



CIMIC Group Limited
ABN 57 004 482 982

Level 25, 177 Pacific Highway
North Sydney, NSW 2060 Australia

PO Box 1002
Crows Nest, NSW 1585 Australia

T +61 2 9925 6666

F +61 2 9925 6000

cimic.com.au

6 June 2024

Singapore Exchange
www.sgx.com

CIMIC GROUP LTD. 'BBB-' RATING AFFIRMED ON INCREASED THIESS OWNERSHIP; OUTLOOK STABLE

S&P Global has affirmed the BBB- rating of CIMIC Group Limited and maintained the stable outlook.

The S&P Global announcement is appended.

Sincerely,

CIMIC GROUP LIMITED

T +61 2 9925 6666

F +61 2 9925 6000

Research Update:

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

May 29, 2024

Rating Action Overview

- Australia-based construction group CIMIC Group Ltd. has increased its ownership in mining services business Thiess Group Holdings Ltd. to 60% from 50%. Elliott Investment Management L.P. continues to own the remaining 40% of Thiess.
- This transaction has reduced the group's structural complexity and increased the likelihood of CIMIC moving toward full ownership of Thiess. We now fully consolidate Thiess in our forecasts for CIMIC. Our base case assumes an adjusted debt-to-EBITDA ratio of below 2.5x for the next two years.
- We revised upward our assessment of CIMIC's business risk profile to satisfactory from fair. We also revised CIMIC's anchor to 'bbb-' from 'bb+'. This reflects the company's greater economic interest and operational benefits of majority ownership of Thiess.
- On May 30, 2024, we affirmed our 'BBB-' long-term issuer and issue credit ratings on CIMIC and its rated debt instruments.
- The stable outlook on CIMIC reflects that on its ultimate parent, Spain-based construction group Actividades de Construcción y Servicios SA (ACS). This is because we continue to view CIMIC as a core subsidiary of the ACS group.

PRIMARY CREDIT ANALYST

Puchen Wang
Melbourne
(61) 3-9631-2099
puchen.wang
@spglobal.com

SECONDARY CONTACT

Richard P Creed
Melbourne
+ 61 3 9631 2045
richard.creed
@spglobal.com

Rating Action Rationale

The 10% ownership increase in Thiess is incremental but enhances the economic and operational interest of CIMIC toward full ownership of Thiess. Elliott continues to hold a put option to sell its remaining 40% stake in Thiess to CIMIC between April 2025 and December 2026. We believe the stake acquisition signals CIMIC's intention to seek full ownership.

The transaction has also reduced the group's structural complexity and raised CIMIC's operational control over Thiess. Accordingly, we fully consolidate Thiess in our adjusted credit metrics.

The terms of the put option are such that Elliott will likely exercise the put, in our opinion. This could result in CIMIC owning 100% of Thiess by the end of the put option in December 2026. Our more favorable view of CIMIC's business risk reflects this potential full control of Thiess.

Thiess adds to scale, diversity, and operational capability. The company is one of the largest contract mining service providers globally for both surface and underground contract mining. Since CIMIC sold a 50% stake in Thiess to Elliott in 2020, Thiess has continued to grow organically and through acquisitions. The company's revenue jumped to A\$5.9 billion in fiscal 2023 from A\$3.4 billion in fiscal 2020.

Additionally, as CIMIC increasingly focuses on energy transition, the inclusion of Thiess will broaden the group's service offerings across the energy transition value chain. Mining services are a capability that no other division within CIMIC or the wider ACS group offers. As of fiscal 2023, CIMIC had A\$31.7 billion of work-in-hand, with Thiess accounting for about 23%.

Thiess also brings financial benefits to CIMIC. Lower leverage at Thiess and reduced obligations under the Elliott preference shares underpin our view that CIMIC's 10% acquisition will benefit the financial profile of the CIMIC group and by extension, the ACS group.

Also, Thiess has more stable and predictable cash flow than CIMIC. We forecast Thiess will continue to contribute about 30% to the consolidated group's revenue and 60% to its adjusted EBITDA in fiscal 2024-2025.

(For further details, see CIMIC Group Ltd., March 4, 2024 and Thiess Group Holdings Pty Ltd., May 20, 2024).

Our 'bbb-' stand-alone credit profile for CIMIC is contingent on the company's supportive financial policy and prudent capital management, such that it maintains an adjusted debt-to-EBITDA ratio of below 2.5x. Given the inherently cyclical nature and operating risks of the construction sector, a supportive financial policy is key to the company's credit profile.

