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- Tabcorp gets court approval for casino demerger, S&P downgrades to BBB/Negative.

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Lend Lease has secured a new \$975m syndicated loan facility (comprising a \$595m three year term tranche and \$380m five year term tranche) that it will use to refinance the \$570m club facility that matures in December 2011 (fully drawn at 31 December 2010). Pricing details were undisclosed but covenants (also unknown) were unchanged from existing arrangements. This syndication follows the establishment of a \$225m five year debt facility in December 2010 to fund the group's entry in the civil engineering market via the acquisition of Valemus.

CBA Comment: Management has under promised and over delivered given that commitments for the new facility stood at ~\$750m at the time of the recent investor day. We assume the number of participants in the syndicate is more than the in the club and that some of the participants have hedged, contributing to the recent upwards pressure on the 5 yr CDS level. At ~199bps, Lend Lease is the widest constituent in iTraxx Australia and once the loan related hedging is completed there should be less upwards pressure on the price. Nevertheless, we think concerns around the future evolution of Lend Lease's business mix towards higher ROEs available in development and construction/ engineering and away from less risky rental revenues will likely limit the capacity of the CDS to fall much below ~175 bps in the short to medium term. Nevertheless, liquidity is strong and net gearing should be capped at ~15% over the next three years despite a large capex pipeline. Further we believe the \$806m equity raising in 2010 and the recent decision to reactivate the DRP are tangible evidence of management's commitment to maintain an IG rating. So despite S&P clearly stating the Valemus acquisition absorbed most of the capacity at the BBB- rating level, we continue to believe, that when pushed, management will ultimately raise more equity to again defend its IG status. – Michael Bors.

Tabcorp gets court approval for casino demerger, S&P downgrades to BBB/Negative.

Court approval for Tabcorp's demerger of its casino businesses (Echo Entertainment) has been received and accordingly, S&P has downgraded Tabcorp from BBB+/Watch Negative to BBB/Negative. The agency has further warned that failure to retain the Victorian wagering licence that expires in 2012 would further reduce diversity and (all other things being equal) result in a downgrade to BBB-. – Michael Bors.



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