



# The Capital Stack

## Fitch & Market Landscape

Vicky Melbourne  
FTA Conference  
14 - 16 November 2018

**Fitch**Ratings



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# 1

## Financial Metrics and Credit Ratings

# Ratings Approach and Criteria



FitchRatings

Lendlease Corporation Limited

Corporates Ratings Navigator  
Generic

Operating Environment			Management and Corporate Governance		
aaa+	Economic Environment	aa	a	Management Strategy	a
aa	Financial Access	aa	a-	Governance Structure	aa
b-	Systemic Governance	aa	bbb+	Group Structure	bbb
ccc+			bbb	Financial Transparency	bbb
			bbb-	Financial Sponsor Attitude (LBO only)	
Sector Competitive Intensity			Sector Trend		
a-	Industry Structure	bbb	a-	Long-Term Growth Potential	bbb
bbb+	Barriers to Entry/Exit	bbb	bbb+	Volatility of Demand	bb
bbb	Relative Power in Value Chain	bbb	bbb	Threat of Substitutes	bbb
bbb-			bbb-		
bb+			bb+		
Company's Market Position			Diversification		
a	Market Share	bbb	bbb+	Geographic Diversification	bb
a-	Competitive Advantage	bbb	bbb	Product/End-Market	bbb
bbb	Operating Efficiency	a	bb+		
bbb-			bb		
Profitability			Financial Structure		

## Corporates Ratings Navigator

### Graphical Charts

- New analytical content launched in late 2014 – freely available on Fitch Ratings website: [www.fitchratings.com](http://www.fitchratings.com)
- Synthesises Fitch's rating approach for a rated corporate on a two page format
- Summarises fundamental and support factors, both qualitative and quantitative
- Articulates the impact, relative influence and trend for rating factors
- Each sector has a corresponding companion report, which outlines definition of sector-specific and financial sub-factors observed for each rating category

FitchRatings

Lendlease Corporation Limited

Corporates Ratings Navigator  
Generic

Corporates Ratings Navigator			Lendlease Corporation Limited										Corporates Ratings Navigator Generic			
Sector Details:			Factor Levels	Sector Risk Profile	Operating Environment	Management and Corporate Governance	Sector Competitive Intensity	Business Profile	Sector Trend	Company's Market Position	Diversification	Profitability	Financial Profile	Financial Structure	Financial Flexibility	Issuer Default Rating
Publish Date: 23-Jun-18			aaa													AAA
Sector: Generic			aaa+													AA+
Region: Developed Markets - Asia-Pac			aa													AA
Country: Australia			aa-													AA-
Country IDR: AAA Stable			a+													A+
Country IDR Action: Affirmed			a													A
Country Action Date: 24-Oct-18			a-													A-
Country Ceiling: AAA			bbb+													BBB+
			bbb													BBB
			bbb-													BBB- Stable
			bb+													BB+
			bb													BB
			bb-													BB-
			b+													B+
			b													B
			b-													B-
			ccc+													CCC+
			ccc													CCC
			ccc-													CCC-
			cc													CC
			c													C
			d or rd													D or RD

# Key Rating Factors



- Apply key rating factors in criteria
- Qualitative and Quantitative Factors
  - Sector risk profile
  - Operating environment assessment
  - Five business profiles
  - Three financial profile factors
- Three-notch band

## Key Rating Factors as per Corporate Criteria

Sector risk profile	Financial profile
Location	Cash flows and profitability
Management strategy/governance	Financial structure
Group structure	Financial flexibility
Business profile	