We expect management to remain committed to maintaining such a level of SACP and take measures to support capital structure when necessary. In our view, CIMIC will manage cash flow, working capital, and dividends to keep liquidity strong.

Our base case assumes an S&P Global Ratings-adjusted debt-to-EBITDA ratio of below 2.5x for fiscal 2024, with an improved buffer in fiscal 2025. Nevertheless, credit metrics could be weaker due to weaker margins at Thiess. The latter reflects cost pressures on the mining industry and Thiess' acquisition of MACA Ltd., which has lower margins.

Also, CIMIC experienced adverse ground conditions at its M6 Motorway Stage 1 project in Sydney, which led to the formation of sinkholes in March 2024. Potential cost implications from any remediation work are unclear at this point. This project has a fixed price and the company expects to complete it on time in 2025.

Outlook

The stable outlook on CIMIC reflects the outlook on the ultimate parent, ACS, given our view that CIMIC and its immediate parent, Hochtief AG, are core subsidiaries of the ACS group. We therefore equalize the ratings and outlook on CIMIC with those on the ultimate parent.

The stable outlook on ACS and its core subsidiaries reflects our view that resilient operating performance and a high order backlog should help ACS cope with inflationary pressure and a potential macroeconomic slowdown. This should translate into an adjusted FFO-to-debt ratio of 25%-30%, which is within the threshold for the rating, albeit with modest headroom for potential operational headwinds because of recent sizable reinvestments.

Still, we anticipate that further business-accretive, prudently sized transactions, such as those

that further reduce the group's complexity and increase concessions exposure, could weigh on metrics, but without prompting a downgrade.

Downside scenario

We could lower the rating on CIMIC if the rating on ACS were to be lowered. This may occur at the current business perimeter, if ACS' adjusted FFO-to-debt ratio falls below 25% amid deteriorating market conditions, without near-term recovery prospects. Additional large investments without a corresponding business profile improvement, or the adjusted FFO-to-debt ratio falling below 20%, would likely also lead to a negative rating action.

Downside rating pressure could also occur if our assessment of the importance of CIMIC to the ACS group weakens, together with a weaker SACP for CIMIC.

Upside scenario

Rating upside on CIMIC is contingent on a rating uplift for ACS. This may occur if the ACS group's clear commitment to more conservative financial policies translated into an adjusted FFO-to-debt ratio comfortably above 30% at all times.

Company Description

CIMIC is an engineering-led global infrastructure company with core activities across infrastructure and resource projects mainly in Australia and Asia-Pacific. The company provides end-to-end solutions cross various sectors, including civil infrastructure (roads, railways, tunnels, and airports), social infrastructure (hospitals and public transportation), digital infrastructure (data centers and wireless networks), power and energy (utility-scale wind, solar farms, battery storage, and transmission lines), and resource facilities (oil and gas installations).

CIMIC's construction and energy transition operations are primarily conducted through its subsidiaries.

CIMIC, through its Thiess joint venture (JV), also provides contract mining services for metallurgical and thermal coal, iron ore, gold, nickel, and copper production. In April 2024, CIMIC raised its ownership in Thiess to 60% from 50% by acquiring 10% of preference shares and ordinary shares from its JV partner, Elliott. The group also provides design, construction, and operation of mineral processing plants and associated mine site infrastructure through its 100% owned subsidiary Sedgman Pty Ltd.

CIMIC is a subsidiary of Hochtief, which now owns 100% of CIMIC after taking over minority shareholdings in 2022. The ultimate parent is ACS, which owned about 76% of Hochtief as of Dec. 31, 2023.

Our Base-Case Scenario

With CIMIC's ownership in the Thiess JV now at 60%, we fully consolidate Thiess (previously proportionally consolidated). We reflect the change in the following assumptions and forecasts.

Assumptions

- Australia's real GDP growth of 1.4% in 2024 and 2.3% in 2025;
- Revenue growth of about 10% in fiscal 2024-2025 for CIMIC. Contract growth in construction, services, mining, and energy transition sectors to be partially offset by slowing civil and transport infrastructure spending by state governments;
- Revenue growth of 5%-7% for Thiess in fiscal 2024-2025. Drivers to be contract renewals and new contract wins from MACA's customer base;
- Adjusted group EBITDA margin of 11%-12% for the next two years as the group executes its projects, moderated by higher costs such as labor expenses;
- Group work-in-hand of A\$31.7 billion as of Dec. 31, 2023;
- Effective tax rate of about 30%;
- CIMIC's dividend distributions of 50% of net profit after tax in fiscal 2024 and 65% in fiscal 2025;
- Trade receivable securitizations (net of cash withheld) of A\$250 million-A\$275 million in fiscal 2024-2025;
- Working capital outflow to average about A\$150 million per annum in fiscal 2024-2025;
- Adjusted gross capital expenditure (capex), including Thiess, of A\$0.9 billion-A\$1.0 billion in fiscal 2024-2025; and
- Acquisitions of about A\$350 million, including the 10% stake purchase in Thiess, in fiscal 2024. Acquisitions of A\$100 million in fiscal 2025.

