



ASX Release

8 April 2021

S&P's rating outlook revised to stable

S&P Global Ratings (S&P's) has affirmed the credit rating of 'BBB' for Boral Limited (ASX:BLD) and revised Boral's rating outlook from negative to stable.

Boral's CEO & Managing Director, Zlatko Todorčevski, said: "Boral welcomes the decision by S&P to affirm its investment grade credit rating and revise the company's rating outlook to stable following the sale of our 50% interest in USG Boral and subsequent reduction in our net debt position.

"As announced to the market on 1 April, in line with our financial framework the sale creates a surplus capital position of approximately \$1 billion which is available for reinvestment, and/or return to shareholders. After considering Boral's future expected operating and cash flow requirements, we also announced the intention to undertake an on-market share buy-back of up to 10% of the shares on issue.

"We recognise that maintaining a strong balance sheet is in the best interests of investors and remain focused on generating surpluses and being disciplined in the allocation of capital."

A copy of the S&P ratings report is attached.

Authorised for lodgement by Dominic Millgate, Company Secretary

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Research Update:

Boral Ltd. Outlook Revised To Stable On Sale Of USG Boral Shares And Balance Sheet Repair; 'BBB' Ratings Affirmed

April 8, 2021

Rating Action Overview

- Boral Ltd.'s sale of 50% of its shares in its USG Boral joint venture (JV) in April 2021 should restore its ratio of adjusted funds from operations (FFO) to debt to above 30%, in line with our expectations for a 'BBB' rating.
- Higher-quality earnings from Boral's remaining core portfolio should offset the reduced portfolio diversity following the share sale.
- Uncertain operating conditions and Boral's desire to return up to A\$1 billion of surplus capital to shareholders may limit rating headroom at the 'BBB' rating level.
- On April 8, 2021, S&P Global Ratings revised its outlook on Boral to stable from negative. We also affirmed the 'BBB' long-term issuer credit rating on the Australia-based building product and construction material company and the issue ratings on its debt.
- The stable outlook reflects our expectation that Boral's restructured core portfolio could help restore the company's profitability over the next 12-24 months. We forecast the adjusted FFO-to-debt ratio will be above 30% and the company will generate positive free operating cash flow.

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Rating Action Rationale

Boral's net debt should reduce to the company's target level of A\$1.5 billion after the share sale and once the on-market share buyback is complete. The completion of the sale of 50% of its shares in the USG Boral joint venture to Gebr Knauf KG for US\$1.015 billion should reduce Boral's net debt position and bring its financial profile in line with our expectations for a 'BBB' rating. In addition, we believe higher-quality earnings from Boral's remaining core portfolio will offset the loss of portfolio diversity.

A deleveraged balance sheet will better position Boral to weather earnings volatility given an uncertain post pandemic economic recovery path. Boral's reduced leverage should allow it to withstand earnings volatility without any further deterioration of its credit metrics. However, uncertain operating conditions and the company's desire to return up to A\$1 billion of surplus capital to shareholders may limit headroom at the 'BBB' rating level.

Progress of Boral's transformation program is key to restoring profitability and improving resilience in a cyclical industry. The program is intended to bridge the gap between existing and targeted EBIT to achieve the company's financial framework target. We believe the restructuring of Boral's core assets portfolio as part of the program can improve efficiencies and reduce costs, restoring long-term profitability across the portfolio.

Uncertain market conditions in the second half of fiscal 2021 could affect Boral's earnings and erode the transformation benefits. Gains from the company's transformation program in the current fiscal year could be eroded by continued market weakness if the economic recovery from the pandemic is slower than we expect. A deleveraged balance sheet provides headroom to offset any potential deterioration in earnings.

We expect Boral's planned on-market share buyback over the next 12 months to preserve its balance sheet strength and commitment to the current financial profile. The company intends to buy back up to 10% shares on issue over the period. We expect the company's capital structure to be balanced with its financial profile, and the adjusted FFO-to-debt to be above 30%.

