

Credit Trends: Focus on Australia

August 2021

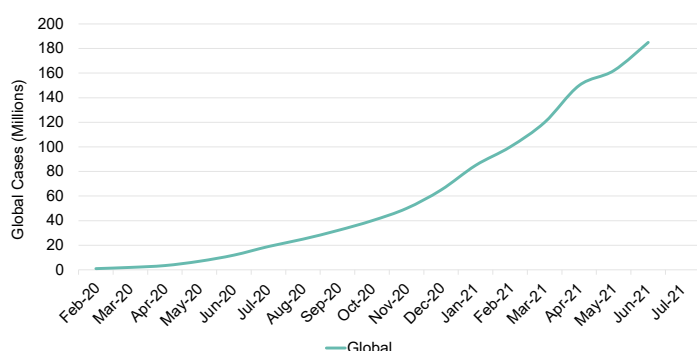


Australia is one of the few countries in the world to enjoy AAA sovereign ratings from the three largest traditional rating agencies. The consensus rating is **aa+**, so banks that actively deal with the Australian Government have a slightly more cautious view.

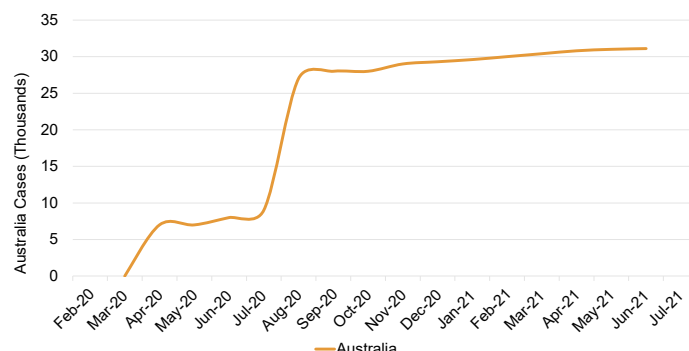
The country has so far weathered the Covid storm in reasonable shape although a low tolerance for increasing case figures have led to numerous snap lockdowns. Figure 1 shows cumulative Australian and Global Covid cases since the start of the pandemic.

Figure 1: Covid cases, Australia vs Global

Global total Covid cases



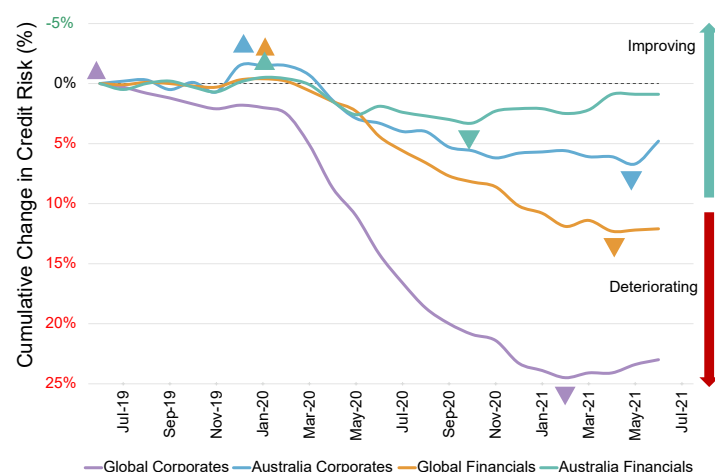
Australian total Covid cases



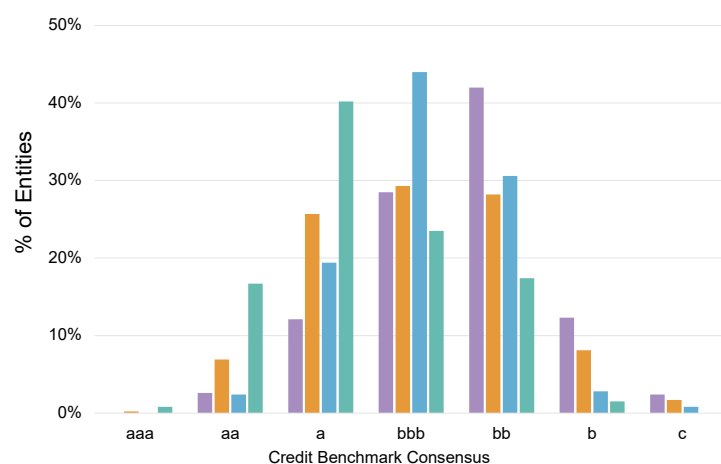
Australian case growth rates began to level off in August 2020; global rates have continued at a consistently faster pace. Tight travel restrictions, strict local lockdowns and a comprehensive vaccination program backed by hard hitting advertising have contributed to a relative success story; although cases are growing again as the more infectious Delta variant spreads.

