

South China Morning Post 南華早報

Noble Group faces ratings downgrade to junk

PUBLISHED : Tuesday, 24 November, 2015, 7:29pm

UPDATED : Tuesday, 24 November, 2015, 7:29pm

Business › Companies › COMMODITY TRADING

Jing Yang jing.yang@scmp.com

Woes deepen at Hong Kong-based commodities trader after a year dealing with commodities rout, accounting questions and tight liquidity

Asia's largest commodities trader, Noble Group, is grappling with fresh woes after another credit rating agency put the company on review for a potential downgrade to junk status.

Standard & Poor's said on Tuesday it had put Noble's BBB- rating, the lowest investment grade, on a negative watch owing to weak liquidity and poor earnings visibility.

"The liquidity position of Noble has deteriorated, in our view, because of a reduction in the Hong Kong-based commodity trader's adjusted readily marketable inventory and committed undrawn credit facilities," S&P said.

The negative watch, to be resolved in three months, follows similar action taken by Moody's Investors Service last week, which put the Baa3 rating, also one notch above junk, on review.

Fitch Ratings said Noble's liquidity was "just enough to support" its BBB- rating, but any further weakening in its liquidity position could result in negative rating actions.

Earlier this month, Noble reported third-quarter profit that was down 84 per cent year on year to US\$24.7 million, battered by a commodities rout and deficits in its mining and metals division.

The company has dealt with a number of adversities this year. In February, a little-known blog called Iceberg Research started publishing scathing reports attacking its accounting practices. Prominent short sellers such as Muddy Waters and Hong Kong-based GMT Research joined the chorus and questioned Noble's books.

Its stock price has taken a pounding and is down 60 per cent since the start of the year. On Tuesday Noble's stock price fell 1.22 per cent to S\$0.41 (HK\$2.20).

Noble has repeatedly denied the allegations and said a disgruntled former employee was behind the Iceberg blog.

A source close to Noble senior management told the *South China Morning Post* that the company had pinned down several ex-employees as likely authors of the blog.

We are committed to raising capital through various funding options

Noble spokesman

Commenting on S&P's downgrade review, a Noble spokesman said: "We are committed to raising capital through various funding options, including asset disposals and partnerships with strategic investors, to strengthen our balance sheet and enhance liquidity. We are confident that these transactions will result in us retaining our investment-grade rating."

The company said it had been seeking to raise about US\$500 million through asset disposals or introducing a strategic investor into the company.

The market has already priced in a ratings downgrade. Spreads of the credit default swaps of Noble's unsecured bonds, a type of credit derivative that insures issuers' default risks, have been widening and were above 1,200 basis points on Tuesday. A spread over 1,000 basis points usually implied distressed credit, said Dilip Parameswaran, head of Asia Investment Advisors, an adviser on Asian fixed-income markets.

"Noble's credit default swaps have been trading equivalent to, in some cases below, a B-grade, several notches down from the current ratings," he said.

"Credit ratings are used as one of the determining factors by banks when extending loans. Noble's committed bank lines have already been falling for the last four quarters and some banks may be reluctant to renew the existing credit lines, essential to a commodities trader's business, if the company is downgraded to non-investment grade."

Both S&P and Moody's cited Noble's ability to reduce leverage and restore liquidity as conditions for rating affirmations in the next two to three months.

Topics: Noble

Source URL: <http://www.scmp.com/business/companies/article/1882889/noble-group-faces-ratings-downgrade-junk>