Outlook

The stable outlook reflects our expectation that higher-quality earnings from Boral's restructured portfolio could help the company restore its profitability over the next 12-24 months. While Boral's capital structure will be guided by the new financial framework, we expect the company to maintain its FFO-to-debt ratio above 30% and generate positive free operating cash flow.

Downside scenario

We could lower the rating if deterioration in building and construction conditions results in Boral being unable or unwilling to sustain its FFO-to-debt ratio above 30%, or if the company generates negative free operating cash flows.

Upside scenario

An upgrade is unlikely, given the cyclical nature of the building product and construction material markets. Nevertheless, we could raise the ratings if Boral's FFO to debt ratio materially and sustainably improves to be well above 45% through a business cycle.

Company Description

Sydney-based Boral manufactures and supplies building products and construction material primarily in Australia, North America, and, prior to the sale of its interest in USG Boral, in Asia.

The USG Boral JV holds Boral's plasterboard-based businesses in Australia, New Zealand, Asia, and the Middle East.

Boral's divestments of its non-core portfolio includes sale of its Midland Brick business for A\$69 million; the deal was completed in the first half of fiscal 2021. Boral also plans to sell 50% interest in its Meridian Brick business for US\$125 million; the company targets to close the deal in this fiscal year.

Our Base-Case Scenario

In our base case, we assume:

- Australia's real GDP growth of 4% in 2021 and 3.3% in 2022, population growth of 0.3% in 2021 and 0.9% in 2022, and unemployment rates of 5.7% in 2021 and 5.5% in 2022;
- U.S. real GDP growth of 6.5% in 2021 and 3.1% in 2022, population growth of 0.2% in 2021 and 0.4% in 2022, and unemployment rates of 5.5% in 2021 and 4.6% in 2022;
- Decline in Boral's revenue by low single digits in 2021 owing to reduced demand in the residential construction market across all geographies, coupled with likely project delays and cancellations in nonresidential construction;
- Revenue growth in the low single digits in 2022 and 2023 to reflect increased demand across building and construction markets underpinned by broader economic growth and recovery;
- Effective tax rate of 21%-22% in 2021-2022;
- Normal dividend of US\$32 million from USG Boral prior to close of the transaction;
- Sale proceeds from USG Boral of about US\$1.015 billion and Midland Brick of A\$69 million;
- Annual capital expenditure of about A\$350 million, including new leases; and
- No proceeds received from the company's dividend reinvestment plan over 2021-2023.

Based on these assumptions, we forecast the following adjusted credit measures:

- FFO-to-debt ratio of 30%-35% in fiscal 2021, improving to above 35% in fiscals 2022 and 2023.
- Debt-to-EBITDA ratio of 2.2x-2.7x in fiscal 2021, declining toward 2.0x-2.5x between fiscals 2022 and 2023.

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 12 months ending Dec. 31, 2021, 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 Dec. 31, 2020, are as below:

Principal liquidity sources include:

- Cash and cash equivalents of about A\$558 million;
- Available undrawn committed bank facilities of about A\$702 million;

- Cash FFO of about A\$610 million; and
- Proceeds from divestments and disposal of assets of more than A\$1.3 billion.

Principal liquidity uses include:

- About A\$14 million of maturing debt;
- Capital expenditure of about A\$350 million, including new leases;
- On-market share buyback equivalent to 10% of shares on issue over 12 months from financial close of the sale of 50% share in USG Boral; and
- Reduction of target net debt to about A\$1.5 billion after the completion of the on-market share buyback.

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)
- 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)

Related Criteria

- 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

- 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, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings List

Ratings Affirmed; Outlook Action

	To	From
Boral Ltd.		
Issuer Credit Rating	BBB/Stable/NR	BBB/Negative/NR

Ratings Affirmed

Boral Ltd.		
Senior Unsecured	BBB	
Boral Finance Pty Ltd.		
Senior Unsecured	BBB	
Boral Industries Inc.		
Senior Unsecured	BBB	

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