construction business is mostly with Aaa-rated state and federal governments and will likely result in the continuation of factoring the receivables from these strong counterparties.

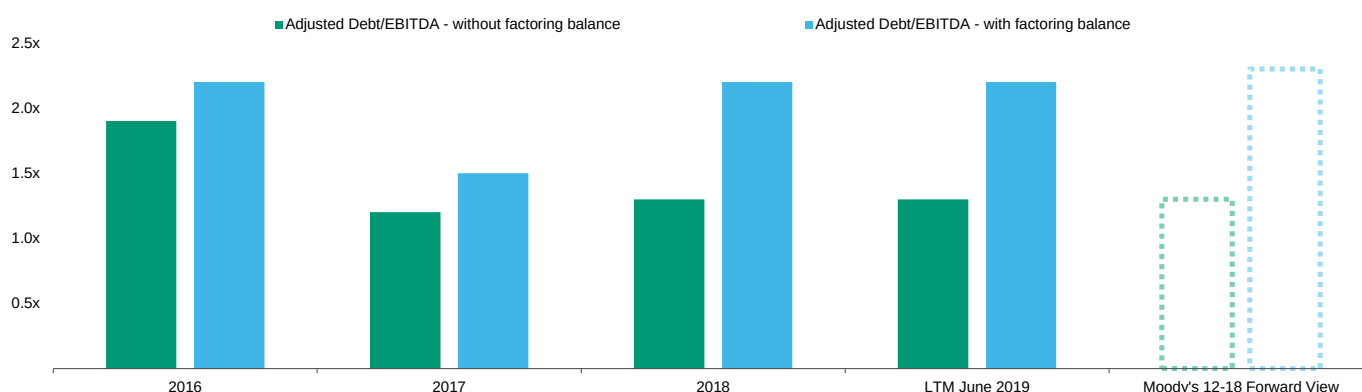
Despite the receivables factoring amount being non-recourse, we treat balance of around AUD2 billion as of June 2019 as a debt-like obligation. We make a standard assumption that if these programs do not continue and this source of funding becomes unavailable to a company, its liquidity could come under stress and exacerbate other problems.

CIMIC's increasing proportion of alliance-style projects against fixed-cost contracts would help explain the increase in its factoring balance. CIMIC incurs a cost at the start of construction under alliance contracts although the company is not paid upfront. As a result, factoring helps CIMIC to meet its working capital needs.

When CIMIC's receivables factoring balance is added to its borrowings, leverage measured by adjusted debt/EBITDA increases to around 2.2x for the 12 months ended June 2019 (LTM June 2019) from around 1.3x

Exhibit 6

Debt/EBITDa adjusted for factoring increases post 2018 given the high factoring balance



Source: Moody's Financial Metrics

Despite an increase in leverage, we expect CIMIC's strong business and financial profiles to drive its operating performance in the coming 12-18 months, which will underpin credit profile stability.

CIMIC's financial profile will continue to be strong. It has reported a net cash position since 2015, as well as EBITA/interest cover of around 8x-9x and adjusted gross debt (ex factoring)/EBITDA of around 1.2x-1.5x over the last two years. The company also maintained strong EBITDA to cash conversion levels. Adjusted for factoring, EBITDA to cash flow from operations conversion averaged 70% from 2015 to LTM June 2019.

Weaker shareholder credit profile and governance risk given large shareholding by Hochtief; albeit with mitigants in place

CIMIC is currently 72.7%-owned by HOCHTIEF, which is in turn 50.4%-owned by ACS. The rating therefore incorporates a degree of linkage between CIMIC and its parent entities. On a standalone basis, excluding CIMIC, both entities have financial profiles that are weaker than that of CIMIC.

However, we no longer see CIMIC's weaker parents, Hochtief AG and ACS, as a significant drag on CIMIC's rating. This is because the parents' credit profiles have improved in the last few years, ACS has reduced its effective CIMIC stake and the presence of sizeable minority shareholder Atlantia S.p.A (Baa3 RUR) likely constrains cash movement within the group.

A notable transaction in 2018 was the joint acquisition of Abertis Infraestructuras S.A (Abertis) by Hochtief, ACS and Atlantia A.p.A (Baa3 RUR downgrade). The transaction settled in October 2018, with Hochtief owning 20% less 1 share of Abertis, and ACS owning 30%. As part of the transaction, ACS also sold a 21.7% stake in Hochtief to Atlantia, resulting in its reduced shareholding of 50.4%.

Given Abertis's stable business profile as a toll road operator with high dividend payout, we expect this to benefit both ACS and Hochtief through steady dividend streams.

Since gaining control in 2014, CIMIC's majority shareholder, Hochtief has not attempted to extract cash through raising dividends at CIMIC. CIMIC's balance sheet has continued to improve with the company consistently holding a high level of cash in the AUD1.5- AUD2 billion range.