Australian credit risk trends mirror the Covid case graphs. Figure 2 compares the combined Corporate and Financial credit risk picture for Australia vs. the Global trend.

Figure 2: Corporates and Financials - Australia vs. Global



Source: Credit Benchmark

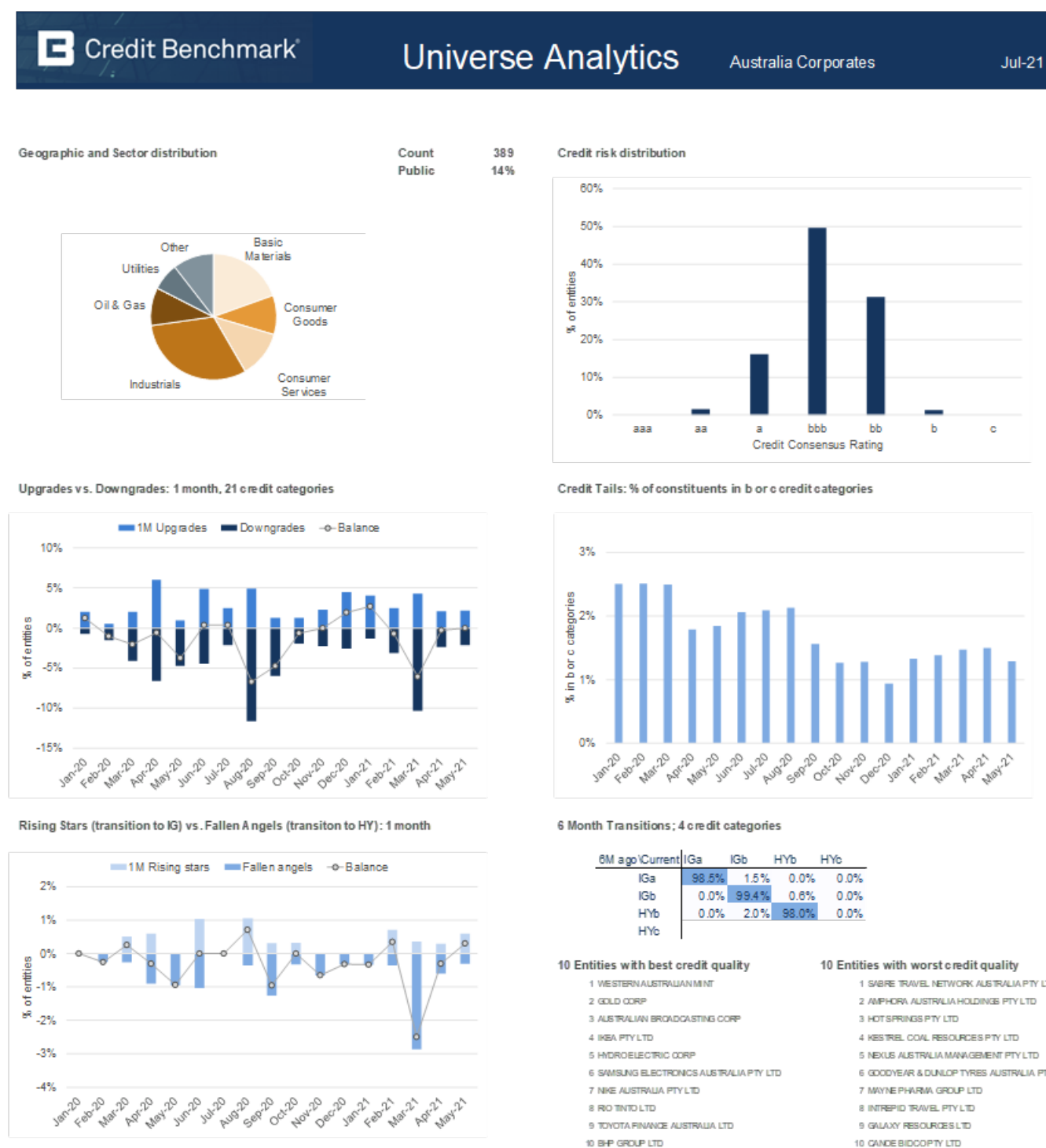


Source: Credit Benchmark

Australian Financials are very high quality, with more than 15% in the **aa** category. Australian Corporates are also noticeably better quality than the Global universe, with more than 40% in the **bbb** category and nearly 70% in the overall investment grade category. The recovery in global corporates started earlier but the latest Australian data shows a small but sharp catch-up. Australian Financials show very little Covid impact, whereas the global universe deteriorated by about 12%, stabilising in recent months.

