MOODY'S
INVESTORS SERVICE

Rating Action: Moody's assigns a Ba2 / Aa3.br rating to PDG

Global Credit Research - 26 Aug 2010

Sao Paulo, August 26, 2010 -- Moody's Investors Service (Moody's) has assigned first-time Ba2 local currency and Aa3.br Brazil national scale corporate family ratings to PDG Realty S.A. ("PDG"). The outlook for the ratings is stable.

Ratings Assigned:

-Corporate Family Rating: Ba2 (global scale) / Aa3.br (Brazilian national scale)

Outlook: stable

RATINGS RATIONALE

PDG's Ba2 rating reflects its position as the largest homebuilder in Brazil in terms of launches and contracted sales, with strong brand name and diversity in terms of product offering, ranging from low to high income apartments and office buildings. With the acquisition of Agre Empreendimentos Imobiliários S.A. ("Agre"), the company improved the geographic and product diversity of its landbank thereby, decreasing concentration risk.

The rating is further supported by PDG's long track record of operations in the Brazilian homebuilding sector since 1952, through Goldfarb, and its good access to capital, as proven by its recent share offering of BRL 1.06 billion concluded in October 2009. Management's strong expertise in the financial industry, profitability ratios that compares to other homebuilders rated at the same level and expected synergies from the acquisition of Agre also supports the rating.

On the other hand, these positive factors are balanced by PDG's aggressive growth strategy, as proven by the acquisition of Agre that doubled the size of the company and increased execution risks, and concentration on the high-rise segment that pressures working capital and free cash flow, due to the extended construction periods. Relatively high leverage, in part from Agre's acquisition, also constrains the rating.

Furthermore, the ratings consider that the Brazilian homebuilding market will continue growing due to the strong demand from homebuyers, the abundant credit to finance homebuilders and consumers both from government-owned and commercial banks, and the continuing support from the government towards the homebuilding industry through 2014.

The ratings also take in consideration that PDG will be able to extract synergies from Agre's acquisition including, but not limited to, economies of scale, stronger bargaining power towards material suppliers and land owners, and better land bank diversification in terms of geography and product price point. From 2011 on, according to the company's project delivery schedule, it is expected that PDG will start generating a higher volume of cash internally, since a large amount of projects launched in 2007 and 2008 will be delivered to their buyers and converted into cash. We expect that the company will use part of this cash to build a stronger cash cushion to more comfortably face an eventual downturn in the homebuilding industry or to pay down part of its corporate debt unrelated to construction, and deleverage its balance sheet.

By the end of June, 2010, PDG had BRL 1.1 billion in cash and marketable securities on its balance sheet. In October 2009, the company was able to raise BRL 1.06 billion in a primary and secondary equity offering, of which BRL 784 million were added to PDG's balance sheet, increasing the cash balance, while the remaining BRL 274 million went to the shareholders that offered their shares. Also in October, 2009, the company converted 100% of its BRL 202 million of outstanding convertible debentures into shares. Agre was acquired in a share exchange transaction concluded on June 10th 2010, with PDG giving 0.495 share for each Agre share and assumed around BRL 1.7 billion in indebtedness.

Agre's more expensive indebtedness, mostly BRL 550 million in debentures coming due in the ST, were paid down with the proceeds from a new debentures issuance of BRL 280 million and other cheaper longer term loans from banks. Currently, 60% of the company's total debt is linked to construction, either through SFH financing or working capital lines for construction with commercial banks lines, which in theory are automatically repaid once the construction is finished and the homebuyer signs its mortgage with a commercial bank or CEF.

PDG's average annual working capital consumption has been around BRL 1.2 billion, making its cash available on balance sheet seem low, but all of the projects are already tied to signed loans, while PDG also has around BRL 7.0 billion in available approved lines for construction including SFH lines to cover part of its working capital needs.

According to the company's written policy, cash on balance sheet should cover at least financial expenses, debt amortization and net operating expenses for the six months ahead.

