

Rating Action: Moody's places four mining companies in Australia on review for downgrade

Global Credit Research - 22 Jan 2016

Sydney, January 22, 2016 -- Moody's Investors Service has placed the ratings of four mining companies in Australia, and their rated subsidiaries, on review for downgrade. A complete set of companies and rating actions is listed below.

The actions reflect Moody's effort to recalibrate the ratings in the mining portfolio to align with the fundamental shift in the credit conditions of the global mining sector.

"Slowing growth in China, which consumes and produces at least half of base metals, and is a material player in the precious metals, iron ore and metallurgical coal markets is weakening demand for these commodities and driving prices to multi-year lows," says Matthew Moore, a Moody's Vice President -- Senior Credit Officer, adding "China's outsized influence on the commodities market, coupled with the need for significant recalibration of supply to bring the industry back into balance indicates that this is not a normal cyclical downturn, but a fundamental shift that will place an unprecedented level of stress on mining companies."

RATINGS RATIONALE

As part of an ongoing assessment of mining companies, Moody's sharply reduced its price sensitivity assumptions on December 8, 2015. Since then, credit conditions in the mining industry have weakened further, with prices continuing to decline. The likelihood has increased that prices for base metals, precious metals, iron ore and metallurgical coal will approach levels closer to Moody's stressed sensitivity scenario. In addition, the strong US dollar is a further factor contributing to weakening demand and driving prices lower since most metals are traded in dollars.

This broad ratings review will consider each mining company's asset base, cost structure, likely cash burn and liquidity, as well as management's strategy for coping with a prolonged downturn and the ability to execute on same. The review will assess each company's cash flow and credit metrics closer to our latest stressed price assumptions and the relative rating positioning.

Moody's believes that this downturn will mark an unprecedented shift for the mining industry. Whereas previous downturns have been cyclical, the effect of slowing growth in China indicates a fundamental change that will heighten credit risk for mining companies. This review reflects the belief that deteriorating industry fundamentals require a recalibration of the global mining portfolio rated by Moody's. Although all issuers in these sectors have been adversely affected by declining prices, severity varies substantially by issuer. Accordingly, the range of possible outcomes upon conclusion of the review for given issuers varies from possible confirmation of ratings to multi-notch downgrades. Moody's expects to conclude a majority of the reviews by the end of the first quarter. While this review focuses on companies rated in the range from A1 to B3, Moody's is also reevaluating higher and lower rated companies in the context of industry conditions. The higher rated companies, on average, are somewhat more resilient to low commodity prices and many of the lower rated companies have recently been downgraded.

This broad ratings review will incorporate ratings that have previously been placed on review in the sector, which in Australia includes BHP Billiton Limited (A1, rating under review for downgrade).

The principal methodology used in these ratings was Global Mining Industry published in August 2014. Please see the Credit Policy page on www.moody's.com for a copy of this methodology.

On Review for Possible Downgrade:

..Issuer: Alcoa of Australia Limited

.... Long Term Issuer Rating (Local Currency), Placed on Review for Possible Downgrade, currently Baa2

..Issuer: FMG Resources (August 2006) Pty Ltd

....Senior Secured Bank Credit Facility (Foreign Currency), Placed on Review for Possible Downgrade, currently Ba1

....Senior Secured Regular Bond/Debenture (Foreign Currency), Placed on Review for Possible Downgrade, currently Ba1

....Senior Unsecured Regular Bond/Debenture (Foreign Currency), Placed on Review for Possible Downgrade, currently B1

..Issuer: Fortescue Metals Group Ltd

.... Corporate Family Rating (Foreign Currency), Placed on Review for Possible Downgrade, currently Ba2

..Issuer: Newcrest Finance Pty Limited

....Senior Unsecured Regular Bond/Debenture (Foreign Currency), Placed on Review for Possible Downgrade, currently Baa3

..Issuer: Newcrest Mining Ltd.

.... Issuer Rating (Foreign Currency), Placed on Review for Possible Downgrade, currently Baa3

..Issuer: South32 Limited

.... Short Term Issuer Rating (Foreign Currency), Placed on Review for Possible Downgrade, currently P-2

.... Long Term Issuer Rating (Foreign Currency), Placed on Review for Possible Downgrade, currently Baa1

....Senior Unsecured Commercial Paper (Foreign Currency), Placed on Review for Possible Downgrade, currently P-2

..Issuer: South32 Treasury (USA) Limited

....Senior Unsecured Commercial Paper (Foreign Currency), Placed on Review for Possible Downgrade, currently P-2

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