Box C: Equity Raisings and Company Gearing

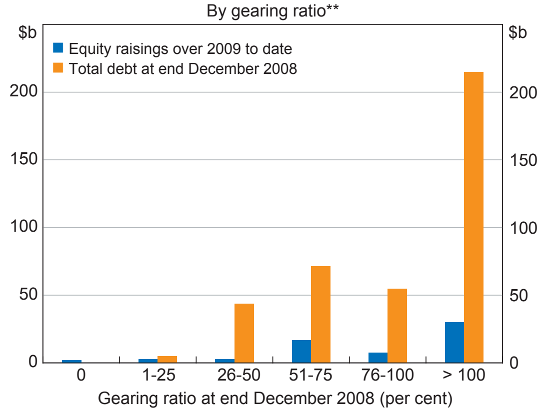
Listed non-financial and real estate companies have raised a record $63 billion of equity over 2009 to date. Most of these raisings have been undertaken by highly geared companies to pay down debt and reduce leverage. Nonetheless, a large share of highly geared companies has not raised equity. In most cases, these companies either do not have large near-term debt maturities, or are repairing their balance sheets through other means such as asset sales and dividend cuts.

Companies that have raised equity

Most listed companies appear to have had good access to equity markets, though some have needed to offer a large discount to prevailing market prices. This has been expensive for the companies concerned, but together with the share market rally and increasing confidence about earnings, has induced strong investor interest.

Equity raisings have tended to be undertaken by more highly geared companies, with around 85 per cent of the $63 billion of equity raised having been issued by companies whose book value gearing (debt-to-equity) ratio was greater than 50 per cent at end 2008 (Graph C1). Companies with a gearing ratio greater than 100 per cent raised around $30 billion of equity (around half of the total amount issued), equivalent to around 15 per cent of this group's outstanding debt of $215 billion at end December 2008. As a result of these raisings, the aggregate gearing ratio of these companies has fallen by an estimated 60 percentage points to around 130 per cent.

Graph C1
Distribution of Listed Companies' Equity Raisings*
By gearing ratio**



* Non-financial and real estate companies
** Gross debt/shareholders' equity; book value
Sources: ASX; Morningstar; RBA

The tendency of more highly geared companies to raise equity is consistent across most industry sectors, but most obvious for resource companies (Table C1). The average gearing ratio at end December 2008 was around 120 per cent for resource companies that have raised equity this year, compared to around 25 per cent for those that have not. Only in the real estate sector was the gearing ratio of companies that raised equity lower than that of companies that have not; a few distressed real estate investment trusts with very high gearing ratios are yet to raise funds from the equity market.

Table C1: Equity Raisings by Listed Companies

Company Type	Equity raisings over 2009	Number of companies	Equity raisings as share of debt outstanding at end 2008	Gearing[a]	
				Dec 2008	Sep 2009[b]
	$b		Per cent	Per cent	Per cent
Resource	***32.5***	***786***	***30***	***60***	***45***
raised	32.5	367	42	120	55
did not raise	0	419	0	25	35
Non-resource	***17.0***	***760***	***9***	***95***	***75***
raised	17.0	230	22	100	65
did not raise	0	530	0	90	80
Real estate	***13.9***	***97***	***14***	***105***	***85***
raised	13.9	26	24	80	55
did not raise	0	71	0	185	215
Total	**63.4**	**1 643**	**16**	**85**	**65**
raised	63.4	623	30	100	60
did not raise	0	1 020	0	70	70

(a) Gross debt/shareholders' equity; book value
(b) Estimate based on company announcements
Sources: ASX; Morningstar; RBA

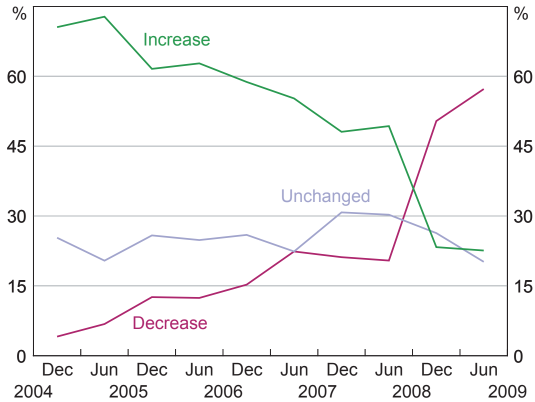
Companies that have not raised equity

The companies that have not raised equity this year can be broadly grouped into four categories:

- *Less-geared companies:* Around two thirds of less-geared companies – those with a gearing ratio below 50 per cent – have not raised equity, with continuing good profitability generally supporting these companies' moderate leverage. Those that have done so have only raised fairly small amounts, accounting for only about 15 per cent of the total value of equity issued.
- *Geared companies with less pressing near-term refinancing needs:* Despite the large amount of equity raised by companies with a gearing ratio greater than 50 per cent, over half of this group has not undertaken raisings. These companies have tended to be under less near-term debt refinancing pressure, with a number having very little, or no, debt maturing in 2009.
- *Geared companies that are comfortable with their leverage*: Some companies have been able to sustain business models involving a high gearing ratio due to more stable cash flows, in general, than other sectors. For example, around two thirds of infrastructure funds with a gearing ratio above 50 per cent have not raised equity. While some infrastructure funds have raised equity in response to concerns about asset valuations as well as their ongoing ability to service debt, others are perhaps reluctant to reduce leverage and return on equity.

- *Companies that are unable to raise equity or are reducing gearing in other ways*: While most companies have good access to the equity market, for some companies, investor concerns about their current circumstances or the sustainability of their business models have meant that they have been unable to source new funds through share issues. They have instead been selling assets or sourcing funds internally by cutting dividends. Indeed, this strategy has been adopted more broadly, with over half of ASX 200 non-financial and real estate companies reporting in June 2009 having announced dividend cuts, consistent both with lower profitability and a desire to build capital (Graph C2). Overall there has been a greater tendency for companies that are more highly geared to cut dividends. ✠

Graph C2
Changes in Dividends per Share
Per cent of ASX 200 companies reporting, semi-annual*



* Non-financial and real estate companies
Sources: RBA; company reports