8 September 2017

MIRVAC RECEIVES CREDIT RATING UPGRADE TO A3 FROM MOODY'S

Mirvac Group ("Mirvac") [ASX: MGR] is pleased to announce Moody's Investor Service has upgraded Mirvac's crediting rating from Baa1 to A3.

Mirvac's CEO and Managing Director, Susan Lloyd-Hurwitz, said, "Today's upgrade is a strong validation of the Group's strategic direction and robust capital management position.

"This upgrade will enable us to continue to diversify Mirvac's sources of debt and lengthen its weighted average debt maturity profile, providing the Group with greater operational and balance sheet flexibility for the long term."

Please refer to the attached release by Moody's Investor Service.

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Rating Action: Moody's takes rating action on Mirvac Group

Global Credit Research - 08 Sep 2017

Sydney, September 08, 2017 -- Moody's Investors Service has upgraded the issuer ratings for Mirvac Groupand Mirvac Group Finance Ltd to A3 from Baa1.

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Moody's has additionally upgraded the Backed Senior Unsecured MTN rating to (P)A3 from (P)Baa1.

The outlook on all ratings remains stable.

Upgrades:

Mirvac Group, issuer rating upgraded to A3 from Baa1

Mirvac Group Finance Ltd, issuer rating upgraded to A3 from Baa1

Mirvac Group Finance Ltd, Backed Senior Unsecured MTN rating upgraded to (P)A3 from (P)Baa1

Mirvac Group Finance Ltd, Backed Senior Unsecured Debt Ratings upgraded to A3 from Baa1

RATINGS RATIONALE

"The upgrade to A3 reflects Moody's view that the quality of the investment portfolio has and will continue to improve so that it provides a sufficient buffer at an A3 rating level to support Mirvac's current debt profile, even in the event of a sharp downturn in EBITDA contribution from the development business", says Maurice O'Connell, a Moody's Vice President and Senior Credit Officer.

"This, in conjunction with a continued demonstration of Mirvac's ability to deliver a high quality pipeline of profitable residential developments, has allowed Moody's to upgrade Mirvac's issuer rating even though Mirvac is currently outside the original upgrade triggers", adds O'Connell.

The A3 issuer rating also reflects Mirvac's solid market position across multiple sectors, including office, retail, industrial and residential.

In particular, the rating recognizes the quality of its diversified portfolio of office, retail and industrial assets, representing around 58%, 30% and 9% of its investment assets respectively, and which derives a core base of stable and predictable level of operating income.

Mirvac's rating further considers its development business, an important contributor to earnings and accounting for a historically high figure of close to 40% of operating EBIT in FY2017.

The upgrade also considers that Mirvac should maintain a sufficiently strong financial profile to support the A3 rating through the cycle, even though the residential construction business is volatile and is at or close to a cyclical peak.

Financial leverage, measured as adjusted look-through net debt/EBITDA, was 3.9x as at fiscal year-end June 2017. This low level of financial leverage -- which is unlikely to be sustained over the long term -- provides a material buffer within the rating level for when the residential market slows. Moody's estimates that even in the event Mirvac did not generate any EBITDA from its development business, net debt/EBITDA would be around 6x, based on FY2017 financial numbers. This extreme downside is unlikely to materialize.

Moody's considers that underlying population growth in Sydney and Melbourne will continue to drive demand for Mirvac's residential product through the economic cycle.

The good quality of its office portfolio, comprising 28 offices with a book value of around AUD4.9 billion, is demonstrated by a high percentage of assets -- currently 95% -- which are Premium or A grade along with a long weighted average lease expiry (WALE) of over 6 years.

The retail portfolio, comprising 17 assets with a book value of around AUD3.1 billion, benefits from occupancy rates that have improved over time and are now consistently above 99%.

Furthermore, the retail portfolio has a good spread of assets across different segments, including regional, sub-regional, CBD retail, neighborhood and outlet centers.

Mirvac's passive earnings stream also benefits from management fees derived from external assets under management, which are now close to AUD4 billion.

Mirvac's rating also considers its strong financial metrics, including the fact that its gearing range of 20-30% -- on the basis of net debt/total tangible assets -- is among the lowest for Moody's-rated A-REITs.

Mirvac has a good liquidity profile.

The stable outlook reflects our expectation that Mirvac will maintain a conservative financial profile which recognizes the inherent risks associated with its development activities, while underpinned by stable and recurring rental income from its investment portfolio. The outlook could change to negative in the event financial leverage trends towards 5.0x.

What Could Drive the Ratings Up

An upward rating trend could emerge over the medium term if Mirvac Group reduces leverage, such that the Group's net debt/EBITDA falls below 3.0x and its fixed-charge coverage rises above 5.0x on a consistent basis, through the development cycle.

Upward rating pressure could also emerge if the proportion of the Group's development earnings/total earnings shows a long-term structural decrease.

What Could Drive the Ratings Down

Negative rating pressure could arise if we foresee a weakening in Mirvac's financial metrics. Metrics that we will consider for a downgrade include net debt/EBITDA rising above 5.25x. Other considerations for a downgrade include EBITDA/interest coverage falling below 3.0x, and/or net debt/tangible assets rising above 30%, all on a consistent basis.

A sharp deterioration in housing demand and/or residential prices could also result in negative rating pressure.

The principal methodology used in these ratings was Global Rating Methodology for REITs and Other Commercial Property Firms published in July 2010. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

Mirvac is an Australian real estate investment trust (A-REIT). The Group operates two core businesses; (1) the investment and management of office, retail and industrial assets held under Mirvac Property Trust (MPT), and (2) a development business comprising residential and commercial.

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