

1 November 2021

S&P affirms Boral's BBB credit rating and Stable Outlook

S&P Global Ratings (S&P) has today affirmed, after concluding the CreditWatch review, no change to the investment credit rating of 'BBB' for Boral Limited (ASX:BLD) and Stable Outlook.

Boral's Chief Finance & Strategy Officer, Tino La Spina, said:

"We welcome the decision by S&P to affirm its investment grade credit rating and stable outlook for Boral. This credit rating recognises the strength of Boral's governance processes, financial framework and our disciplined approach to managing Boral's balance sheet."

A copy of the S&P Global Ratings report is attached.

Authorised for lodgement by Dominic Millgate, Company Secretary.

Boral Limited ABN 13 008 421 761 - PO Box 1228 North Sydney NSW 2059 - www.boral.com

Boral Investor Relations contact: Kylie FitzGerald +61 401 895 894 or kylie.fitzgerald@boral.com.au

Research Update:

Boral 'BBB' Ratings Affirmed, Off CreditWatch; Outlook Stable

October 29, 2021

Rating Action Overview

- Australia-based building product and construction material company Boral Ltd. has implemented a number of initiatives to insulate itself from the Seven Group Holdings Ltd. (SGH) group since SGH assumed a controlling 69.6% stake in Boral in July 2021. We consider that governance arrangements, which include the establishment of an independent directors committee to oversee decision making and the retention of a majority of independent board directors, provide meaningful protection to Boral from any adverse credit influence by the SGH group, which we assess to be of weaker credit quality.
- Boral's asset divestments over the past 18 months have significantly reduced the scale and diversity of the group and refocused the business on its Australian operations. Nonetheless, the inherent cash flow volatility of the divested assets means we do not consider that there has been any material erosion in Boral's overall business risk. As such, we expect the group's transformation program to support near-term earnings growth.
- On Oct. 29, 2021, S&P Global Ratings affirmed its 'BBB' long-term issuer and issue credit ratings on Boral. At the same time, we are removing all the ratings from CreditWatch, where we had placed them with negative implications on July 9, 2021.
- The stable outlook reflects our expectation that Boral's restructured core portfolio, adherence to its financial policy framework, and supportive governance frameworks underpin credit quality at the current rating level. We forecast that Boral's adjusted FFO-to-debt ratio will be above 30% and the company will generate positive free operating cash flow over the next 12-24 months.

PRIMARY CREDIT ANALYST

Aldrin Ang, CFA
Melbourne
+ 61396312006
aldrin.ang
@spglobal.com

SECONDARY CONTACT

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

Rating Action Rationale

We consider that Boral's governance arrangements provide meaningful insulation from the weaker credit quality of the SGH group. Since SGH moved to a 69.6% controlling interest in Boral, Boral has retained a majority of independent board directors and established an independent directors committee. The independent directors committee ensures that independent directors have effective influence on key decision-making matters not limited to

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dividend policy and bankruptcy filings. These governance arrangements, the ongoing adherence to the group's financial policy framework, which we consider consistent with the 'BBB' rating, and the presence of significant minority shareholders all serve to provide meaningful protection against any potential credit negative actions by SGH, in our view.

Boral's significant asset divestments over the past 18 months have refocused the company on its Australian operations. Despite the significant changes to Boral's asset mix and diversity over the past 18 months, we do not consider that there has been any material erosion of Boral's business risk. We consider the divested offshore assets to be of weaker credit quality while Boral's Australian operations continue to benefit from strong market share in their respective markets and should benefit from the restructuring process currently underway.

We expect Boral's operating performance to benefit from the group's cost saving program and moderating COVID impacts over the next two years. Boral is targeting A\$200 million to A\$250 million of annualized cost savings over six years, of which A\$75 million has been achieved in fiscal 2021. We expect these savings, together with moderating impacts from the COVID pandemic, to support earnings growth over the next two years.

We expect Boral to fund its capital return of up to A\$3 billion within tolerances for the 'BBB' rating. Given Boral's governance arrangements and financial policy framework that governs all capital return decisions, we expect the recently approved capital return program to be consistent with the 'BBB' rating on the group. Following the capital returns, we expect Boral's funds from operations (FFO) to debt to track in the 30% to 35% range. We also expect the capital return to be used to reduce debt at the broader SGH group.

Outlook

The stable outlook reflects our expectation that moderating COVID effects, cost savings associated with the group's transformation program, and ongoing adherence to the group's financial policy framework, should underpin credit quality at the 'BBB' rating level over the next two years. Under our base case, we expect Boral to maintain its FFO-to-debt ratio above 30% and generate positive free operating cash flow over the next two years.

Downside scenario

We could lower the rating if a deterioration in building and construction conditions results in Boral's FFO-to-debt ratio sustaining below 30%, or if the company generates material and sustained negative free cash flow.

Downward ratings pressure could also result from a material deterioration in the credit quality of the broader SGH group, or if there is any erosion in the governance arrangements at Boral that protect Boral's creditors from adverse influence by the SGH group.

