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Bulletin:

Stockland Ratings Unchanged After Merger Bid With Australand

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MELBOURNE (Standard & Poor's) April 23, 2014--Standard & Poor's Ratings Services said today that its ratings on Stockland (A-/Stable/A-2) are unchanged following the group's indicative, nonbinding, and incomplete proposal to the Australand board in relation to a potential merger of Stockland and Australand through an all-scrip transaction. This follows Stockland's on-market acquisition of a 19.9% interest in March 2014. The Australand board has indicated that it intends to reject this offer. Stockland's proposal is an all-scrip offer of 1.111 Stockland securities for each Australand stapled security that it does not currently own. The proposal would be subject to due diligence and customary conditions.

Should the merger succeed, we expect that Stockland's financial metrics would remain consistent with the 'A-/A-2' ratings. These would include an EBITDA interest cover of more than 3x and funds from operations (FFO)-to-debt at more than 15%. Importantly, Stockland's gearing would be remaining within its debt-to-total tangible assets target range of 20%-to-30%. However, Stockland's credit metrics will initially be stretched upon the merger, with an improvement dependent on a sale of noncore assets or reduced discretionary capital expenditure.

We consider the ultimate asset mix of the merged entity is likely to remain consistent with the preferred target range of 70%-to-80% from recurring earnings and 20%-to-30% from trading income. The merger will expand Stockland's proportion of office and industrial assets. Should the merger proceed, we will consider Stockland's strategy regarding its increased office exposure and the residential 'built form' projects that Australand currently undertakes.

Whilst we do not see any rating impact from this predominantly equity-funded transaction, downward pressure may occur should Stockland increase its bid with debt to the extent that it further weakens the credit metrics outside of our expectations.

Under Standard & Poor's policies, only a Rating Committee can determine a Credit Rating Action (including a Credit Rating change, affirmation or withdrawal, Rating Outlook change, or CreditWatch action). This commentary and its subject matter have not been the subject of Rating Committee action and should not be interpreted as a change to, or affirmation of, a Credit Rating or Rating Outlook.