## Median BBB Category Metrics Across Industries

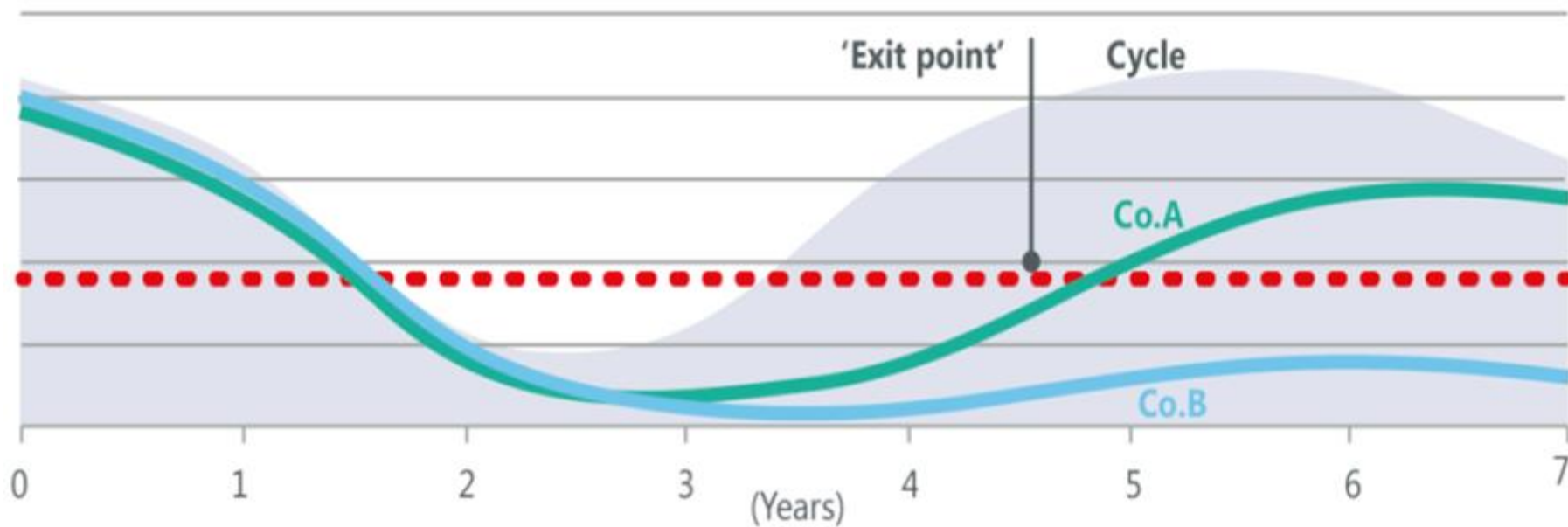
	Building Materials	Mining	Chemicals	Food Retail
EBITDAR margin		30%		5%
FFO margin	14%	25%	10%	3%
FCF margin	Positive FCF margin	Positive FCF on average	1.5%	1%
FFO leverage (x)	2.5	2.5	2.5	4.0
FFO Fixed Charge Cover (x)	4.5	8.0	6.0	2.5

# Rating Through the Cycle



## Rating Through the Cycle

■ Cycle    — Co.A    — Co.B    - - - TTC Profile



Source : Fitch Ratings

A photograph of a modern glass skyscraper with the 'Fitch Ratings' logo mounted on its facade. The logo is in red and black. The building is set against a clear blue sky. A semi-transparent dark grey banner is overlaid on the bottom half of the image.

