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

23 May 2018

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

CIMIC GROUP OUTLOOK UPGRADED TO STABLE BY STANDARD & POOR'S

Standard & Poor's has upgraded the outlook for CIMIC Group to stable and affirmed its credit rating at BBB / A-2.

The S&P Global Ratings announcement is appended.

Sincerely,

CIMIC GROUP LIMITED
T +61 2 9925 6666
F +61 2 9925 6000

S&P Global
Ratings

RatingsDirect®

Research Update:

Outlook On CIMIC Group Ltd. Revised To Stable Following Similar Action On Parent; 'BBB/A-2' Ratings Affirmed

Primary Credit Analyst:
Craig W Parker, Melbourne (61) 3-9631-2073; craig.parker@spglobal.com

Secondary Contact:
Ieva Erkule, Melbourne (61) 3-9631-2085; ieva.erkule@spglobal.com

Table Of Contents

Research Update:

Outlook On CIMIC Group Ltd. Revised To Stable Following Similar Action On Parent; 'BBB/A-2' Ratings Affirmed

Overview

- We recently revised the rating outlook on CIMIC's immediate Germany-based parent Hochtief AG and its ultimate Spain-based parent ACS to stable from negative, after ACS and competitor Atlantia agreed to jointly acquire Spanish toll-road operator Abertis.
- We continue to consider CIMIC to be a core subsidiary of Hochtief and ACS.
- As a result, we are revising the outlook on CIMIC to stable from negative, in line with our outlook revision on Hochtief and ACS.
- At the same time, we are affirming the long-term and short-term issuer credit ratings on CIMIC at 'BBB/A-2'.

Rating Action

On May 16, 2018, S&P Global Ratings revised the outlook to stable from negative on CIMIC Group Ltd., an Australian engineering and construction (E&C) company. At the same time, we affirmed the long- and short-term issuer credit ratings of 'BBB/A-2' on the company.

Rationale

We revised the outlook to stable on CIMIC following the same action on the company's Germany-based parent, Hochtief AG, because CIMIC remains a core subsidiary of the parent group. The outlook revision on CIMIC is not reflective of any change in the underlying performance of CIMIC's stand-alone credit quality.

On May 15, 2018, we revised the outlook on Hochtief to reflect the same action on its ultimate Spain-based parent, Actividades de Construcción y Servicios S.A. (ACS), following the group's investment in Abertis Infraestructuras S.A. (Abertis), jointly with Atlantia. After the transaction, Abertis will be held by a special-purpose vehicle (SPV), of which Atlantia will own 50% plus one share, ACS will own 30%, and Hochtief 20% minus one share. We view the transaction as positive for the ACS group because it will add diversification and stability to the group's profitability and operating cash flow. The outlook revision also reflects our understanding that ACS will retain control of Hochtief, and that ACS has avoided a bidding war with Atlantia over

Abertis. For full details, see "Spanish Civil Engineering Firm ACS Outlook Revised To Stable On Joint Acquisition Of Abertis; 'BBB/A-2' Ratings Affirmed," published May 15, 2018, on RatingsDirect.

Although ACS will retain majority control over Hochtief, its ownership will be diluted to 50.1% from 71.7%. However, we expect ACS will keep control of Hochtief's annual general meeting and continue appointing Hochtief's top management. We continue to assess Hochtief as a core subsidiary of the ACS group because of its strong contribution: In 2017, it contributed 65% of revenues and 60% of adjusted EBITDA. Since 2011, ACS has significantly strengthened its integration with Hochtief, and aligned strategy and risk management within the consolidated group. This was further reinforced in May 2017, when Marcelino Fernández Verdes was appointed CEO of ACS while remaining CEO of Hochtief.

ACS and Hochtief's joint investment in the Abertis SPV is further indication that parent ACS is continuing to drive Hochtief's strategy and to influence the subsidiary's creditworthiness. As such, we do not view Hochtief as an insulated subsidiary within the ACS group, even though there are significant minority shareholders.

Hochtief's governance structure will likely be more complex after the transaction, and the presence of sizable minority shareholders will likely constrain cash movement within the ACS group. Furthermore, a significant part of Hochtief's dividends and cash flow will belong to minority shareholders. To determine the ACS group's credit profile and metrics, we still use ACS' balance sheet, income statement, and cash flow, which fully consolidate Hochtief, but we reflect the complex group structure and potential constraint on cash movement by haircutting Hochtief's excess cash over debt when calculating our adjusted debt figure for ACS. We also note that, based on 2017 data, ACS' funds from operations (FFO) to debt would be about four to five percentage points weaker if we were to consolidate Hochtief on a proportional basis, which would reflect more properly ACS' economic interest in Hochtief after the transaction. As a result, we believe that FFO to debt of above 30%, based on the ACS group's fully consolidated data, would be commensurate with the current 'BBB' rating.