Figure 3 shows detailed credit trends for 389 firms in the Australian Corporate universe (of which more than 75% are unrated).

Figure 3: Universe Analytics for Australian Corporates



The majority of the 389 companies in the CB Australian Corporate universe are in the **bbb** category (around 50%) with another 20% in the **aa** or **a** categories. The proportion in the very high risk **b** and **c** categories has been dropping over time – from about 2.5% at the start of the pandemic to around 1% now. This may reflect changes in bank lending policies during the pandemic.

After some downgrade spikes (in August 2020 and March 2021), the balance is currently neutral. Fallen Angels also peaked in March 2021; the balance is currently slightly in favour of Rising Stars (firms that migrate to investment grade).

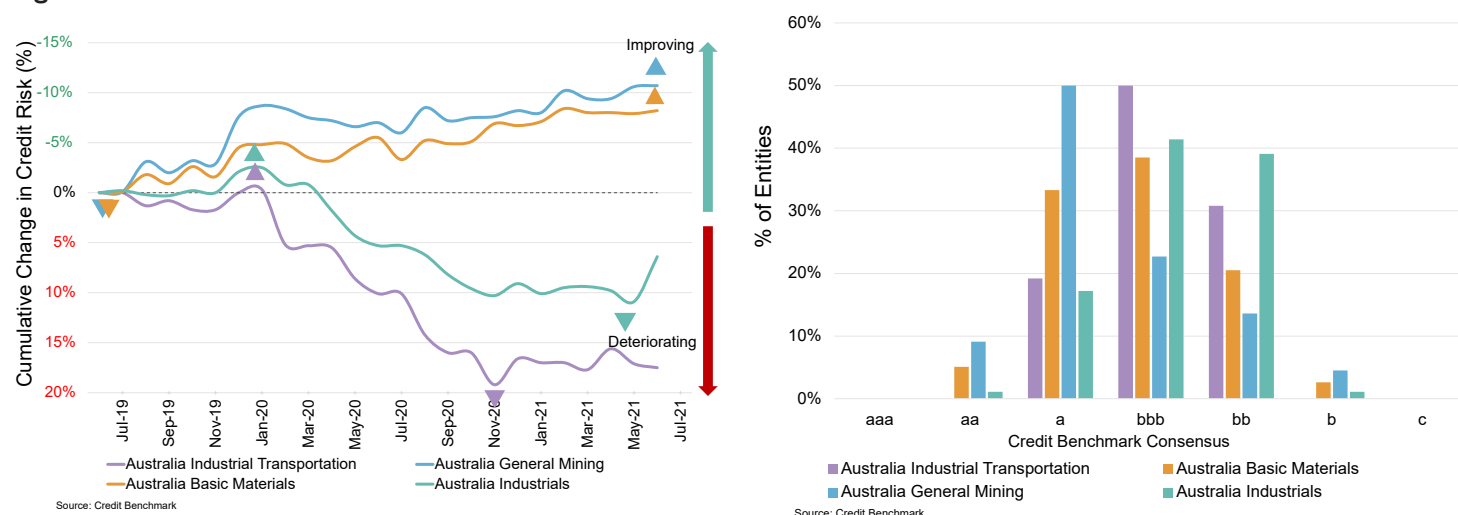
Over the past 6 months, credit transitions have been low between the four high level credit categories – 1.5% migrated from upper to lower investment grade and 0.6% have migrated into high yield (i.e. have become Fallen Angels). A further 2% have migrated from high yield to investment grade.

The highest credit quality names are mainly in resource industries; the lowest are mainly a mixture of travel & leisure related firms and some struggling resource companies.

The Australian economy is now service driven (60% of GDP, 80% of employment) but exports are about one third of GDP and are dominated by hard commodities – coal, copper, gold, aluminium, iron ore, oil & gas.

