



ASX Release

22 February 2021

Moody's rating outlook revised to stable

Moody's Investors Service (Moody's) has affirmed the credit rating of 'Baa2' for Boral Limited (ASX:BLD) and revised Boral's rating outlook from negative to stable.

In its report, Moody's noted *"Boral recently introduced a well-articulated framework on financial leverage and return on capital. These prudent measures will have implications for the company's financial strategy and risk management, a key component in our governance risk assessment framework. Today's rating action considers the impact of Boral's governance practices on its credit profile, which Moody's views as credit positive."*

Boral's CEO & Managing Director, Zlatko Todorcevski, said:

"Boral welcomes the decision by Moody's to reaffirm its investment grade credit rating and revise the company's rating outlook to stable, recognising the commitment and work undertaken to strengthen Boral's balance sheet and reduce leverage".

"We remain focused on cash generation and disciplined allocation of capital, recognising that maintaining a strong balance sheet is in the best interests of debt and equity investors. It provides flexibility to withstand headwinds and take advantage of opportunities throughout the cycle."

"We are currently targeting to reduce Boral's net debt to \$1.5 billion. We expect that Boral's net debt position will fall below target when we receive the proceeds from the sale of Boral's 50% interest in the USG Boral and Meridian Brick joint ventures, which are expected this financial year. This will create a surplus of approximately \$1 billion, which will be available to reinvest or return to shareholders."

A copy of the Moody's Investor Service Ratings report is attached.

Authorised for lodgement by Dominic Millgate, Company Secretary.

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Rating Action: Moody's affirms Boral's Baa2 ratings, revises outlook to stable

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Sydney, February 22, 2021 -- Moody's Investors Service has affirmed Boral Limited's Baa2 issuer rating as well as its (P)Baa2 senior unsecured medium-term note program rating. At the same time, Moody's has also affirmed the Baa2 backed senior unsecured ratings on Boral Finance Pty Limited and Boral Industries Inc.

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The outlooks on all ratings were changed to stable from negative.

"The change in Boral's outlook to stable reflects Moody's expectation the company's credit metrics will recover to within rating tolerance thresholds over the next 12-18 months," says Saranga Ranasinghe, a Moody's Vice President and Senior Analyst.

"The company's updated financial framework will allow Boral to build rating headroom and better weather the inherent cyclicity in the building and construction materials sector," adds Ranasinghe.

RATINGS RATIONALE

Despite a decline in revenue and earnings during the period, Boral's results for the six months ended December 2020 exceeded Moody's initial expectations.

Moody's expects Boral's Australian operations to benefit from the stimulus measures that are supporting infrastructure and detached housing construction, partially offset by near-term weakness in multi-family dwelling and nonresidential construction activity. Moody's also expects Boral to benefit from the strengthened US housing, repair and remodel market.

Moody's expects an improvement in the company's credit metrics, supported by an improvement in earnings and lower net debt with proceeds from asset sales. Boral's gross debt/EBITDA for the 12 months ended December 2020 was around 3.4x and net debt/EBITDA was 2.7x.

Boral recently introduced a well-articulated framework on financial leverage and return on capital. These prudent measures will have implications for the company's financial strategy and risk management, a key component in our governance risk assessment framework. Today's rating action considers the impact of Boral's governance practices on its credit profile, which Moody's views as credit positive.

Moody's expects all capital management decisions to be guided by the framework, going forward. Any deviation from the publicly announced framework would be credit negative.

Boral's net debt at December 2020 was higher than the target under the new financial framework at AUD1.94 billion (inclusive of leases). Proceeds from already announced asset sales, if completed as announced, will reduce the company's net debt below the threshold set by the financial framework. Moody's believes the company will either reinvest and/or return to shareholders any funds that are in excess of its AUD1.5 billion net debt target. Moody's also expects the company to repay its debt facilities and reduce gross debt levels when it is economically optimal to do.

Boral's credit profile benefits from its solid and leading market positions in diverse product lines, including cement, concrete, quarry products, plasterboard, asphalt and roofing products. The rating also benefits from the company's geographic diversification, with operations in Australia, Asia and a significant presence in the US.

At the same time, the rating also recognizes ongoing risks from the pandemic, risk of delays in major infrastructure projects, potential for prolonged weakness in multi-family and nonresidential construction and Boral's limited pricing power in a competitive market.

Liquidity

Boral has an excellent liquidity profile. The company's primary sources of liquidity include the group's operating cash flow, which we expect to be AUD550 million-AUD600 million over the next 12 months and cash balances of AUD558 million as of 31 December 2020. Liquidity is also supported by committed undrawn facilities of around AUD1.3 billion as of 31 December 2020.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) CONSIDERATIONS

Boral's ratings take into account environmental, social and governance factors.

Building materials, especially fly ash and concrete, have high carbon emissions. The sector is subject to numerous environmental laws and regulations pertaining to health, safety and the environment. The building-products manufacturing companies and related distributors are exposed to regulations that relate to air standards, management and transport of materials, cleanup of contaminated areas, and reduction of toxic emissions. Ongoing tightening of regulations to increase the durability of the products and to meet higher energy efficiency standards will raise costs.

Boral has exited some business lines with higher emissions and continues to develop strategies to improve the resilience of its portfolio to climate-related impacts, reduce carbon emissions and improve energy efficiency.

In terms of corporate governance, Boral has a good track record and has demonstrated prudent financial management over the years. In February 2021, the company announced a new financial framework which will target net debt/EBITDA of 2.0x--2.5x and will govern all decisions around capital management.

There has been a refresh of the board of directors and senior management roles over the past six months. Moody's also acknowledges the recent purchase of 19.98% of Boral shares by Seven Group Holdings, and the subsequent appointment of Seven Group Holding's managing director and CEO, Ryan Stokes to the Board as a non-executive director.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Boral's rating is not likely to be upgraded in the near term, given the inherent cyclicity in the building and construction materials industry.

However, over the longer term, the rating could be upgraded if Boral continues to demonstrate (1) sustained growth in each of its divisions; (2) a commitment to a financial policy that is commensurate with a higher rating; and (3) improvement in its operating margins.

Such a development would be illustrated by the company's ability to maintain adjusted debt/EBITDA below 2.0x, adjusted RCF/net debt above 30% and EBITDA margins above 20% through the cycle.

Boral's ratings could face negative pressure if its credit metrics, on a sustained basis, meet the following criteria: (1) adjusted debt/EBITDA above 3.0x and/or net debt/EBITDA above 2.5x, and (2) adjusted RCF/net debt below 20%. The ratings could also be downgraded if there is a deviation from the publicly announced financial framework and there is a material deterioration in the company's operating profile and/or liquidity.

The principal methodology used in these ratings was Building Materials published in May 2019 and available at https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_1158917. Alternatively, please see the Rating Methodologies page on www.moody.com for a copy of this methodology.

Boral Limited, based in Australia, generates earnings from building and construction materials operations in Australia, the US and Asia. Boral manufactures and distributes a wide range of building and construction materials, including quarry products, cement, fly ash, premix concrete and asphalt, and building products, including pavers, clay and concrete roof tiles, plasterboard and timber.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://www.moody's.com/researchdocumentcontentpage.aspx?docid=PBC_1243406.

At least one ESG consideration was material to the credit rating action(s) announced and described above.

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