Fitch Ratings

# 2

## Debt & Equity Mix

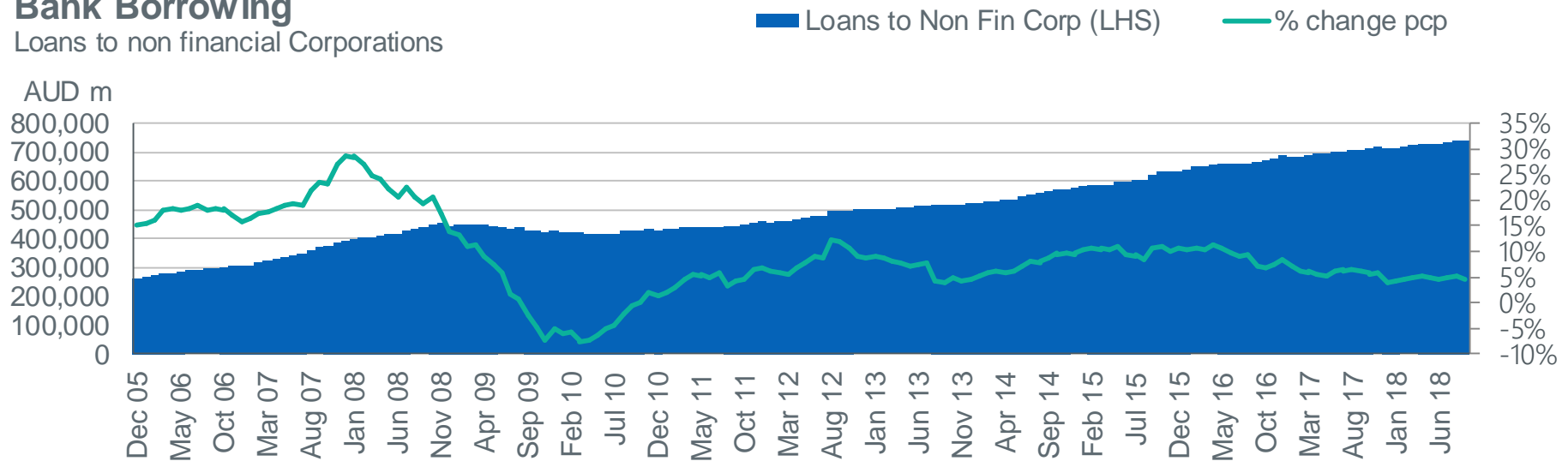
# Mix of Debt and Equity



- Private placement financings versus public issuance
- Hybrids
  - Better leverage but slightly weaker interest and fixed charge ratios
  - Ratio headroom due to low interest rate environment
  - Issuance generally used for:
    - Funding of M&A
    - Allowing issuers to raise senior debt, which are treated as equity in bank covenants
    - Addressing deterioration in financial profile