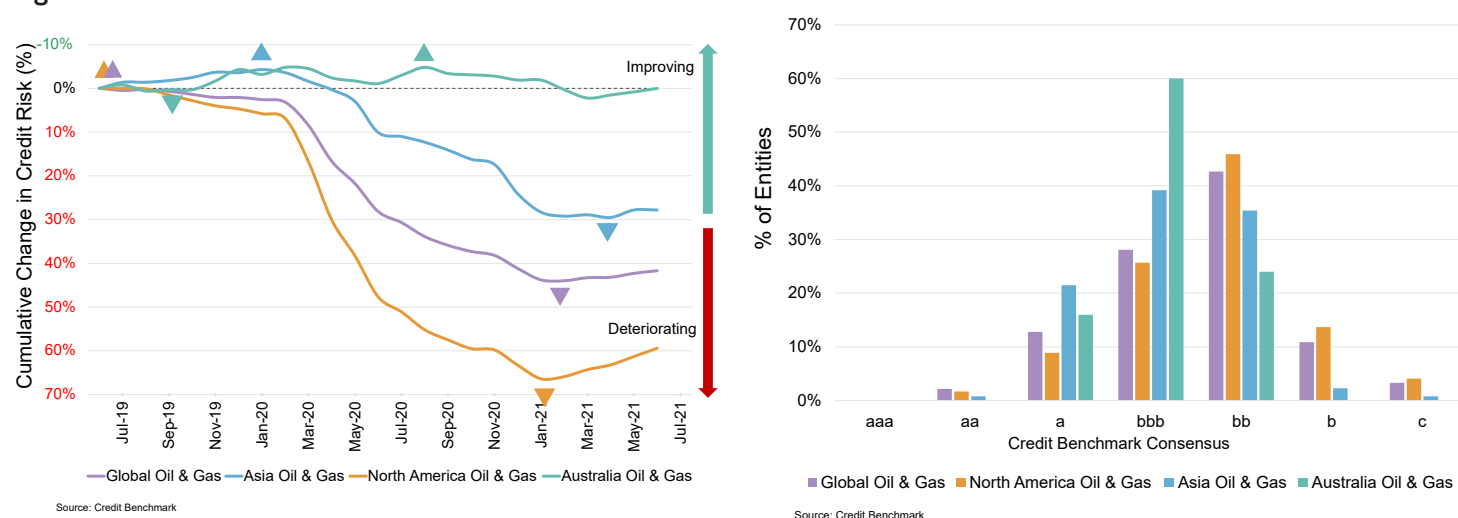
Figure 4 shows the credit trends and profile for Basic and Industrial sectors.

Figure 4: Basic and Industrial Sectors – Australia



Basic Materials and General Mining actually improved over the pandemic; Basic Materials has more than 20% in the a or aa categories. Industrial Transportation suffered, deteriorating by more than 15% at the trough; but this is mild by comparison with the Global universe for this sector (with a deterioration of 25%) and North America (close to 30%).

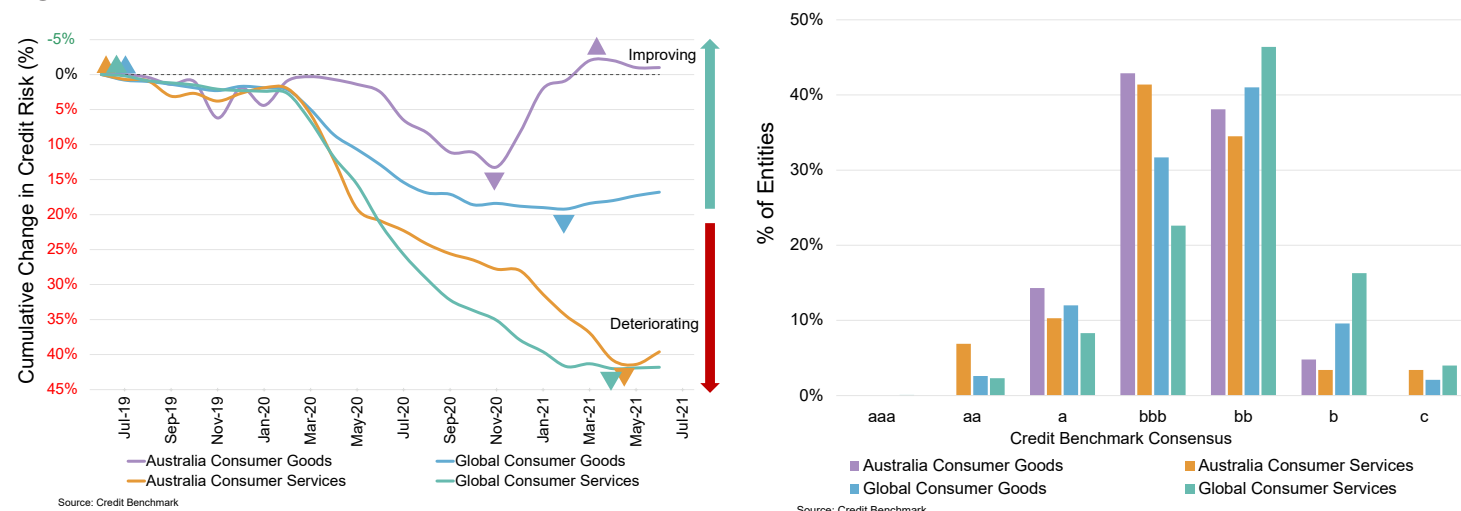
Figure 5: Oil & Gas - Australia vs. Global