Key metrics

CIMIC Group Ltd.--Forecast summary

Industry sector: Engineering & construction

(Mil. A\$)	--Fiscal year ended Dec. 31--			
	2022a	2023a	2024e	2025f
Revenue	13,062	16,231	20,900	22,700
CIMIC	11,087	13,279	14,640	16,050
Thiess JV	1,975	2,951	6,260	6,650
Annual group revenue growth (%)		24.3		8.6
CIMIC		19.8		9.6
Thiess JV		49.4		6.2
EBITDA	1,330	1,539	2,400	2,650
CIMIC	813	870	940	1,075
Thiess JV	517	669	1,460	1,575
EBITDA margin (%)	10.2	9.5	11.5	11.7
CIMIC	7.3	6.5	6.4	6.7

CIMIC Group Ltd.--Forecast summary (cont.)

Thiess JV	26.2	22.7	23.3	23.7
Net Debt	3,970	3,296	5,850	6,000
CIMIC	2,297	1,547	2,350	2,350
Thiess JV	1,673	1,749	3,500	3,650
Adjusted ratios				
Debt/EBITDA (x)	3.0	2.1	2.4	2.3
FFO/debt (%)	22.4	32.2	24.9	27.3
EBITDA interest coverage (x)	3.8	3.2	3.4	3.7
FOCF/debt (%)	13.6	5.9	6.5	10.3
Return on capital (%)	16.7	16.7	18.1	15.9

All figures include S&P Global Ratings adjustments' unless stated as reported. Forecasts are midpoint estimates of likely ranges. a--Actual. e--Estimate. f--Forecast.

CIMIC will have modest headroom in credit metrics within our SACP assessment. The company has transitioned its portfolio to lower-risk, alliance-type projects in recent years. As such, we expect greater earnings stability in the future.

Nevertheless, our adjusted debt-to-EBITDA ratios of 2.4x for fiscal 2024 and 2.3x for fiscal 2025 incorporate a buffer to manage potential cost overruns to deliver the remaining major fixed-price contracts due for completion over the next 18 months or so. These include the West Gate Tunnel in Melbourne, M6 Motorway Stage 1 in Sydney, and Cross River Rail Tunnel in Brisbane.

Our projections also include our latest forecasts for Thiess. We have revised our adjusted EBITDA margin for Thiess following its release of fiscal 2023 results.

(For further details, see CIMIC Group Ltd., March 4, 2024 and Thiess Group Holdings Pty Ltd., May 20, 2024).

Liquidity

We view CIMIC's stand-alone liquidity as strong. We forecast sources of liquidity will cover uses by more than 1.5x over the 12 months ending Dec. 31, 2024. Also, we expect sources less uses to remain positive even if EBITDA declines 30%. This reflects the group's large cash reserves and cash flow, which will more than offset short-term debt maturities and seasonal and nonseasonal working capital outflows inherent to the industry.

We also view the group as having sufficient covenant headroom and prudent risk management policies aimed at maintaining a strong liquidity position. The company continues to diversify funding sources and utilize revolving-credit facilities for working capital and standby liquidity. Our liquidity assessment incorporates CIMIC's ability to manage capex and asset disposals to support its liquidity needs.

Our key assumptions for CIMIC's sources and uses of liquidity over the 12 months ending Dec. 31, 2024, are as follows:

Principal liquidity sources:

- Accessible cash* and cash equivalents of about A\$2.9 billion as of March 2024;
- Available undrawn committed credit lines of A\$1.4 billion with maturities greater than one year; and
- Cash FFO that we forecast at about A\$500 million.

Principal liquidity uses:

- Solid cash conversion means working capital to be neutral to modestly negative of about A\$200 million.
- Acquisitions of about A\$350 million, including the 10% stake purchase in Thiess;
- Gross capex of about A\$220 million; and
- Dividend distributions of about 50% of net profit after tax.

