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Research Update:

Noble Group Downgraded To 'BB+' On Weakened Liquidity; Notes Lowered To 'BB'; Ratings Still On CreditWatch Negative

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Table Of Contents

Overview

Rating Action

Rationale

CreditWatch

Ratings Score Snapshot

Related Criteria And Research

Ratings List

Research Update:

Noble Group Downgraded To 'BB+' On Weakened Liquidity; Notes Lowered To 'BB'; Ratings Still On CreditWatch Negative

Overview

- The liquidity position of Hong Kong-based commodity trader Noble is below our expectation for a strong liquidity despite the sale of its agricultural unit. The outlook for the company's capital raising could be complicated by depressed commodity markets, in our view.
- We see lower recovery prospects for Noble's outstanding senior unsecured notes due to increased secured debt in its capital structure.
- We are lowering the long-term corporate credit rating on Noble to 'BB+' from 'BBB-' and the issue rating on its notes to 'BB' from 'BBB-'. We are also lowering the Greater China regional scale rating on Noble to 'cnBBB' from 'cnBBB+' and on the notes to 'cnBB+' from 'cnBBB+'.
- The ratings remain on CreditWatch negative, reflecting our view that Noble's liquidity outlook remains uncertain.

Rating Action

On Jan. 7, 2016, Standard & Poor's Ratings Services lowered its long-term corporate credit rating on Hong Kong-based commodities trading company Noble Group Ltd. to 'BB+' from 'BBB-'. At the same time, we lowered the long-term issue rating on Noble's outstanding senior unsecured notes to 'BB' from 'BBB-'. In addition, we lowered our long-term Greater China regional scale rating on the company to 'cnBBB' from 'cnBBB+' and on its notes to 'cnBB+' from 'cnBBB+'. The ratings remain on CreditWatch with negative implications.

Rationale

We downgraded Noble because the company's liquidity is below what we expect for a "strong" liquidity position, despite the sale of its agricultural unit. In our view, the company's credit standing in the capital markets and with lenders has weakened, reflected in its depressed securities prices.

The rating remains on CreditWatch negative because the outlook for the company's capital raising could be challenged by the weak commodity markets, in our view. We note the company has a good track record in executing on its capital plans, including the recent sale of Noble Agri Ltd. However, the current depressed commodity markets and heightened risk aversion by lenders could complicate the company's fund raising plans for the next few months, in our view. In addition, we believe the company's earnings and cash flow

visibility is limited and there could be heightened downside risks to our base-line expectation as the commodities industry downturn looks to be prolonged.

We project the company's cash sources over its cash uses to be below 1.5x over the next 12 months. This is a deterioration from greater than 1.5x previously, which resulted in our revising our liquidity assessment to "adequate" from "strong." As of September 2015, Noble had about US\$2 billion in undrawn committed lines and cash balance. Assuming the company uses the US\$750 million cash proceeds from the sale of Noble Agri to repay debt, Noble's short-term debt maturities in the next 12 months are about US\$2.2 billion. The combination of available marketable inventory and funds from operations (FFO) can cover working capital, maintenance capital expenditure, and potential credit-related margin calls by more than 1.2x but less than 1.5x, as projected by Standard & Poor's.

Further capital raising could improve Noble's liquidity although the visibility of potential transactions is limited. Given the prospects for a prolonged slump in commodity prices, we expect lenders to take a more cautious view toward financing commodities businesses. Over the next few months, the company has about US\$360 million of bonds maturing as well as about US\$2.2 billion under a credit revolving facility due in May 2016.

We note that the company traditionally has extensive banking relationships with wide ranging counterparties. We expect the company could increase secure funding collateralized by adjusted readily marketable inventory.

Noble's business diversity has weakened following the sale of its agriculture unit, in our view. However, an improvement in financial leverage has offset this. On a pro forma basis, based on FFO in the 12-month period ended September 2015, the company's FFO to debt will improve to about 27% following the disposal, assuming the US\$750 million in proceeds are used to repay debt and the removal of contingent liabilities of about US\$670 million from adjusted debt based on Standard & Poor's calculations.

Noble could maintain leverage of above 25% at least if additional capital-raising transactions materialize. The company has a good track record of executing capital transactions. We believe this financing flexibility and capacity could support a leverage ratio that is at the high end of our current leverage assessment of "intermediate." For these reasons, we have maintained a "positive" comparative rating adjustment factor on the rating.

