



**HD** **Moody's: Australia to see fall in private-sector capex with varied effects**

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**LP**

Moody's Investors Service expects private-sector capital expenditure in Australia to decline over the next 12 to 18 months with varying effects on individual sectors.

"The bulk of the contraction will come from the **mining** sector, and this will be credit positive for miners, but negative for companies driven by capital spending," says Arnon Musiker, a Moody's Vice President and Senior Credit Officer.

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"Accordingly, companies that rely heavily on the resources sector for business, such as **mining** services companies and building contractors, will see the biggest squeeze on revenues and margins," says Musiker.

Musiker was speaking on the release of a Moody's report titled: "Declining Capex Is Credit Positive for Australian Miners, but Negative for **Mining** Services".

The report was co-authored by Musiker; Maurice O'Connell - a Vice President and Senior Credit Officer - and Matthew Moore and Spencer Ng, both Vice Presidents and Senior Analysts.

In the **mining** sector, companies such as BHP Billiton Ltd (A1 stable), Rio Tinto Ltd (A3 stable) and Fortescue Metals **Group** Ltd (Ba1 stable) will benefit from a decline in capex, improved cash flow generation and debt reduction, which is positive for their credit profiles.

However, **mining** services contractors, such as Ausdrill Ltd (Ba3 stable), Barmenco Holdings Pty Ltd (B1 negative) and Emeco Holdings Ltd (B1 negative), which rely on resource-sector activity for their revenues, will see declines in revenues and margins.

Building contractors will also be negatively impacted by the capex tightening. Companies that generate sizeable proportions of their income from contracting - such as Leighton Holdings Ltd (Baa2 review for downgrade) -- will experience negative credit trends as their customers pull back on expansions or upgrading work.

However, this will be offset by the expected substantial growth in infrastructure development, the depth and diversity of their order books and their ability to implement countermeasures.

Meanwhile, companies undertaking major capital works -- such as Australia Pacific Airports (Melbourne) Pty Ltd (A3 negative) and Transurban Finance **Company** Pty Ltd (Baa1 stable) -- will benefit from a lower risk of budget overruns due to reduced competition for construction inputs, which are principally materials and labour.

The Moody's report says that rated-companies in the **coal** logistics chain are insulated from the reduction in resource-sector capex because their revenue streams are derived under take-or-pay contracts with producing **coal** mines, many of which are owned by major **mining** houses. Over the longer term, issuers in the logistics chain will be negatively affected if the decline in **mining** investment becomes a structural feature of the resources sector as it would **lead** to declining mine output.

As a second order effect, airports located in states with high exposure to the **mining** sector - such as Perth Airport Pty Ltd (Baa2 stable) and Brisbane Airport Corporation Pty Ltd (Baa2 stable) - will likely see a softening in passenger volumes and revenue growth. This is because fewer workers will be traveling to and from remote work sites as **mining** projects are completed and fewer new ones get underway.

Finally, Australian real **estate** investment trusts (A-REITs) operating in **mining**-active states will be negatively affected due to the fall-off in leasing activity associated with reduced **mining** sector activity. Moody's expects DEXUS **Property Group** (A3 stable) to be more affected than others, given its exposure to Perth and Brisbane, the capital cities of two key **mining** states.

Moody's notes that data from the Australian Bureau of Statistics (ABS) released in May 2014 shows an expected material decline of around 12% in expected private-sector capex over the next 12-month period following the survey date of 31 March 2014.

Although some non-**mining** sectors reported increased investment in capex during the 12 months to March 2014, this increased non-**mining** investment is unlikely to offset the decline in resource sector capex, given the magnitude of the latter.

Subscribers can access the full report at :

[http://www.moodys.com/viewresearchdoc.aspx?docid=PBC\\_166302](http://www.moodys.com/viewresearchdoc.aspx?docid=PBC_166302)

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