MOODY'S
INVESTORS SERVICE

Rating Action: Moody's downgrades Weir to Baa3; outlook negative

Global Credit Research - 29 Feb 2016

Frankfurt am Main, February 29, 2016 -- Moody's Investors Service, ("Moody's") has today downgraded the long-term issuer rating of the Weir Group Plc (Weir) to Baa3 from Baa1. Concurrently, Moody's has downgraded the short-term rating of Weir to Prime-3 from Prime-2. The outlook on the ratings remains negative.

RATIONALE FOR RATINGS

"Today's rating action reflects our expectations that Weir's credit metrics will remain well below levels commensurate with a Baa1 rating at least through 2017", says Martin Fujerik, lead analyst for Weir. Moody's estimates that Weir's Moody's-adjusted debt/EBITDA and Moody's-adjusted EBITA margin will be around 5.0x and 8%, respectively, for 2015. If adjusted for around EUR120 million restructuring charges, the metrics would be around 3.5x and 13.5%, respectively. These metrics might weaken further in 2016, and, therefore, a major improvement in credit metrics through 2017 towards levels we set for a Baa1 rating (2.0x and 15%, respectively), has become very unlikely.

Weir is currently facing a severe downturn in its mining and oil and gas end markets, owing to unprecedentedly low base metals and oil prices which have caused Weir's customers to substantially cut investment in new equipment. Weir's oil and gas business, which is centered around pressure pumping and pressure control products primarily for the North American upstream oil market, has seen the most severe investment cuts.

In 2015 Weir's Oil and Gas division's input declined by around 50% year on year. The rating agency notes that the usually more resilient aftermarket business has also shown a significant decline (around 40% input decline year on year), being negatively affected by low activity levels as well as destocking and asset cannibalisation, which is likely to remain at least for the next couple of months. Moody's believes that the current downturn represents a structural shift in operating environment and currently forecasts the oil price (Brent crude) to improve only marginally to $33 in 2016, moving further to $38 in 2017. This is unlikely to be enough to support major improvement in activity and increase in investments in the US upstream oil industry through 2017 in Moody's view. As such, there is a risk of a further material decline in the division's revenues up to 20% and profitability towards low-to-mid single digit in 2016, currently without clear signs of major rebound in 2017.

The mining business has continued to perform well and broadly in line with Moody's expectations in 2015, despite miners cutting expansionary capex further as metal prices, in particular iron ore, keep decreasing. The highly profitable aftermarket business, constituting around 70% of the Minerals division's revenues, remains robust. This is because the business is primarily dependent on mine production volume levels, which Moody's does not expect to start materially deteriorating in the next 12-18 months, even if miners' expansionary capex continues to decline. As such, Moody's sees Weir's 2016 guidance of a slight decline in constant currency revenues and broadly flat operating margin (around 19% in 2015) in the Minerals division as realistic and achievable.

Weir's Baa3 long term rating is supported by good free cash flow generation driven by roughly GBP90 million release of working capital in 2015, that is likely to continue into 2016, even though not at the same magnitude. Although Weir has decided not to cut dividends in 2016, it offers a scrip dividend option and plans to dispose assets of up to GBP100 million to support its balance sheet and improve headroom under its net leverage covenant set at 3.5x. The ratio was 2.5x as of December 2015, but is likely to move up to around 3.0x for the next testing period for 12 months to June 2016. Maintenance of ample headroom under covenants at any time is key for an investment grade rating.

Apart from the reducing headroom under its financial covenant Moody's views Weir's liquidity position as adequate, benefitting from a largely undrawn revolving facility of USD800 million and positive free cash flow generation even after dividends. There are roughly EUR160 million issued commercial papers under short-term debt and no material long-term maturities until 2018 at this stage.

The downgrade of the short term rating to Prime-3 from Prime-2 mirrors the downgrade of the long-term rating.

RATIONALE FOR OUTLOOK

The maintenance of negative outlook reflects little signs of stabilization and a fairly low visibility in the oil and gas business, which enhances the risk of underperformance and further reduction of Weir's headroom under the net leverage covenant through 2016.

WHAT COULD CHANGE THE RATING UP/DOWN

Moody's could downgrade the ratings further, if Weir's (1) liquidity position weakens, primarily due to its net leverage covenant ratio moving above 3.0x (2.5x per 12 months to December 2015) or sustained negative free cash flow generation; (2) Moody's adjusted debt/EBITDA stays sustainably above 3.5x (around 5.0x in 2015, including restructuring); or (3) Moody's adjusted RCF/net debt stays sustainably below 20% (estimated roughly mid-teens for 2015).

Moody's could stabilize the outlook if Weir manages to maintain ample headroom under its financial covenants at any time or if there is visibility of Moody's adjusted debt/EBITDA moving towards 3.0x. An upgrade would require Moody's adjusted debt/EBITDA to be sustainably below 2.5x.

The principal methodology used in these ratings was Global Manufacturing Companies published in July 2014. Please see the Ratings Methodologies page on www.moodys.com for a copy of this methodology.

Headquartered in Glasgow, UK, Weir is an engineering solution provider focusing on designing, manufacturing and supplying products and engineering services for the minerals, oil & gas, and power & industrial markets. The group is organized into three divisions: Weir Minerals (around 50% of group revenues in 2015), Weir Oil and Gas (30%) and Weir Power and Industrial (20%). In 2015 Weir generated revenues of GBP1.9 billion. Weir is a publicly listed company.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this credit rating action, and whose ratings may change as a result of this credit rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on www.moodys.com for additional regulatory disclosures for each credit rating.

Martin Fujerik
Asst Vice President - Analyst
Corporate Finance Group
Moody's Deutschland GmbH
An der Welle 5
Frankfurt am Main 60322
Germany
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454

Matthias Hellstern
MD - Corporate Finance
Corporate Finance Group
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454

Releasing Office:
Moody's Deutschland GmbH
An der Welle 5
Frankfurt am Main 60322
Germany
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454