FitchRatings

RATING ACTION COMMENTARY

Fitch Downgrades InfraBuild Australia's IDR to 'CC'

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Fitch Ratings - Singapore/Sydney - 31 Mar 2025: Fitch Ratings has downgraded the Long-Term Issuer Default Rating (IDR) of InfraBuild Australia Pty Ltd. (InfraBuild) to 'CC', from 'CCC-'. The rating on InfraBuild's senior secured US dollar notes has also been downgraded to 'CCC-', from 'CCC+', with a Recovery Rating of 'RR3'. We rate InfraBuild based on the consolidated profile of its 100% holding company, Liberty InfraBuild Ltd. (InfraBuild Group), which does not generate any revenue, nor holds any cash or debt.

The rating downgrade is based on our assessment of an elevated probability of default by InfraBuild on its USD550 million notes within the next three months as the company has not yet published its audited financial statements for the financial year ended June 2024 (FY24). The company expects the audit process to be completed after its parent, GFG Alliance, reaches a formal settlement with creditors of Greensill Capital.

We believe completion of the audit would also require InfraBuild's directors to approve the distribution sought by GFG Alliance for the settlement, and certainty over the refinancing of InfraBuild's USD150 million (AUD240 million) asset-backed term loan (ABTL) due May 2026. We think these conditions are difficult to meet in a timely manner.

We also see risk of a covenant breach under the ABTL within the next six months, unless InfraBuild's EBITDA recovers. A covenant breach, if not waived, could lead to payment acceleration and a liquidity crunch. We see limited potential for EBITDA improvement in the next six months due to the risk of an increase in cheap steel imports into Australia. The weak EBITDA outlook may also hamper the ABTL's refinancing.

KEY RATING DRIVERS

High Risk of Bond Default: We understand that InfraBuild is discussing with senior secured noteholders to allow a deferral of the publication of the FY24 audited financial statements. Bondholders had provided their consent to defer the publication until 31 January 2025 and subsequently to March 2025, from end-October 2024.

An agreement may not be reached with the majority of noteholders to extend the timeframe for audited statements beyond 31 March 2025. That would lead to an event of default under the notes and principal acceleration. Even if the noteholders agree, we think they may require the statements to be available within the next three months. We see impediments to the timely completion of InfraBuild's audit process, which means a default under the notes could be imminent.

Weak EBITDA Outlook: InfraBuild's 1HFY25 reported EBITDA fell 43% yoy. We see risk that performance in the next few quarters will remain weak due to a surge in steel imports into Australia. The US imposed a 25% import tariff from March 2025 and the EU is planning to cut import quotas to address the risk of steel being dumped in the region. Australia has not imposed protectionist measures so far, beyond existing anti-dumping duties and product certification requirements. Australia's steel imports could increase due to redirection of flows from North Asia.

ESG - Financial Transparency: We think the publication of FY24 audited financial statements may be delayed beyond the next few months, leading to a default on InfraBuild's notes. We rely on unaudited FY24 accounts for our forecasts, and InfraBuild's actual financial position could be weaker.

Risk of Covenant Breach: We estimate InfraBuild would breach the ABTL's financial covenants by 1QFY26 in the absence of a sharp EBITDA recovery, which could lead to a second waiver request following the October 2024 covenant reset. An uncured breach and inability to refinance could lead to an acceleration of USD150 million under the ABTL and a liquidity shortfall.

High Refinancing Risk: InfraBuild is working to refinance the ABTL within the next few months, to complete the audit process for FY24 financials and avert a bond default. The company is engaging with new investors in addition to the existing lenders, BlackRock and Silver Point Finance. We think the weak EBITDA outlook will hamper the refinancing process and it may not be completed in time.

Settlement-Related Uncertainty: The potential amount payable by GFG Alliance to settle its dues with creditors is unclear. The ABTL permits an initial release of USD250 million, and any additional amount will require approval from lenders. We think InfraBuild's directors may also withhold approval for a higher distribution to GFG Alliance for the settlement, as it would undermine InfraBuild's liquidity. We assume InfraBuild will pay a dividend of USD250 million in FY25.

Potential Asset Sales: InfraBuild is pursuing asset sales in the US and Australia, which would improve its liquidity and boost its covenant ratios. Substantial disposal gains may lead us to revise up our liquidity assessment for InfraBuild and boost its credit profile. However, the company has pushed back the timeframe for the receipt of potential sale proceeds of around AUD75 million to 4QFY25 from 3QFY25, and we have not included them in our forecast due to uncertainty.