## Bank Borrowing

Loans to non financial Corporations



Source: APRA, Fitch Ratings





# 3

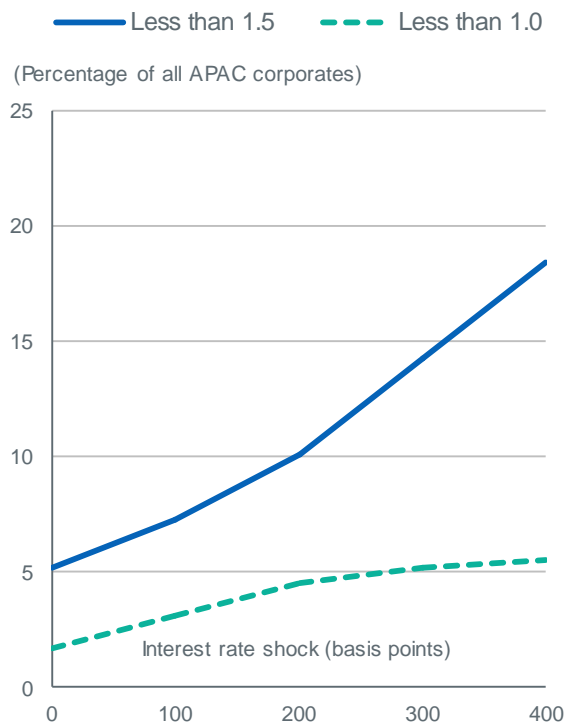
## Liquidity

# Australian Corporates & Rising Interest Rates



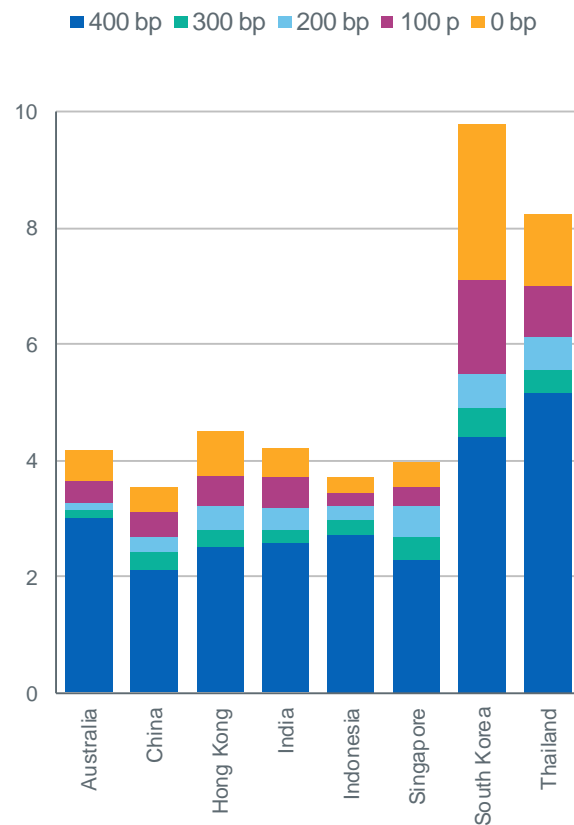
## All APAC Corporates

2019F EBITDA interest-coverage ratio



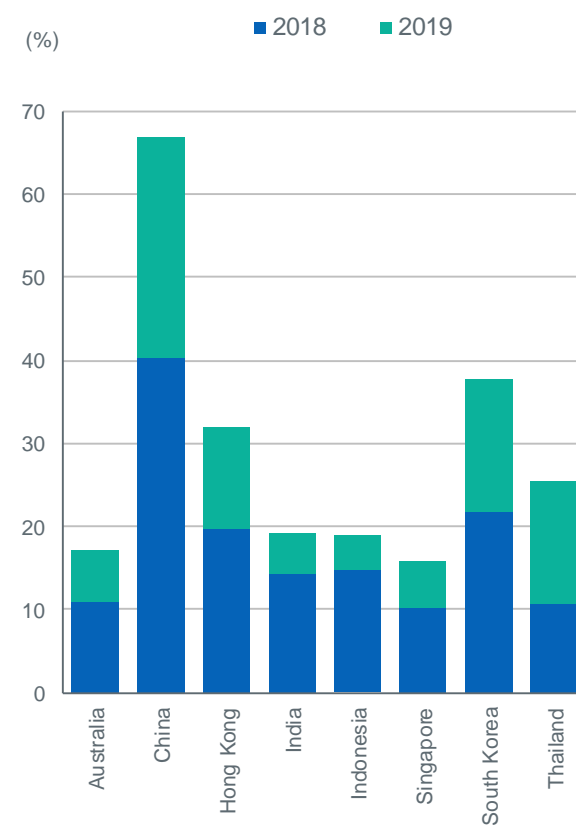
## Interest Rate Shock By Country

Median 2019 EBITDA interest-coverage ratio



## Debt Maturity as % of Total Debt

Median corporate in each country

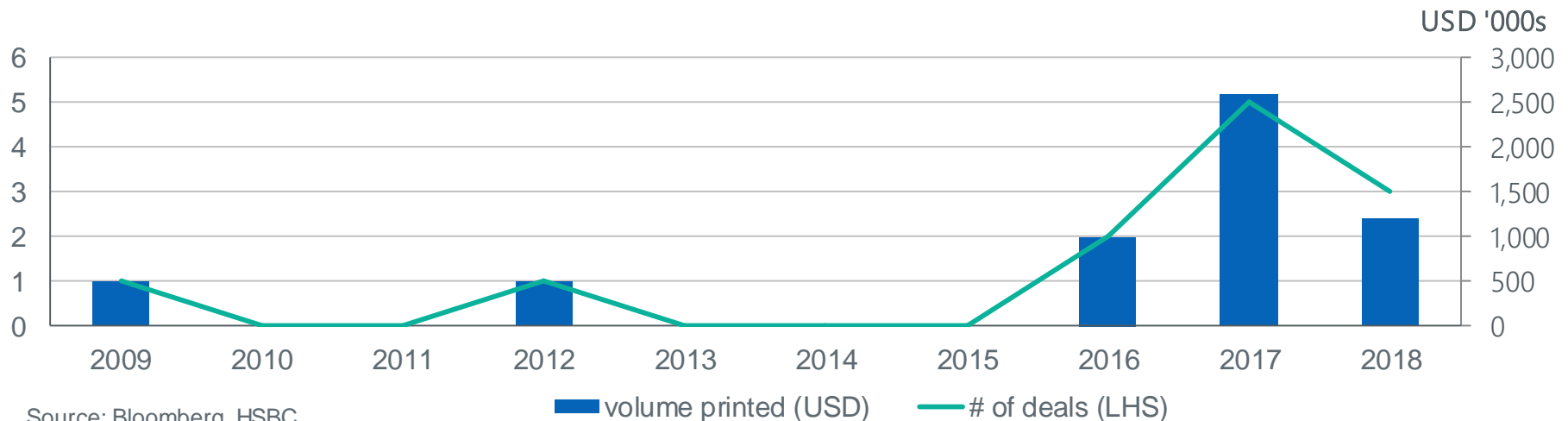


Source: Fitch Ratings, Fitch Solutions



- Bank appetite constrained; all in cost of funding increasing
- 144a and USPP main choice for US dollar financing
- Shift to Asia and Reg S
- Growth in Asia propelled by savings and wealth
  - China, Korea, Hong Kong, Singapore, Japan and Taiwan
- Asian investors seeking stability and diversity
  - Australia an attractive developed market