Global Oil & Gas deteriorated by more than 40%, and North America by nearly 70% at the trough. Asia is down about 30%; Australian Oil & Gas companies show no impact.

Figure 6 shows Consumer sectors in Australia.

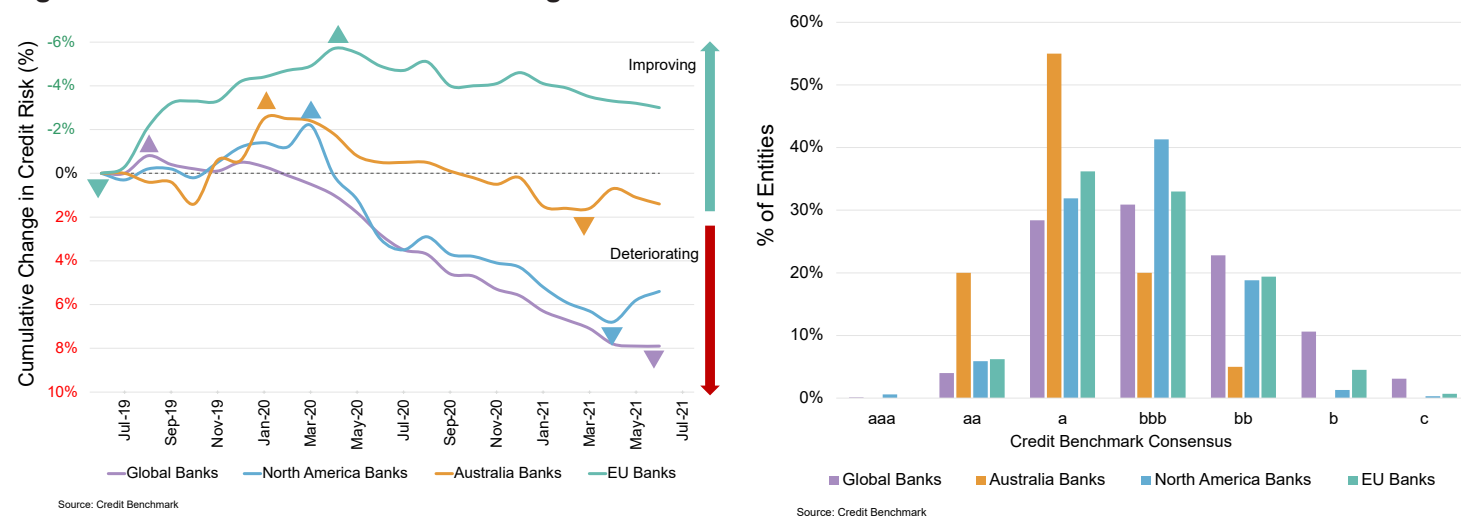
Figure 6: Consumer Sectors - Australia vs. Global



Australian Consumer Services follow the Global lockdown pattern - a 40% deterioration before recently reaching a possible trough. Australian Consumer Services show a dramatic recovery beginning at the end of 2020, and this has persisted. The Global universe is slowly recovering from a 20% deterioration. The Australian sectors are, on average, better credit quality.

Figure 7 compares Australian Banks with various regional and global aggregates.

Figure 7: Banks - Australia vs Global and Regional



With Governments providing widespread economic support, Banks have had a smoother ride than most during the pandemic: the Global universe deteriorated by less than 9% and is now stable. North America follows the Global pattern although it is showing signs of a slightly earlier retracement. Australia shows no change while the EU actually improved by 6% at its peak.

At the industry and sector level, Australia has so far suffered limited credit damage from the pandemic. Strong balance sheets at the time of the initial outbreak, a robust Government response, and an export sector that is seeing strong demand have all contributed to what looks like a credit success story.

