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S&P GLOBAL RATINGS BULLETIN - CIMIC GROUP

Please find attached a copy of an S&P Global Ratings Bulletin regarding CIMIC Group Limited, parent company of CIMIC Finance Limited and CIMIC Finance (USA) Pty Limited.

Yours faithfully
CIMIC GROUP LIMITED

Company Secretary

Bulletin:

Legacy Project Issues Weigh On CIMIC

August 25, 2024

This report does not constitute a rating action.

MELBOURNE (S&P Global Ratings) Aug. 26, 2024--Revenue adjustments related to legacy major projects will erode the profitability and leverage metrics of Australia-based construction and engineering firm CIMIC Group Ltd. This will have more of a bearing on CIMIC's credit quality on a stand-alone basis than our rating (BBB-/Stable/A-3), which is linked to the company's Spanish parent.

CIMIC has made an A\$800 million revenue adjustment reported in the first half (year ending June), reflecting mainly the settlement of claims for completed projects mostly in Asia, reversing previously recognized revenue. This does, however, improve liquidity because it accelerates cash flow through the collection of receivables and the release of restricted cash. The revenue adjustment also accounts for a reduction in revenue and receivables associated with some of its remaining, live major fixed-price contracts in Australia.

We also note CIMIC reported a \$972 million capital gain associated with the April 2024 acquisition of 10% of Thiess Group Holdings Pty Ltd. (Thiess). While this is included in statutory profit, we do not include this amount in our earnings calculation.

Accordingly, CIMIC's leverage for fiscal 2024 is likely to be well above our 2.5x expectation for the company's 'bbb-' stand-alone credit profile (SACP). Nevertheless, several factors lead us to expect leverage to revert to below 2.5x by fiscal 2025. These include the solid underlying performance of the construction business; and our expectation CIMIC will benefit from the conversion of its growing work-in-hand book of A\$39.5 billion.

Further, the group will benefit from the greater earnings contribution of its services business (which accounts for about 31% of revenue) and Thiess Group Holdings Pty Ltd. (Thiess). Given CIMIC now owns 60% Thiess, it is now consolidated in CIMIC's accounts.

Notwithstanding our expectations CIMIC's leverage will improve, the SACP is under pressure from leverage being outside our expectations for it. As such, there is limited capacity for the SACP to accommodate:

- Further weakness in profitability that undermines the expected improvement in debt-to-EBITDA in fiscal 2025;
- Further material cost overruns, write-downs or provisions on major fixed-price projects;
- Additional meaningful debt-funding of acquisitions or equity investments; or

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- Adverse working capital movements, weaker cash conversion levels or an increase in factoring of receivables, which we add to debt. We note factoring of A\$784 million was reported for the 2024 half-year compared with about A\$482 million at 2023 year-end.

Our 'BBB-' long-term issuer credit ratings on CIMIC continue to reflect CIMIC's status as a core subsidiary of the Spain-based construction group Actividades de Construcción y Servicios SA (ACS).

Related Research

- CIMIC Group Ltd. 'BBB-' Rating Affirmed On Increased Thiess Ownership; Outlook Stable, May 29, 2024

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