Noble Group Relies on Costly Capital as Options Narrow

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By Jack Farchy and Andy Hoffman

(**Bloomberg**) -- As Noble Group Ltd. attempts to ride out the latest in a string of setbacks, it's paying more for one of the key commodities any trading house needs: capital.

The embattled firm didn't renew a $615 million revolving credit line that was due to mature this week, people familiar with the matter said on Wednesday. The day before the company had unexpectedly announced it would report a $130 million net loss for the first quarter.

The fact the credit line wasn't renewed means Noble is left with more expensive funding -- including a junk bond that costs four times the credit line it repaid -- as the Hong-Kong based group lurches from one crisis to another. Commodity houses use debt to finance trades from cargoes of crude oil to options on coal prices and access to plentiful, cheap capital allows them to take advantage of opportunities to buy, and to hold on to positions when prices rise.

"A trading house caught into dwindling, but more expensive liquidity is in the worst possible situation: They will have to pass on many optionalities, focus on more risky deals and therefore are prone to higher risks," said Jean-Francois Lambert, a consultant and former head of global commodity trade finance at HSBC Holdings Plc.

Noble highlighted at its annual results in February that liquidity constraints had already clipped the wings of its traders.

"We were unable to pursue new higher margin opportunities as we preserved liquidity to the extent possible," Chief Financial Officer Paul Jackaman told investors on Feb. 27.

The company declined to comment further on Wednesday.

At the end of last year, Noble had borrowed $756 million under the revolving credit facility, or RCF, and other term loans that expired in May, according to its annual report. They carried an average interest rate of 2.2 percent. As the end of the loans' term approached, Noble raised $750 million in five-year bonds in March, paying a coupon of 8.75 percent.

In the wake of the profit warning, yields on those bonds rose to 11.01 per cent on Wednesday.

"Poor results or losses will in turn reduce further the liquidity pool and hamper trading capabilities," Lambert said.

"Noble may be in this very position and this is a tough one to

get out of."
The first-quarter loss, driven by coal-market bets that turned sour, is the latest reverse for Noble, which has been forced to sell assets and shed staff since 2015 following credit-rating downgrades. The company has endured a punishing few years as it grappled with falling profits, senior management changes and a controversial share consolidation to avoid penny stock status. It has also faced attacks on its accounting methods by a group called Iceberg Research, whose members are anonymous.
A presentation made at Noble's April annual general meeting showed the impact the March bond sale on the company's funding mix: increasing the proportion of bonds in the company's overall debt composition from 38 per cent to 57 percent. It's a shift that's not ideal for a trading business, said Rouben Indjikian, international consultant and lecturer in trade finance and commodities at Webster University in Geneva.
"The expected inflow of payments from their clients is short-term receivable finance," Indjikian said. "They should match it with a short-term supply of finance rather than issuing long-term obligations for which the cost is higher than short-term finance secured by commodities."
Still, at the end of last year, Noble said that it had increased its "liquidity headroom" -- the sum of readily available cash and unused credit lines -- to $2 billion from $800 million six months earlier.
But it also acknowledged that it would need new financing to be able to trade as normal. The company was planning to be "getting back to business" in 2017, Jackaman said. "We are continuing discussions with banks on refinancing and further expanding lines to support our core businesses."
The company's debtload is not sustainable and bank support remains important, Danny Huang, director of corporate ratings at S&P Global Ratings in Hong Kong, said in a phone interview on Thursday. The company's shares fell in Singapore to the lowest level since 2003.

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