Turning to single companies, Figure 8 (overpage) shows 10 of the most improved and most deteriorated Australian corporates over one, three and six months.

Figure 8: Most improved and most deteriorated Australian corporates.

	1 Month	3 Months	6 Months
Improving over all periods	ANSELL LTD	ANSELL LTD	ANSELL LTD
	AUSNET SERVICES HOLDINGS PTY LTD	AUSNET SERVICES HOLDINGS PTY LTD	AUSNET SERVICES HOLDINGS PTY LTD
	COMPUTERSHARE LTD	COMPUTERSHARE LTD	COMPUTERSHARE LTD
	RAMSAY HEALTH CARE LTD	RAMSAY HEALTH CARE LTD	RAMSAY HEALTH CARE LTD
Recent strong improvement	AUSTRALIAN BROADCASTING CORP	AUSTRALIAN BROADCASTING CORP	
	AUSTRALIA PACIFIC AIRPORTS MELBOURNE PTY LTD	AUSTRALIA PACIFIC AIRPORTS MELBOURNE PTY LTD	
	CIMIC GROUP LTD	CIMIC GROUP LTD	
	DOWNER EDI LTD	DOWNER EDI LTD	
	POSCO AUSTRALIA PTY LTD	POSCO AUSTRALIA PTY LTD	
Fading		QANTAS AIRWAYS LTD	QANTAS AIRWAYS LTD

	1 Month	3 Months	6 Months
Deteriorating over all periods	ORICA FINANCE LTD	ORICA FINANCE LTD	ORICA FINANCE LTD
	OPTUS FINANCE PTY LTD	OPTUS FINANCE PTY LTD	OPTUS FINANCE PTY LTD
Recent sharp deterioration	ALCOA OF AUSTRALIA LTD	ALCOA OF AUSTRALIA LTD	
	COMPUTERSHARE FINANCE CO PTY LTD	COMPUTERSHARE FINANCE CO PTY LTD	
	IBM AUSTRALIA LTD	IBM AUSTRALIA LTD	
	MERCEDES BENZ AUSTRALIA PACIFIC PTY LTD	MERCEDES BENZ AUSTRALIA PACIFIC PTY LTD	
Stabilising		ORICA LTD	ORICA LTD
		COCHLEAR LTD	COCHLEAR LTD
		HASTINGS DEERING AUSTRALIA LTD	HASTINGS DEERING AUSTRALIA LTD
		PBSA FINANCE COMPANY 1 PTY LTD	PBSA FINANCE COMPANY 1 PTY LTD

Ansell (safety equipment), Ausnet, Computershare and Ramsay Healthcare all show improvement over multiple time periods. This may reflect a recent sharp upward move or a more sustained series of smaller moves. Orica Finance and Optus Finance are the equivalent on the deteriorating lists.

Recent improvements (or not sharp enough to show up yet in the six month column) include Australian Broadcasting, Melbourne Airport, CIMIC (construction etc), Downer (Rail, Bus etc services operator), and Posco (Mining Finance and Trading – Korean owned). The equivalent in the deterioration table includes Alcoa, Computershare Finance, (i.e. the two related companies are diverging), IBM and Mercedes Benz. A number of these are subsidiaries of larger foreign firms, so their credit changes may be related to the parent company.

Credit recovery at Qantas seems to be fading; while Orica, Cochlear, Hasting Deering and PBSA Finance appear to have stabilised in the past one or two months.

Consensus risk metrics on these Australian corporates and 30,000+ other entities can be accessed on the Bloomberg Terminal via CRPR, CRSR, and CRDT. Figure 9 shows a Worksheet of the most improved and most deteriorated Australian companies.