CIMIC faces high governance risk given the large shareholding by Hochtief. However, the presence of a sizeable minority shareholder, Atlantia should constrain cash movements within the group. Another level of protection for CIMIC's debt holders is in the provisions of the Corporations Act which provides a good measure of protection to the interests of minority shareholders.

Liquidity analysis

CIMIC's liquidity profile is excellent. Sources of liquidity include (1) unrestricted cash balance of around AUD1.5 billion; (2) expected operating cash flow under our base case of around AUD900 million over the next 12 months; and (3) access to undrawn debt facilities of AUD2.7 billion.

Expected liquidity uses over the next 12 months include: (1) adjusted capex of around AUD840 million; (2) dividends of around AUD515 million; and (3) debt maturities of around AUD290 million. These expected liquidity uses are well covered by liquidity sources.

Rating methodology and Scorecard factors

CIMIC maps to a Baa2 rating under the construction industry methodology, in-line with the Baa2 rating assigned.

Exhibit 7

Rating Factors

CIMIC Group Limited

Construction Industry Scorecard [1][2]			Current LTM 6/30/2019		Moody's 12-18 Month Forward View As of 8/21/2019 [3]	
Factor 1 : Scale (25%)	Measure	Score	Measure	Score	Measure	Score
a) Total Revenue (USD Billion)	\$10.5	Baa	\$10.9	Baa	\$10.9	Baa
b) EBITA (USD Billion)	\$0.9	Baa	\$0.9	Baa	\$0.9	Baa
Factor 2 : Business Profile (25%)						
a) Diversity	Baa	Baa	Baa	Baa	Baa	Baa
b) Expected Revenue & Margin Stability	Baa	Baa	Baa	Baa	Baa	Baa
Factor 3 : Leverage and Coverage (30%)						
a) EBITA / Interest Expense	6.5x	Baa	6.0x-7.5x	Baa	6.0x-7.5x	Baa
b) Debt / EBITDA	2.1x	Baa	2.0x-2.5x	Baa	2.0x-2.5x	Baa
c) FFO / Debt	42.7%	Baa	35%-45%	Ba	35%-45%	Ba
Factor 4 : Financial Policy (20%)						
a) Financial Policy	Baa	Baa	Baa	Baa	Baa	Baa
Rating:						
a) Indicated Outcome from Scorecard		Baa2		Baa2		Baa2
b) Actual Rating Assigned						Baa2

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.

[2] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.

Source: Moody's Investors Service, Moody's Financial Metrics

Ratings

Exhibit 8

Category	Moody's Rating
CIMIC GROUP LIMITED	
Outlook	Stable
Issuer Rating	Baa2
CIMIC FINANCE (USA) PTY LTD	
Outlook	Stable
Bkd Senior Unsecured	Baa2

Source: Moody's Investors Service

Appendix

Exhibit 9

Peer Comparison CIMIC Group Limited

	CIMIC Group Limited			Lendlease Group			Fluor Corporation		
	Baa2 Stable			Baa3 Negative			Baa2 Negative		
(in US millions)	FYE Dec-17	FYE Dec-18	LTM Jun-19	FYE Jun-17	FYE Jun-18	LTM Dec-18	FYE Dec-17	FYE Dec-18	LTM Jun-19
Revenue	\$10,296	\$10,968	\$10,509	\$12,558	\$12,834	\$11,684	\$19,521	\$19,167	\$17,746
EBITA	\$898	\$912	\$891	\$713	\$609	\$126	\$412	\$413	-\$446
Total Debt	\$1,926	\$3,217	\$3,379	\$1,978	\$2,108	\$2,718	\$3,094	\$2,278	\$2,323
Cash & Cash Equiv.	\$1,183	\$1,099	\$991	\$958	\$870	\$766	\$1,804	\$1,765	\$1,857
EBITA Margin	8.7%	8.3%	8.5%	5.7%	4.7%	1.1%	2.1%	2.2%	-2.5%
EBITA / Int. Exp.	9.6x	6.9x	6.5x	7.1x	5.6x	1.1x	4.5x	4.4x	-5.4x
Debt / EBITDA	1.2x	2.2x	2.1x	2.3x	3.0x	10.8x	4.1x	3.3x	-12.4x
FFO / Debt	73.4%	41.7%	42.7%	19.4%	20.9%	5.5%	23.7%	24.5%	-14.8%
RCF / Net Debt	148.5%	47.7%	46.5%	12.1%	13.4%	-6.0%	44.2%	73.0%	-109.1%

All figures are calculated using Moody's estimates and standard adjustments.

Source: Moody's Financial Metrics

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