Our ratings on ACS reflect the group's large size, geographic and business diversity, leading positions in construction markets in several countries, and ability to implement large and technically complex projects that help to offset the typical high volatility and low entry barriers in the construction business. ACS' financial leverage metrics have improved significantly over the past few years, reflecting the group's strategic decision to significantly reduce its exposure to concessions and adopt a light business model. The group focused on debt reduction through noncore asset disposals and group streamlining. Our ratio of adjusted FFO to debt for the group stood at 31% in 2016-2017, up from 23.9% in 2015 and 12.7% in 2014. We believe that ACS' credit metrics will temporarily weaken in 2018 as result of the cash disbursement for Abertis, and then recover in 2019-2020, when the group will start benefiting from dividend streams from Abertis.

Our stand-alone credit profile on CIMIC reflects the company's solid market position in Australia's infrastructure construction and contract mining sectors. In addition, it has significant business, industry, project, and geographic diversity. However, it is exposed to competitive and cyclical-heavy E&C sectors and to mining contracts that are inherently large and complex.

Outlook

The stable outlook on CIMIC reflects that on Hochtief. The stable outlook on Hochtief reflects the outlook on ACS. In our view, ACS' adjusted FFO to debt will temporarily decline to about 24%-26% in 2018 and then recover to above 30% starting in 2019, reflecting the benefit of dividends from the Abertis SPV. We expect that ACS' performance will further improve in 2018-2019, thanks to a focus on cash flow generation and disciplined working capital management. We forecast the group's adjusted EBITDA margins at 7.0% in 2018, underpinned by an already secured backlog and intake of new projects, improving to about 7.5% in 2019. We view positively ACS' commitment to maintaining a conservative financial policy.

Downside scenario

We could lower our ratings on Hochtief if we downgraded ACS, for example if ACS' adjusted FFO to debt did not recover as we expect, and instead was materially below 30% and discretionary cash flow (DCF) to debt was materially below 10%, without short-term recovery prospects. In our view, this could result from a significant project setback that might increase working capital, significantly lower dividends from the Abertis SPV than in our base-case scenario, or a much higher equity investment in the SPV than expected.

Pressure on the ratings could also arise from markedly higher debt, owing, for instance, to unexpected sizable acquisitions or higher shareholder returns than in our base-case scenario. Weakening of liquidity would also weigh on the ratings. In our base-case scenario, we assume that the ACS group will not control the Abertis SPV, but will control Hochtief.

Upside scenario

An upgrade is unlikely in 2018 or 2019, in the absence of a track record of dividends received from the Abertis SPV. Beyond this horizon, we could raise the ratings if ACS committed to a more conservative financial policy, and we observed a track record of the group maintaining stronger credit metrics, including FFO to debt comfortably above 40% and DCF to debt close to 15%.

Ratings Score Snapshot

Issuer Credit Rating: BBB/Stable/A-2

Business risk: Satisfactory
- Country risk: Low risk

- Industry risk: Moderately high risk
- Competitive position: Satisfactory

Financial risk: Minimal
- Cash flow/Leverage: Minimal

Anchor: a-

Modifiers
- Diversification/Portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Liquidity: Strong (no impact)
- Financial policy: Negative (-1 notch)
- Management and governance: Satisfactory (no impact)
- Comparable rating analysis: Neutral (no impact)

Stand-alone credit profile: bbb+
- Group credit profile: bbb
- Entity status within group: Core subsidiary

Related Criteria

- Criteria - Corporates - General: Reflecting Subordination Risk In Corporate Issue Ratings, Sept. 21, 2017
- 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
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Corporates - Industrials: Key Credit Factors For The Engineering And Construction Industry, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- Hochtief AG Outlook Revised To Stable On Parent Company's Joint Acquisition Of Abertis; 'BBB/A-2' Ratings Affirmed, May 15, 2018
- Spanish Civil Engineering Firm ACS Outlook Revised To Stable On Joint Acquisition Of Abertis; 'BBB/A-2' Ratings Affirmed, May 15, 2018

Ratings List

Ratings Affirmed; CreditWatch/Outlook Action

	To	From
CIMIC Group Ltd.		
Issuer Credit Rating	BBB/Stable/A-2	BBB/Negative/A-2

Ratings Affirmed

CIMIC Group Ltd.	
Senior Unsecured	BBB
CIMIC Finance (USA) Pty Ltd.	
Senior Unsecured	BBB
CIMIC Finance Ltd.	
Senior Unsecured	BBB
CPB Contractors Pty Ltd.	
Senior Unsecured	BBB
Sedgman Pty Ltd.	
Senior Unsecured	BBB
Thiess Pty Ltd.	
Senior Unsecured	BBB
UGL Pty Ltd.	
Senior Unsecured	BBB

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.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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).