

11 August 2014



## Envestra's Credit Rating Upgraded to 'BBB+'

Envestra Limited today announced that Standard & Poor's has upgraded its credit rating one notch from 'BBB' to 'BBB+' with a *Stable* Outlook.

The upgraded rating is in response to the Cheung Kong Consortium obtaining control of Envestra as a result of the off-market takeover offer by CK ENV Investments Pty Ltd, which was declared unconditional on 7 August 2014. The upgrade reflects the strategic position of Envestra in the Cheung Kong Group and the more conservative capital management policies of the CK Group relative to Envestra as a stand-alone entity.

The Standard & Poor's media release is attached.

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## Research

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# Ratings On Envestra Ltd. Raised To 'BBB+' On Expected Completion Of Takeover By Cheung Kong Consortium; Outlook Stable

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SYDNEY (Standard & Poor's) Aug. 11, 2014--Standard & Poor's Ratings Services said today it has raised its issuer credit on Australian gas-distribution network company Envestra to 'BBB+', from 'BBB'. The outlook is stable. At the same time, we raised the issue ratings on all of the company's outstanding senior unsecured debt to 'BBB+', from 'BBB'.

"The upgrade reflects our expectations of the CKI Group as having a somewhat more conservative approach to managing the capital structure of the entities that are under its control compared to our view of on Envestra as a stand-alone entity," said credit analyst Meet Vora. "We expect the CKI Group to operate Envestra at a FFO-to-debt ratio of about 10% over the medium term, in line with the other peer companies that are owned by the group in the Australian energy market."

The short-term rating on Envestra is 'A-2'. We assess Envestra's liquidity as "adequate" because we expect the company's liquidity sources over the next 12 months to exceed its uses by at least 1.1x, and that sources would remain sufficient even if EBITDA were to drop by 10%.

"The stable outlook reflects our view of the certainty and stability of cash flow from Envestra's regulated distribution business, such that it would operate with a FFO-to-debt ratio of about 10%," said Mr. Vora. "Further, we also expect that a substantial change to Envestra's capital structure is unlikely after the takeover by the CKI Group is completed."

*Ratings On Envestra Ltd. Raised To 'BBB+' On Expected Completion Of Takeover By Cheung Kong Consortium;  
Outlook Stable*

A ratings upgrade in the medium term would require a sustained FFO-to-debt ratio of about 11%-12% and shareholders' commitment to maintaining this profile as a threshold for a one-notch upgrade. Also, all else being equal, if CKI's rating were raised by one notch it would lead to a one-notch upgrade on Envestra's rating.

"Envestra's SACP would be under pressure if there were an increase in risk appetite--which may be indicated by a significant increase in debt-funded capital expenditure or dividends, such that FFO to debt was to remain sustainably below 7.0%," continued Mr. Vora. "However, our "moderately strategic" assessment of Envestra to the CKI Group means that the SACP would need to fall to 'bbb-' before the issuer credit rating would be affected. This is because any downgrade from the current SACP would mean one notch of group rating methodology support would be added. Under our base case assumptions, we view this scenario to be unlikely."

#### RELATED CRITERIA AND RESEARCH

##### Related Criteria

- Corporate Methodology, Nov. 19, 2013
- Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Methodology: Industry Risk, Nov. 19, 2013
- Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- Group Rating Methodology, Nov. 19, 2013
- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Jan. 02, 2014
- Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- 2008 Corporate Criteria: Rating Each Issue, April 15, 2008
- Methodology For Linking Short-Term And Long-Term Ratings For Corporate, Insurance, And Sovereign Issuers, May 07, 2013
- 2008 Corporate Criteria: Commercial Paper, April 15, 2008

Complete ratings information is available to subscribers of RatingsDirect at [www.globalcreditportal.com](http://www.globalcreditportal.com) and at [spcapitaliq.com](http://spcapitaliq.com). All ratings affected by this rating action can be found on Standard & Poor's public Web site at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column. Alternatively, call one of the following Standard & Poor's numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

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