Limited Impact from Whyalla: InfraBuild generally buys around 400,000 tonnes of steel billets annually from Whyalla Steelworks in South Australia, which was owned by GFG Alliance until February 2025, when the state government forced it under administration.

Media reports suggest that the administrator is seeking a price hike for billet supply to InfraBuild, which has the option to import instead. We estimate the annual EBITDA impact of a potential reset of pricing for Whyalla supply or its substitution by imports at less than AUD20 million.

ESG - Governance Structure: We think InfraBuild's credit profile is exposed to governance risks. The ownership of InfraBuild is concentrated with the GFG Alliance, which has been unable to reach a debt settlement since 2021. GFG's Whyalla asset was forced into administration, and the group is being investigated by the UK's Serious Fraud Office (SFO) for suspected fraud and money laundering. InfraBuild has a record of related-party transactions. Its board of directors has only three independent members out of seven.

Rated on a Standalone Basis: InfraBuild's ultimate controlling party as per its financial statements is Singapore-incorporated Liberty Steel Group Holdings Pte. Ltd (LSGH), which is part of the larger GFG Alliance. We do not have any material information on LSGH and its shareholders, preventing a detailed parent and subsidiary linkage assessment. However, we think risks associated with a cash drain from InfraBuild for the benefit of the GFG Alliance beyond our dividend assumption are mitigated by InfraBuild's debt covenants.

PEER ANALYSIS

InfraBuild's IDR reflects our assessment that a default is probable. The IDR can be compared with that of peers such as Interpipe Holdings Plc (CCC-), Metinvest B.V. (CCC) and Cleveland-Cliffs Inc. (Cliffs, BB-/Stable).

Interpipe is a Ukrainian producer of high value-added steel products, mostly pipes and railway wheels. Interpipe's rating reflects the high risk of damage or disruption at its facilities in central Ukraine, which generate substantially all its earnings and cash flow, due to their proximity to the conflict zone. Nonetheless, Fitch expects the company to be able to maintain robust liquidity in the near term to fund operations and service its financial obligations in 2025. InfraBuild's lower IDR reflects our assessment of higher short-term liquidity risk compared with Interpipe.

Metinvest is a vertically integrated Ukrainian mining and steel company, with most of its operations in Ukraine. Its rating reflects heightened operational and financial risk since Russia's invasion of Ukraine. The IDR also incorporates Fitch's view that Metinvest is likely to service its financial obligations in 2025 with the help of its overseas assets. Metinvest is rated higher than InfraBuild based on our assessment of lower short-term liquidity risk.

Cliffs is the largest flat-rolled steel producer and largest producer of iron ore pellets in North America. It is a majority blast furnace producer of steel with some electric arc furnace (EAF) production. Its business profile is stronger than InfraBuild's due to a much larger EBITDA scale, focus on higher value-added products and a significant share of fixed-price contracts. Fitch also expects Cliffs' leverage and coverage metrics to be healthier.

KEY ASSUMPTIONS

Fitch's Key Assumptions Within Our Rating Case for InfraBuild Group:

- Revenue to decline by 13% in FY24 and 6% in FY25 before recovering by 4% in FY26;

- Average Fitch-adjusted EBITDA margin of 4% over FY24-FY26 (FY23: 10%);

- Cumulative capex of around AUD350 million during FY24-FY26;

- A special dividend of USD250 million in FY25;

- Release of USD100 million of restricted cash held in escrow under the ABTL;

- Repayment of USD150 million of outstanding ABTL in FY26;

- No divestments or acquisitions.

RECOVERY ANALYSIS

The recovery analysis assumes that InfraBuild would be liquidated in a bankruptcy as we estimate this results in a better return to creditors. We have assumed a 10% administrative claim.

Liquidation Approach

- To calculate the liquidation value, we use a 70% advance rate against InfraBuild's reported trade receivables as of end-December 2024 and a 40% rate against the reported inventories and property, plant and equipment. We have lowered the advance rates to account for risk that InfraBuild's reported values could be adjusted lower upon audit.

- We treat the outstanding ABTL and Mayfield mortgage as senior to the notes in the recovery waterfall.