We expect Noble's profitability to face constraints in the next 12 months. In our view, the company's earnings visibility is low amid a challenging operating market with heightened volatility. We note traders such as Noble are less vulnerable to weakness in commodity prices than commodity asset owners. Nonetheless, in our view, Noble is not immune to the operating environment. In particular, the credit quality of the company's trading counterparties may decline and therefore increase its risk profile and earnings volatility.

We lowered the rating on the company's notes because we believe subordination risk has risen due to increased secured funding. Noble's priority claims are about 37% of total consolidated assets as of September 2015 based on our calculations. This is above Standard & Poor's structural subordination threshold of 15% for speculative-grade companies. The issue rating is therefore one notch below the corporate credit rating. In our view, the company's substantial downstream loans to subsidiaries could somewhat limit the subordination risk and therefore we did not lower the issue rating two notches below the corporate credit rating.

Liquidity

We revised our assessment of Noble's liquidity to "adequate" from "strong" based on our corporate liquidity criteria framework and short-term liquidity stress test.

We project that the company's liquidity sources over uses for the next 12 months will be below 1.5x but above 1.2x. We also expect the company to continue to meet its financial covenants, albeit with tighter headroom.

Liquidity sources include:

- US\$975 million in surplus cash;
- US\$1 billion in committed undrawn facilities;
- Annual cash FFO that we project at US\$1 billion;
- Asset sales proceeds of US\$750 million; and
- Completed refinancing of US\$230 million.

Liquidity uses include:

- Short-term debt, net of adjusted readily marketable inventories, of US\$1.5 billion due in the next 12 months;
- Our projection of a US\$90-million impact from margin calls if commodity prices fall 10%;
- Potential credit-event margin call that we estimate at US\$200 million;
- Maintenance capital expenditure that we estimate at US\$60 million;
- Working capital that we estimate at about US\$1 billion; and
- No cash dividend distribution in the next 12 months.

CreditWatch

The CreditWatch negative status reflects our view that the outlook for the company's capital raising is uncertain due to the tough commodity markets and lenders' increased risk aversion.

Downside scenario

We could lower the rating if Noble's liquidity position deteriorates. This could happen if the company has not secured a firm refinancing or debt repayment plan within the CreditWatch period or cash flow generation or

working capital management are weaker than we expect.

We could also lower the rating if the company's earnings and profitability shows no sign of improvement despite resource allocation and cost-cutting measures. This could occur on a decline in the company's return on capital to below 9% or to weaker than its industry peers'.

Upside scenario

We could affirm the rating if (1) Noble's liquidity position stabilizes such that refinancing plans are highly visible and certain and fund-raising plans materialize; (2) its profitability stabilizes and is consistent with or above that of its industry peers; and (3) FFO to debt is materially above 25% on a sustained basis.

Ratings Score Snapshot

Corporate credit rating: BB+/Watch Neg/--; cnBBB/Watch Neg/--

Anchor: bb-

Company-specific business risk factors: +1 notch

- Business position
- Trading risk management and Trading risk position
- Profitability/Track-record

Adjusted financial leverage (including capital structure and financial policy): no impact

Liquidity: adequate (no impact)

Modifiers:

- Management and governance: Fair (no impact)
- Comparable rating analysis: Positive (+1 notch)

Related Criteria And Research

Related Criteria

- Corporate Methodology, Nov. 19, 2013
- Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Commodities Trading Industry Methodology, Jan. 29, 2015
- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- 2008 Corporate Criteria: Rating Each Issue, April 15, 2008
- Standard & Poor's National And Regional Scale Mapping Tables, Sept. 30, 2014
- National And Regional Scale Credit Ratings, Sept. 22, 2014

Related Research

- No Immediate Impact On Noble Group Ltd. Ratings From Proposed Sale Of Agri Unit, Dec. 22, 2015
- Noble Group Ltd. Ratings Placed On CreditWatch Negative On Weakened Liquidity, Nov. 23, 2015
- Noble Group Outlook Revised To Negative On Higher Earnings Volatility And Trading Risk; 'BBB-' Rating Affirmed, June 11, 2015

Ratings List

Downgraded	To	From
Noble Group Ltd.		
Corporate Credit Rating	BB+/Watch Neg/--	BBB-/Watch Neg/--
Greater China Regional Scale	cnBBB/Watch Neg/--	cnBBB+/Watch Neg/ --
Noble Group Ltd.		
Senior Unsecured	BB/Watch Neg	BBB-/Watch Neg
Senior Unsecured	cnBB+/Watch Neg	cnBBB+/Watch Neg

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