## USD Reg S Issued by Australian Corporates



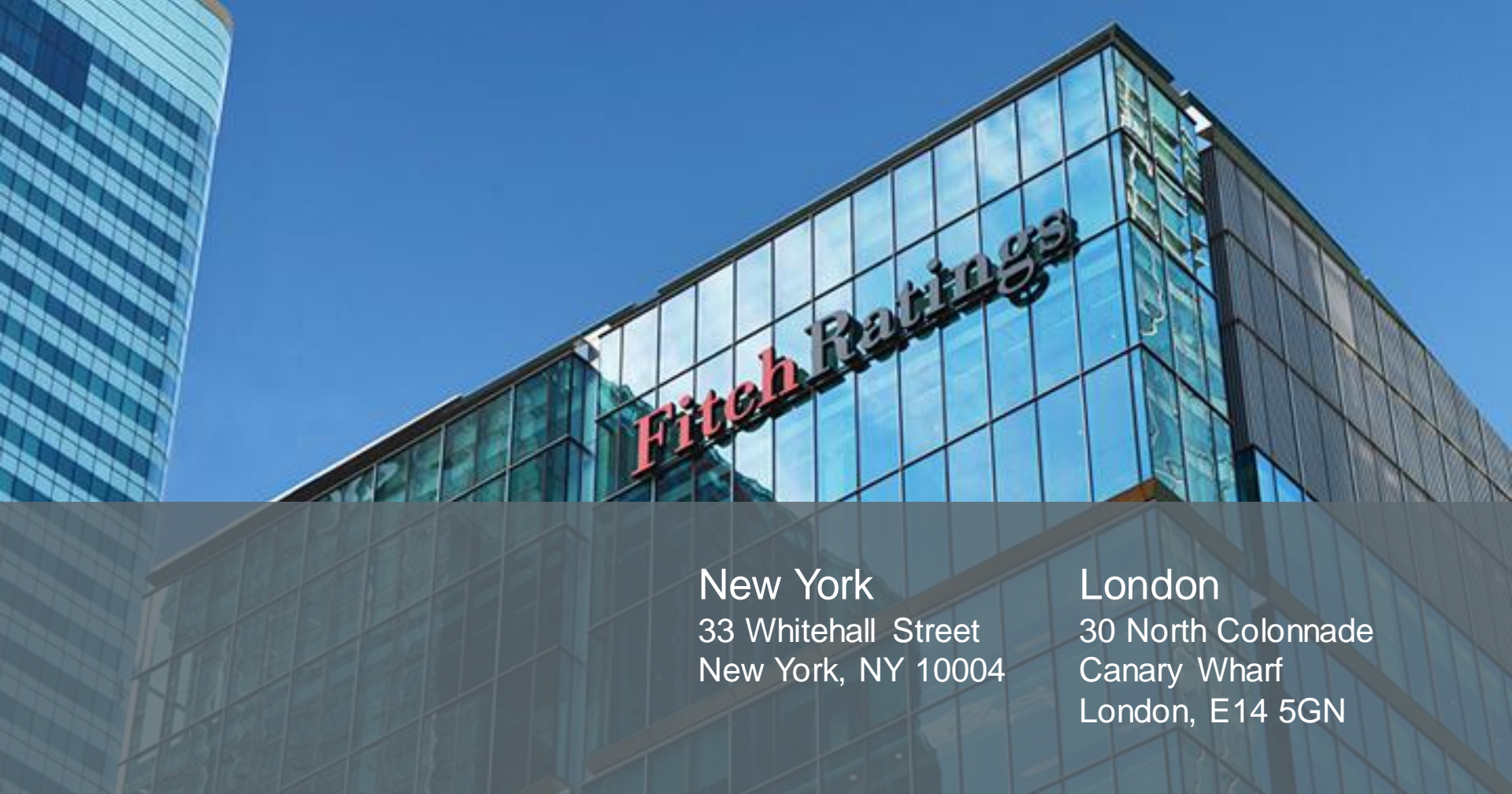
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