*We assume CIMIC has retained proceeds from its recent US\$650 million senior notes on the balance sheet for general corporate purposes, including debt repayment and funding for the additional 10% stake in Thiess.

Covenants

Most of CIMIC's facilities are subject to the following covenants:

- Total liabilities plus 50% of contingent liabilities divided by total assets to be less than 125%
- Net debt-to-EBITDA ratio of less than 3.0x
- EBITDA-to-interest charges ratio of above 3.0x

Environmental, Social, And Governance

Environmental factors are an important consideration in our credit rating analysis of CIMIC. This reflects the company's exposure to waste management and carbon emissions as a leading player in the engineering and construction sectors, and its exposure to commodity mining, particularly coal, through its mining services.

CIMIC aims to reach net zero emissions for Scope 1 and Scope 2 by 2038, and for Scope 3 by 2045. The group is on track to meet its target for reducing Scope 1 and Scope 2 emissions by 20% from 2019 levels by 2025.

In our view, successful decarbonization efforts are intrinsically linked to enhancing CIMIC's business. For instance, we consider CIMIC to have more control over its Scope 1 and Scope 2 emissions. This is given the emissions are largely a function of operational activities. Accordingly, efficient energy management would yield environmental benefits while also lowering operational costs for the business.

In April 2024, CIMIC increased its ownership in Thiess to 60% from 50%. Elliott retains a put option to sell its 40% stake in Thiess back to CIMIC between April 2025 and December 2026. We believe

the terms of the put option are such that Elliott will likely exercise the put. This could lead to CIMIC owning 100% of Thiess by the end of the put option in December 2026.

If this scenario occurs, CIMIC would have increased exposure to thermal coal. Thermal coal comprised 33% of Thiess' revenue in fiscal 2023. That said, Thiess continues to diversify away from coal to other critical mineral contracts. The company is ahead of schedule to lower its thermal coal exposure to below 25% in 2027. It has also set a new target to decrease exposure to under 20% by 2030.

From a social risk perspective, the group's large workforce and nature of activities expose the group to material health and safety risks. That said, the group has appropriate health and safety risk management systems and processes in place to manage these risks.

Issue Ratings - Subordination Risk Analysis

The issue ratings on CIMIC's debt instruments, including the recent US\$650 million guaranteed senior notes, are 'BBB-'. This reflects our view that the company's lenders are not materially disadvantaged by debt located in its income-generating subsidiary at Thiess.

Ratings Score Snapshot

Issuer Credit Rating	BBB-/Stable/A-3
Business risk:	Satisfactory
Country risk	Low
Industry risk	Moderately high
Competitive position	Satisfactory
Financial risk:	Intermediate
Cash flow/leverage	Intermediate
Anchor	bbb-
Modifiers:	
Diversification/Portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Strong (no impact)
Management and governance	Neutral (no impact)
Comparable rating analysis	Neutral
Stand-alone credit profile:	bbb-
Group credit profile	bbb-
Entity status within group	Core (no impact)

Related Criteria

- Criteria | Corporates | General: Sector-Specific Corporate Methodology, April 4, 2024

- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria | Corporates | General: The Treatment Of Non-Common Equity Financing In Nonfinancial Corporate Entities, April 29, 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Thiess Group Holdings Pty Ltd., May 20, 2024
- CIMIC Group Ltd., March 4, 2024
- Thiess Group 'BB+' Rating Affirmed On Strengthened Financial Profile; Stand-Alone Credit Profile Revised Up To 'bb', March 1, 2023

Ratings List

Ratings Affirmed	
CIMIC Group Ltd.	
Issuer Credit Rating	BBB-/Stable/A-3
Thiess Group Holdings Pty Ltd.	
Issuer Credit Rating	BB+/Stable/--
CIMIC Group Ltd.	
Senior Unsecured	BBB-
CIMIC Finance (USA) Pty Ltd.	
Senior Unsecured	BBB-
CIMIC Finance Ltd.	
Senior Unsecured	BBB-

Research Update: CIMIC Group Ltd. 'BBB-' Rating Affirmed On Increased Thiess Ownership; Outlook Stable

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.spglobal.com/ratings for further information. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings.

S&P Global Ratings Australia Pty Ltd holds Australian financial services license number 337565 under the Corporations Act 2001. S&P Global Ratings' credit ratings and related research are not intended for and must not be distributed to any person in Australia other than a wholesale client (as defined in Chapter 7 of the Corporations Act).

Copyright © 2024 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.spglobal.com/ratings (free of charge), and www.ratingsdirect.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.spglobal.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.