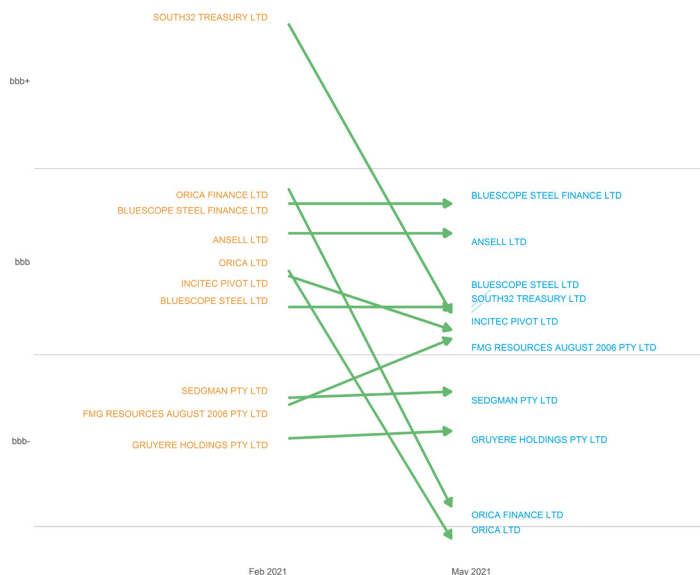
Figure 9: Bloomberg Terminal Worksheet

Long Comp Name	CB Cred Rsk Ind	CB Rtg	CB Rtg Mvmnt 6	CB Rtg Mvmnt 1	CB Opin Chg Ind	CB Rtg Outlir In
Ansell Ltd	IG2	a-	2	2	Stable	Pessimistic
AusNet Services Holdings Pty Ltd	IG1	a	2	2	Stable	Balanced
Computershare Ltd	IG2	bbb+	2	2	Improving	Balanced
Ramsay Health Care Ltd	IG2	a-	2	2	Stable	Balanced
Australian Broadcasting Corp	IG1	aa		2	Stable	Pessimistic
Australia Pacific Airports Melbourne Pty Ltd	IG2	bbb	-1	2	Stable	Pessimistic
CIMIC Group Ltd	IG2	bbb	2	2	Stable	Balanced
Downer EDI Ltd	IG2	bbb	2	2	Stable	Pessimistic
POSCO Australia Pty Ltd	IG2	bbb		2	Stable	Balanced
Orica Finance Ltd	Crossover	bb+	-2	-2	Stable	Balanced
Pbsa Finance Co 1 Pty Ltd	HY1	bb	-2	0	Stable	Optimistic
Alcoa of Australia Ltd	HY1	bb	-2	-2	Stable	Balanced
Computershare Finance Co Pty Ltd	IG2	bbb	0	-2	Stable	Balanced
IBM Australia Ltd	Crossover	bbb-	0	-2	Stable	Balanced
Mercedes-Benz Australia/Pacific Pty Ltd	IG2	bbb	-2	-2	Stable	Balanced
Orica Ltd	Crossover	bb+	-2	0	Stable	Optimistic
Cochlear Ltd	Crossover	bbb-	-2	0	Stable	Balanced
Hastings Deering Australia Ltd	HY1	bb	-2	0	Stable	Optimistic
Pbsa Finance Co 1 Pty Ltd	HY1	bb	-2	0	Stable	Optimistic

To understand the borrower level changes in individual industries, it is useful to look at changes in the rank positions. Figure 10 plots these for 4 industries.

Figure 10: Rank position changes, various industries, past three months

Basic Materials



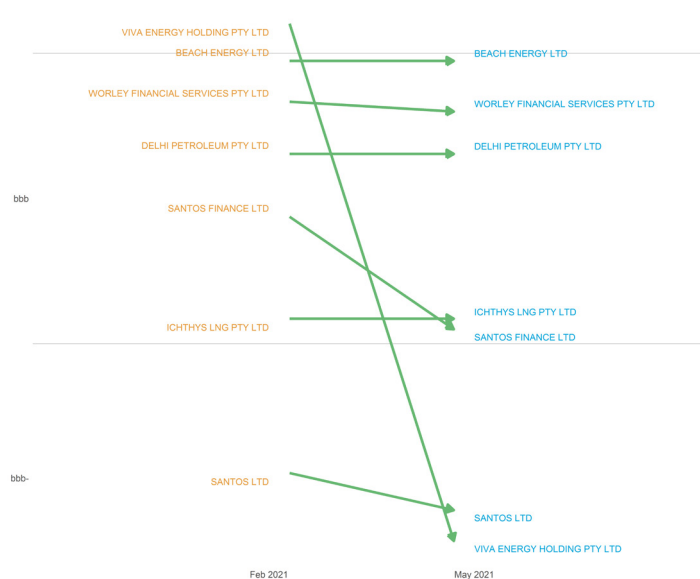
Financials



Industrials



Oil & Gas

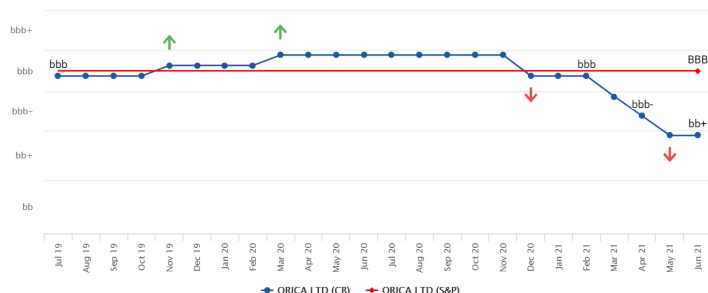


The standouts in Basic Materials are South 32 Treasury, FMG Resources, and the two Orica companies mentioned earlier. CBRE and Holcim show major rank changes in Financials; John Holland in Industrials; and Viva Energy in Oil & Gas.

