New year, new Noble? Leaner trader set for annual refi

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Commodity trader Noble Group has rarely avoided the spotlight in recent years, but the company is increasingly confident of being on the right track once again. A new attitude, model, and focus could see Noble come in from the cold.

After 18 gruelling months of almost constant questioning and market concern, Noble Group appears to be steadying the ship to re-approach the financing mainstream. A recent borrowing base and bond issue saw the company ease back into the market ahead of May refinancings which will determine the success of Noble's efforts to further improve its credit profile to lenders.

Noble's dilemma partly stems from the basic tenants of its existence as a publicly traded company; something which has cursed the trader in recent years. The question of success for traders rests upon their access to cheap debt and flexibility, not always the preserve of listed and non-investment grade companies.

The Hong Kong-based, Singapore-listed commodity trader was downgraded numerous times last year following damning allegations and revelations about its accounting practices by Iceberg Research. Though dismissed as the work of a 'disgruntled former employee' the regular allegations, constantly denied by Noble, led to plummeting lender confidence which was reflected in Noble's credit facilities.

Its $3 billion in financing in May 2016 was indicative of a company at the sharp end of the loan market with its $1 billion revolving credit facility priced at 225bp over Libor. This was an eyewatering increase from the previous year's pricing of 85bp, as the company was on the brink of further difficulty.

So where does Noble sit as a lending proposition now, ahead of the refinancing for its May facilities, and how successful have its efforts been to reduce its debt pile and stay competitive in a complex market?

Former head of commodity trade finance at HSBC, Jean-Francois Lambert, describes Noble's current predicament as a 'watershed' moment in which the company must demonstrate strong trading instincts.

Noble's attempts to reel in lenders prior to its May refinancing (which alongside the $1 billion RCF also includes a $2 billion borrowing base for its US activities – closed in May 2016) have since included a new European borrowing base. The facility is worth $1 billion for utilisation by Noble Clean Fuels Limited and was arranged by Société Générale and ING.

The 2016 US-focused $2 billion borrowing base saw Noble receive solid support from the international commercial banking community, in a deal led by Mitsubishi UFJ Group (MUFG), SG, Rabobank, HSBC and ING Capital. Official borrowers on that deal were Noble Americas, Noble Petro and Noble Americas Gas & Power. The deal was critical for Noble and provided sufficient funding for transformation plan execution and relocation of liquidity to capital-light and high-return business.

The company also recently raised $750 million from a bond issue on notes with a five-year tenor and a coupon of 8.75%, slightly lower than the 9% which had been expected. Much of this fits within Noble's need to pay-off and reduce its short-term debt, of which $1.3 billion matures in 2017.

The bond issue was well received in the market with more than $2 billion in commitments despite being rated at B2 or 'highly speculative' by Moody's. One senior European commodity financier tells *TXF*: "The fact that they were in the market and appetite seems good is a plus in itself, and it eliminates any refinance risk. The key is that it would allow them to entertain more business, which was constrained so far and had an impact on profits."

An extended asset sell-off, including the sale of its remaining 49% of Noble Agri to Cofco for $750 million last year and the profitable Noble Americas Energy Solutions (NAES) aided the company's debt profile. These deals also restricted its ability to take advantage of trading situations, particularly rallies across metals in the second half of 2016 which would usually have been a prime target for Noble. Missing the price boom, manifest in China's continued demand and resilience in the coal space, hit Noble's results for 2016 with a reported net profit of just $8.1 million.

This can still be construed as good news given its record $1.7 billion loss the previous year but hardly rouses excitement among lenders and investors. A key factor of this is of course Noble's high cost of debt, as evidenced by the bond issue and last year's financing, which keep it at a significant disadvantage to its peers, according to Lambert.

As Wildrik de Blank, Noble's group treasurer, tells *TXF*: "We have been prioritising liquidity over profitability during this period as we have maturities coming up in 2017 and it's important to have sufficient liquidity to meet any potential market conditions."

The company's pronounced period of capital raising also included a $500 million rights issue last August which helped them towards a stated target of $2 billion.