These assumptions result in an 'RR3' Recovery Rating.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade:

- The IDR would be downgraded to 'C' if a default or default-like event begins. This includes InfraBuild entering into a grace or cure period following non-payment of a material financial obligation.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade:

- Reduced debt acceleration and liquidity risk, driven by the publication of audited statements for FY24 in a timely manner.

LIQUIDITY AND DEBT STRUCTURE

InfraBuild reported unrestricted cash of AUD288 million as of end-December 2024, which is insufficient to address the potential payment acceleration of USD550 million (AUD880 million) in senior secured notes within the next three months.

If InfraBuild averts a default on its notes, we estimate that its FYE25 cash of around AUD330 million could be insufficient to repay the USD150 million ABTL in FY26 due to negative free cash flow. InfraBuild's AUD50 million Mayfield mortgage matures in October 2025 and an AUD72 million related-party loan may be repayable after the ABTL is repaid.

ISSUER PROFILE

InfraBuild is Australia's sole vertically integrated manufacturer, processor and distributor of long steel products, including reinforcing steel, with an EAF-based steelmaking capacity of 1.4 million tonnes per annum. It comprises the manufacturing, product mill, distribution and recycling assets of the former Arrium Group, which were taken over by GFG Alliance in 2017.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

We rate InfraBuild on a standalone basis. Its ultimate controlling party is LSGH. We do not have any material information on LSGH and its shareholders, and therefore cannot undertake a detailed parent and subsidiary linkage assessment. However, we think risks associated with a cash drain from InfraBuild for the benefit of the GFG Alliance beyond our dividend assumption are mitigated by InfraBuild's debt covenants. This provides us with sufficient basis to assess InfraBuild's credit profile and assign a rating.

MACROECONOMIC ASSUMPTIONS AND SECTOR FORECASTS

Click here to access Fitch's latest quarterly Global Corporates Macro and Sector Forecasts data file which aggregates key data points used in our credit analysis. Fitch's macroeconomic forecasts, commodity price assumptions, default rate forecasts, sector key performance indicators and sector-level forecasts are among the data items included.

ESG CONSIDERATIONS

InfraBuild has an ESG Relevance Score of '5' for Financial Transparency due to the continued non-availability of audited FY24 financial statements. If the audit process is not completed within the next few months, InfraBuild is likely to face an event of default and debt acceleration. We have relied on unaudited accounts for our forecasts and InfraBuild's actual financial position could be weaker. These factors have a negative impact on the credit profile and are highly relevant to the rating, resulting in a lower IDR for InfraBuild.

InfraBuild has an ESG Relevance Score of '5' for Governance Structure due to ownership by entities within Sanjeev Gupta's GFG Alliance, which has been unable to reach a debt settlement since 2021 and is under investigation by the SFO. InfraBuild also lacks a majority of independent directors on its board. These have a negative impact on the credit profile and are highly relevant to the rating, resulting in a lower IDR for InfraBuild.

InfraBuild has an ESG Relevance Score of '4' for Group Structure due to it being part of the complex GFG Alliance and numerous related-party transactions. This has a negative impact on the credit profile and is relevant to the ratings in conjunction with other factors.

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

RATING ACTIONS

ENTITY / DEBT	RATING			RECOVERY	PRIOR
InfraBuild Australia Pty Ltd.	LT IDR	CC	Downgrade		CCC-
senior secured	LT	CCC-	Downgrade	RR3	CCC+

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VIEW ADDITIONAL RATING DETAILS

Additional information is available on www.fitchratings.com

PARTICIPATION STATUS

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APPLICABLE CRITERIA

Parent and Subsidiary Linkage Rating Criteria - Effective from 16 June 2023 to 27 June 2025 (pub. 17 Jun 2023)

Corporates Recovery Ratings and Instrument Ratings Criteria (pub. 03 Aug 2024) (including rating assumption sensitivity)

Corporate Rating Criteria - Effective from 6 December 2024 to 27 June 2025 (pub. 07 Dec 2024) (including rating assumption sensitivity)

Sector Navigators – Addendum to the Corporate Rating Criteria - Effective from 6 December 2024 to 27 June 2025 (pub. 07 Dec 2024)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Corporate Monitoring & Forecasting Model (COMFORT Model), v8.1.0 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

InfraBuild Australia Pty Ltd.	EU Endorsed, UK Endorsed

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