Upside scenario

We consider an upgrade unlikely, given the cyclicity of the building products and construction material markets and Boral's financial policy settings. Nevertheless, we could raise the ratings if Boral's FFO to debt ratio materially and sustainably improves above 45% through a business cycle, and there is a material improvement in the credit quality of the broader SGH group.

Company Description

Sydney-based Boral manufactures and supplies building and construction material in Australia, following the sale of its North American Building Products business and its interest in USG Boral. The group's geographically diversified network of 367 construction materials sites across Australia span its product and service offering in concrete, quarries, asphalt, cement, and recycling. Boral services multiple end markets in Australia with roads, highways, subdivisions, bridges, nonresidential, and other engineering segments representing just under 70% of its external revenues in fiscal 2021.

Our Base-Case Scenario

Assumptions

- Australia's real GDP growth of 4.2% in 2021 and 3.3% in 2022, population growth of 0.2% in 2021 and 0.5% in 2022, and unemployment rates of 5.3% in 2021 and 4.7% in 2022;
- Revenue growth in the low single digits in fiscal 2022 and 2023 supported by modest infrastructure investment and detached housing growth offset by softness in multiresidential;
- Modest EBITDA margin improvement in fiscals 2022 and 2023 to reflect cost savings consistent with Boral's five-year transformation benefit target of A\$200 million to A\$250 million;
- Effective tax rate of 30%;
- Divestment proceeds from Boral's North American Building Products business (US\$2.15 billion), Australian Timber business (A\$64.5 million) and 50% share in Meridian Brick business (US\$125 million) received in fiscal 2022;
- Annual capital expenditure (capex) of about A\$245 million, excluding new leases;
- Capital return to shareholders up to A\$3 billion; and
- Resumption of dividend distribution from fiscal 2022.

Based on these assumptions, we forecast the following adjusted credit measures over the next two years:

- FFO-to-debt ratio (from continuing operations) of 30% to 35%.
- Debt-to-EBITDA ratio (from continuing operations) of between 2.5x-3.0x.

Liquidity

We assess Boral's liquidity as strong. The assessment reflects our expectation that the company's liquidity sources will cover its uses by 1.5x over the next 12 months and remain above 1.0x over the subsequent 12 months.

We expect net sources and uses of liquidity to remain positive even if EBITDA were to decline by 30%. Boral's solid relationship with banks, high credit market standing, and generally prudent risk management also support the liquidity risk assessment.

Our key assumptions for Boral's key sources and uses of liquidity for the 12 months from Sept. 30,

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2021, are as below:

Principal liquidity sources include:

- Cash and cash equivalents of about A\$900 million;
- Available undrawn committed bank facilities of about A\$450 million;
- Cash FFO of about A\$300 million; and
- Proceeds from divestments and disposal of assets of about A\$3.1 billion.

Principal liquidity uses include:

- Capex of about A\$245 million, excluding lease payments;
- Dividend distribution in line with the group's financial framework;
- Modest working capital outflows; and
- Share buy-back and capital return to shareholders of up to A\$3 billion.

Group Influence

We consider Boral to be a moderately strategic entity of the SGH group as we expect it to play an important role in the group's long-term strategy. SGH's ordinary shareholding in Boral is currently 69.6%.

Our current group credit profile (GCP) assessment is 'bb+'; however, Boral can be rated up to two notches above the GCP given our view that Boral is partially insulated from the broader group. We note that by insulating Boral above the GCP, this weakens our view of the group itself because of the assumption that Boral's cash flow is primarily for the benefit of its creditors. Our assessment is based on Boral's funding and operational independence, the presence of significant minority shareholders, its listing on the Australian Securities Exchange, and Boral's corporate governance structure, which includes a standing independent directors committee and a majority of independent directors.

Ratings Score Snapshot

Issuer Credit Rating: BBB/Stable/--

Business risk: Satisfactory

- Country risk: Very low
- Industry risk: Intermediate
- Competitive position: Satisfactory

Financial risk: Intermediate

- Cash flow/Leverage: Intermediate

Anchor: bbb

Modifiers

- Diversification/Portfolio effect: Neutral (no impact)

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- Capital structure: Neutral (no impact)
- Financial policy: Neutral (no impact)
- Liquidity: Strong (no impact)
- Management and governance: Satisfactory (no impact)
- Comparable rating analysis: Neutral (no impact)

Stand-alone credit profile: bbb

- Group credit profile: bb+
- Entity status within group: Moderately Strategic (no impact)

Related Criteria

- 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
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings List

Ratings Affirmed; CreditWatch/Outlook Action

	To	From
Boral Ltd.		
Issuer Credit Rating	BBB/Stable/NR	BBB/Watch Neg/NR
Boral Finance Pty Ltd.		
Senior Unsecured	BBB	BBB/Watch Neg
Boral Industries Inc.		
Senior Unsecured	BBB	BBB/Watch Neg

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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.

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