TXF understands that the process for refinancing its May facilities has already begun with last year's borrowing base facility arranged by MLAs/bookrunners MUFG and SG and the RCF by ING Bank.

Noble's intention is to reduce the amount of unsecured debt that it currently has with a preference for secured debt now a general objective of the company. A commodity financier familiar with the company suggests that Noble's borrowing base could increase in size in line with a reduction in the RCF's amount.

While the 2017 facility's pricing is not yet known, Noble is aware that commodity banks' credit committees do not change their views overnight and have suggested that pushing hard on pricing is not a priority for the deal negotiations.

Tip of the iceberg?

Noble was downgraded from BBB- to BB- by Fitch Ratings in May 2016 following the refinancing of its credit facilities. Junk status has become a fact of life for the trader with there being limited appetite for a return to an investment grade rating any time soon.

De Blank adds that it is not part of the company's strategy to attain such a rating nor do bankers and agencies think it plausible, in the short to medium-term, in any case.

Noble's share price has dropped by more than 70% since the initial allegations about its accounting practices were made by Iceberg Research. While Noble repeatedly denies wrongdoing, having been accused of over-valuing assets among other things, market reactions have been less trusting. This was confirmed once again recently when a new report from Iceberg on 17 February, predominantly a re-hashing of old information, spooked investors who caused an intraday share price drop of 17%.

According to one London-based commodity financier, Noble's efforts to steady the ship following its difficulties have been consistent and well-received. However, he highlights the importance of banking relationships to the company whose support last year he describes as akin to 'life support'.

Junk status will inevitably have an effect on the cost of debt for listed companies, something Noble believe is a disadvantage compared to its unrated or private peers when it comes to financing.

Moody's point out that the company's level of leverage for 2017 is weak for its ratings category though Noble's net debt to EBITDA is set to trend down from 7.6x to 7.0 over the course of the year.

While all commodity traders have different models and assets there is little chance that Noble will find themselves priced in anywhere near the same bracket as its rivals. Trafigura recently closed a refinancing of its $5.1 billion deal and actually surpassed expectations with 5bp shaved off 2016's 75bp margin. Fellow traders Gunvor and Mercuria are also expected to retain good pricing on their upcoming refinancings having maintained performance through 2016.

The opportunity to raise cash through an IPO is perhaps a tempting one for traders seeking additional liquidity. However, the nature of commodity trading is not the simplest or easiest to follow for investors. The constant need for shareholder meetings and greater transparency can be cumbersome for traders with Charles Koch of Kansas-based Koch Industries once suggesting the trader would go public "over my dead body".

This higher cost of debt is problematic for Noble which also has maturities of $1.5 billion falling in 2018. Though the company is expected to take advantage of higher prices in key commodities such as coal, iron ore and coke it is encumbered by its cost of debt.

Noble's shareholders include China's sovereign wealth fund, China Investment Corporation, which bought an $850 million stake in 2009, and Korean Investment Corporation, which has a minority stake.

The new normal?

The changing environment in commodity trading, which has seen greater calls for transparency from traders, has led to a change in attitude at Noble which previously had a tough relationship with lenders. This leaner, asset lighter business is expected to get more favourable pricing in May according to one commodity financier who expects pricing on Noble's RCF to drop below 200bp.

Though Glencore has proven to be successful in its rebound from its own massive share price drop with a debt reduction plan which drew numerous plaudits in the market, Noble is a different animal altogether.

Reports about potential strategic investment from Chinese state-owned Sinochem is making waves and helping to improve lender views of the company. Sinochem CEO Frank Ning knows Noble founder Richard Elman well and bought Nobl assets such as Noble Agri as chairman of Cofco Agri (a role he held until last January).

The news that the chemicals giant could be set to access Noble's global supply chain has soothed some lender and investor concerns, allowing for positive thinking about the company's future.

Being publicly-listed may have its drawbacks for Noble whose balance sheet metrics are more conservative than some of its peers. However, as the company looks to focus on its core businesses hope remains that its listed status won't hold it back too significantly going forward.

May's refinancings may not see a dramatic reduction in Noble's cost of debt, but a lower price and a retained, or even expanded, banking group would be another step in the right direction for Noble in 2017.

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