cchl CHRISTCHURCH CITY HOLDINGS LIMITED

Credit caution understandable -- Christchurch City Council

Today's revision by credit rating agency Standard & Poor's of Christchurch City Council's group rating is understandable given uncertainty surrounding the future capital requirements of Lyttelton Port Company, says CCC director of strategic investment Bob Lineham.

In November, the international agency confirmed the Council's strong AA+ rating and said the outlook was "stable". Today it reaffirmed the primary rating, but revised the outlook to "negative". In a statement, it said the negative outlook reflects the potential for the rating to come under pressure if the Council achieves or exceeds its estimated net debt levels. "Further material investment in CCTOs (Council-controlled trading organisations) would almost certainly result in a downgrade," S&P said.

The agency again noted that a significant part of CCC income (about $30 million a year) is from dividends paid by its CCTO infrastructure companies and that these companies and the Council itself were due to embark on "challenging" capital spending programmes which will be part-funded by borrowing. Much of this was to do with Christchurch International Airport Ltd's domestic terminal upgrade and Christchurch City Holdings Ltd's move to take over the port company.

This week, Hutchison Port Holdings – the international partner which City Holdings had hoped to bring in as a partner in operating the port – withdrew from the arrangement. Mr Lineham says it is likely that decision which triggered S&P's revision.

"This change in outlook isn't unexpected and is not a cause for concern," Mr Lineham says. "It is not a credit downgrade and will have very little impact, if any, on the cost of borrowing for the Council or the trading companies.

"The current double-A plus (AA+) rating continues to exceed the Council's double-A (AA) target and, even at that, would be an excellent level of financial security and one achieved by only a few entities in New Zealand," he says.

Mr Lineham, who also serves as chief executive of CCHL, says the holding company remains confident it will gain effective control of the port company and that this will not unduly impact on overall indebtedness.

"At the same time, with the various moves and changes happening in this deal, I can understand that concern," he says. "The port does need significant investment and we had been working on the basis that a proportion of that would be shared by a new partner. I'm sure we'll get there, but it may take longer than we'd hoped."