A corporate family rating is an opinion on the expected loss associated with the debt obligations of a group of companies assuming that it had one single class of debt and is a single consolidated legal entity. Specific debt instruments for the same corporate family may be rated differently, depending on their seniority and guarantors, as compared to other debt instruments issued by the group.

PDG's Ba2 local currency corporate family rating reflects its global default and loss expectation, while the Aa3.br national scale rating reflects the standing of its credit quality relative to other domestic issuers. Moody's National Scale Ratings (NSRs) are intended as relative measures of creditworthiness among debt issues and issuers within a country, enabling market participants to better differentiate relative risks. NSRs in Brazil are designated by the ".br" suffix. Issuers or issues rated Aa3.br demonstrate very strong creditworthiness relative to other domestic issuers. NSRs differ from global scale ratings in that they are not globally comparable to the full universe of Moody's rated entities, but only with other rated entities within the same country.

The stable outlook assumes that PDG will maintain a comfortable liquidity position to execute its growth plan while preserving a minimum cash balance on its balance sheet to face weaker economic environments and difficult capital market conditions.

Although unlikely in the near term, PDG's rating or outlook could experience upward pressure if the company is able to reduce its leverage metrics measured on a sustainable basis and stronger cash flow metrics, while integrating the newly acquired Agre into the group. Upward pressure could also arise from improved cash-flow based credit metrics, through reduced working capital requirements over time and higher volume of projects achieving their delivery date. Mortgage availability at an earlier point of the construction cycle and use of internal generated cash for reducing debt, not linked to construction would also be credit positive. Quantitatively, positive pressure could arise from sustainable positive CFO ("Cash Flow from Operations") and FCF ("Free Cash Flow") to total debt above 10%, total debt to capitalization below 40% (42.2% in the end of June 2010), FFO ("Funds From Operations") to total debt above 25% (17.8% for the last twelve months ended in June 2010) and interest coverage (EBIT to Interest expense) above 4.5 times (3.2 times for the last twelve months ended in June 2010) on a sustainable basis.

PDG's ratings would likely be downgraded if Total Debt to Capitalization increased above 50% (42.2% in the end of June 2010) on a sustainable basis or if the company were to face a significant deterioration its liquidity profile due to a reduction in the availability and timeliness of disbursements from credit lines that the company has available with commercial banks through the SFH, due to a change in government's support towards the lower income construction segment, or due to excessive dividend payout that could instead be used in the down payment of debt unrelated to construction. Quantitatively, negative pressure could arise if the company diverged from the written minimum cash policy mentioned before.

The principal methodology used in rating PDG Realty S.A. was Global Homebuilding Industry rating methodology published in March 2009. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found on Moody's website.

REGULATORY DISCLOSURES

Information sources used to prepare the credit rating are the following: parties involved in the ratings, public information, and confidential proprietary Moody's Investors Service's information.

Moody's Investors Service considers the quality of information available on the issuer or obligation satisfactory for the purposes of assigning a credit rating.

Moody's Investors Service adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from reliable sources; however, Moody's Investors Service does not and cannot in every instance independently verify, audit or validate information received in the rating process.

Please see ratings tab on the issuer/entity page on Moodys.com for the last rating action and the rating history.

The date on which some Credit Ratings were first released goes back to a time before Moody's Investors Service's Credit Ratings were fully digitized and accurate data may not be available. Consequently, Moody's Investors Service provides a date that it believes is the most reliable and accurate based on the information that is available to it. Please see the ratings disclosure page on our website www.moodys.com for further information.

Please see the Credit Policy page on Moodys.com for the methodologies used in determining ratings, further information on the meaning of each rating category and the definition of default and recovery.

Sao Paulo
Marcos Schmidt
Analyst
Corporate Finance Group
Moody's America Latina Ltda.
55-11-3043-7300

New York
Brian Oak
MD - Corporate Finance
Corporate Finance Group
Moody's Investors Service
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

Moody's America Latina Ltda.
Avenida Nacoes Unidas, 12.551
16th Floor, Room 1601
Sao Paulo, SP 04578-903
Brazil