

Box B

Listed Corporates' Gearing Ratios

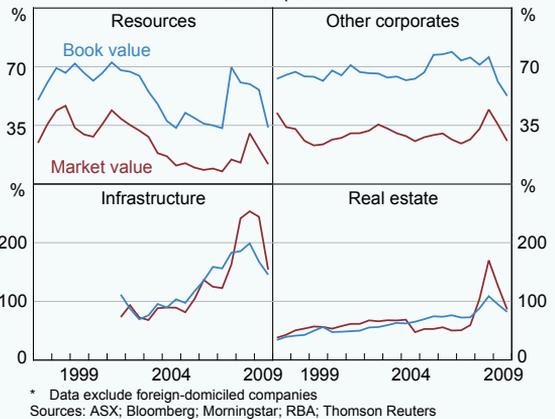
The leverage of listed companies declined in all key industry sectors throughout 2009, although this masked significant differences in the behaviour of individual firms.¹

For resource companies, which account for 54 per cent of market capitalisation but 24 per cent of debt, gearing declined sharply, falling close to historical lows. Rio Tinto's \$18 billion capital raising to repay debt accounted for close to half of the fall. Domestically, resource companies raised a further \$26 billion in equity over the course of 2009, lowering the gearing ratio for resources companies to around 34 per cent, half the level seen in 2008 (Graph B1).

In the non-resource sector, real estate and infrastructure companies continued to have the most highly leveraged balance sheets. Infrastructure companies reduced their gearing ratio to 146 per cent as they lowered their debt levels by 21 per cent over the course of 2009. Real estate companies also reduced their gearing, with the gearing ratio declining by 27 percentage points to 82 per cent. However, attempts by some real estate companies to reduce gearing over the course of 2009 were hampered by asset write-downs; ASX 200 real estate companies wrote off around \$13 billion due to asset revaluations and asset sales over 2009.

Other corporates (which account for 46 per cent of companies but hold 33 per cent of debt) experienced a more pronounced decline in gearing amidst

Graph B1
Gearing Ratios by Sector*
Listed corporates



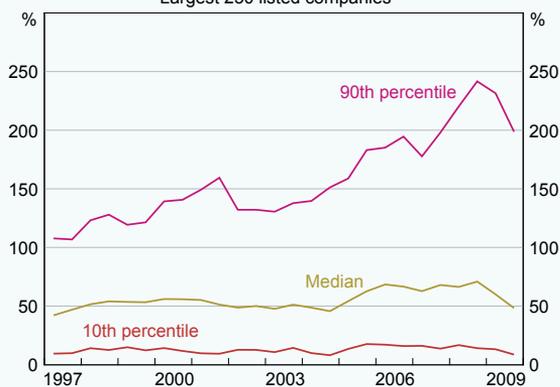
equity raisings and debt repayments. In 2009, net equity raisings for other corporates totalled over \$20 billion, over a third of which was raised with the intention to repay debt. Their gearing ratio declined to 53 per cent, close to the lowest level on record.

Over the year to December 2009, the decline in listed corporates' aggregate gearing was largest for the more highly geared firms. Companies with gearing ratios in excess of 100 per cent reduced their gearing by over 45 percentage points. Falls were especially prominent among resource companies.

Consistent with the more pronounced deleveraging of highly geared companies, the distribution of large non-financial companies'

¹ This Box uses the book value measure of gearing unless otherwise stated.

Graph B2
Distribution of Companies' Gearing Ratios*
 Largest 250 listed companies**



* Gross debt/shareholders' equity at book value

** Listed non-financial companies' excluding foreign companies, and including real estate companies; ranked by total assets

Sources: Morningstar; RBA

gearing ratios narrowed further by the end of 2009 (Graph B2). The gearing of the company at the 90th percentile fell from a peak of around 240 per cent at December 2008 to around 200 per cent, while the gearing of the median company is now slightly below its long-run level. ↘