



HD Moody's: Stable outlook for Australian non-financial corporates

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Moody's Investors Service says its outlook on Australia's non-financial rated corporates is stable, despite weakness in some sectors.

"Our stable outlook for Australian non-financial companies in 2015 reflects our view that domestic macroeconomic conditions will be broadly supportive of business growth, assisted by historically low interest rates," says Maurice O'Connell, a Moody's Vice President and Senior Credit Officer.

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Corporate earnings and financial profiles should remain solid overall, helped by a steady, albeit challenging, operating environment and lower capital expenditure.

Most Australian companies have strong balance sheets and liquidity, although pressures are growing in some sectors due to **China's** (Aa3 stable) economic slowdown.

"A key risk is that reduced demand for Australia's resources accentuates the **mining** downturn, which could have knock-on effects on other sectors," adds O'Connell.

O'Connell was speaking on the release of Moody's 2015 outlook for Australian non-financial corporates. The outlook reflects Moody's expectation for fundamental business conditions in the sector over the next 12 to 18 months.

Moody's outlook is stable across the key industries of metals & **mining**, building and construction, retail and airlines.

Over 80% of Australian corporate rating outlooks are stable, but the proportion of companies on negative outlook versus those on positive outlook indicates a negative bias. Negative rating actions will continue to dominate in 2015.

Moody's projects aggregate EBITDA of investment-grade issuers will grow by 1%-3% in 2015. Growth is dampened by weakness in the metals and **mining** sector, particularly **iron ore**, which will see earnings impacted by continued weak prices.

Price volatility will likely continue in 2015, with limited upside from current low levels.

On a sector basis, the building and construction sector faces challenges from resource investment spending coming off 2012 highs, but Moody's expects overall activity to hold up in 2015, helped by solid **residential** demand.

The retail and consumer sector remains supported by non-discretionary spending, even as consumer sentiment remains volatile.

Furthermore, the real-**estate** investment trust sector faces continued headwinds from a challenging operating environment, notably in the office segment, but corporate credit profiles are supported by conservative gearing, solid liquidity and low refinancing risk.

Overall, Moody's expects the Australian corporate sector to maintain steady leverage through 2015, supported by modestly higher earnings and continued conservative capital expenditure.

However, limited organic growth opportunities and the low cost of debt, alongside shareholder expectations for higher returns, could encourage M&As or shareholder-friendly activity, leading to increased financial leverage.

Subscribers can access the report (summary) at:

http://www.moodys.com/viewresearchdoc.aspx?docid=PBC_1001047

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