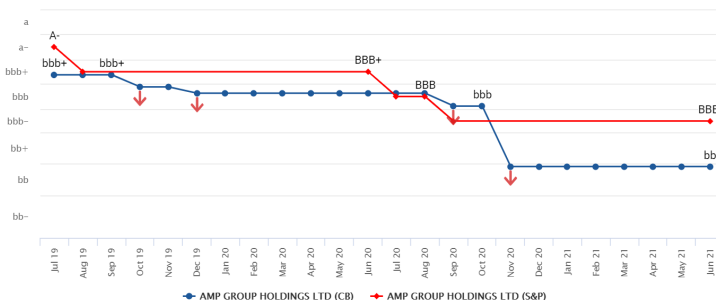
Figure 11 (overpage) shows companies and one State Treasury with the largest recent or current divergences between consensus rating and the S&P equivalent.

Figure 11: Australian borrowers with large recent or current divergences vs. S&P

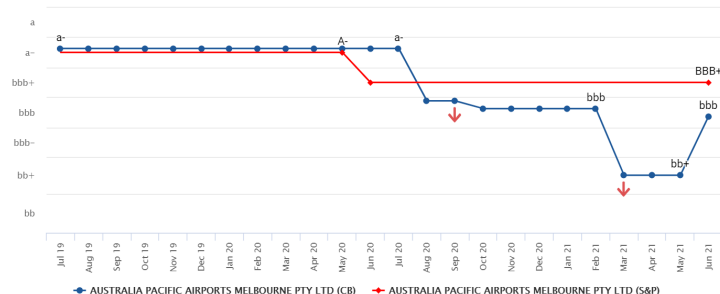
Orica Ltd



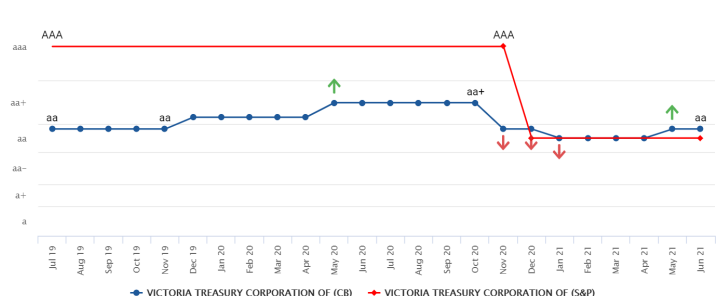
AMP Group Holdings Ltd



Australia Pacific Airports Melbourne Pty Ltd



Treasury Corporation of Victoria



Melbourne Airport and Orica Ltd feature in the improving / deteriorating lists in Figure 8. Orica has had two significant negative opinion changes (identifiable like-for-like changes in bank estimates) and the consensus rating is non-investment grade. Melbourne Airport was in a similar position but has now returns to investment grade. The consensus for Victoria Treasury has been in the **aa** or **aa+** region for at least two years; a cluster of negative opinion changes coincided with an S&P downgrade from AAA. The consensus rating for AMP is also currently non-investment grade, while S&P show it as BBB-.

Conclusion

In credit terms, sections of the Australian economy have so far ridden out the pandemic in reasonable shape. The usual Covid casualties – especially in Travel & Leisure – are apparent, but the Australian export sector has strengthened, driven by the Covid related building boom and global retooling of local suppliers. While this is reflected in the trends shown here, it is clear that in credit terms, most Australian industries – domestic and international, capital and consumer – are typically outperforming their global peers.

About Credit Benchmark

Credit Benchmark brings together internal credit risk views from 40+ of the world's leading financial institutions. The contributions are anonymized, aggregated, and published in the form of entity-level consensus ratings and aggregate analytics to provide an independent, real-world perspective of risk. Consensus ratings are available for 60,000 financials, corporate, funds, and sovereign entities globally across emerging and developed markets, and 90% of the entities covered are otherwise unrated.

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