



## Iceberg puts Noble Group under the spotlight

by Jiang Zhengyi

Noble Group (Noble), Asia's largest commodity trading firm, manages a portfolio of global supply chains covering a myriad of business segments: agriculture, energy, metal, material and ore. In recent weeks, the company's market cap has fallen nearly 30% - USD 1.8bn - reaching a 52-week low, since a relatively new research firm named Iceberg Research (Iceberg) released its first report criticizing Noble's accounting policies on Feb 15.

According to [Iceberg](#), Noble uses accounting loopholes and aggressive accounting practices. In the reports, Noble is criticized for exploiting the accounting treatment of its associates to avoid large impairments and for fabricating profits. In response, Noble said on Mar 23 that the reports are "[inaccurate, unreliable and misleading](#)" and that it plans to start legal actions against Iceberg for conspiracy to injure Noble.

Since Feb 15, Iceberg has released three reports criticizing Noble. Figure 1 illustrates the falling market cap and rising RMI 1-year Probability of Default (PD) of Noble as well as the publication dates of Iceberg's reports. Noble's market cap took a battering as its share price declined from SGD 1.40 per share on Sep 29, 2014 to SGD 0.85 per share on Mar 19, 2015. In the corresponding period, Noble's RMI 1-year PD rose from 10bps to over 30bps, a record high level since September 2012.

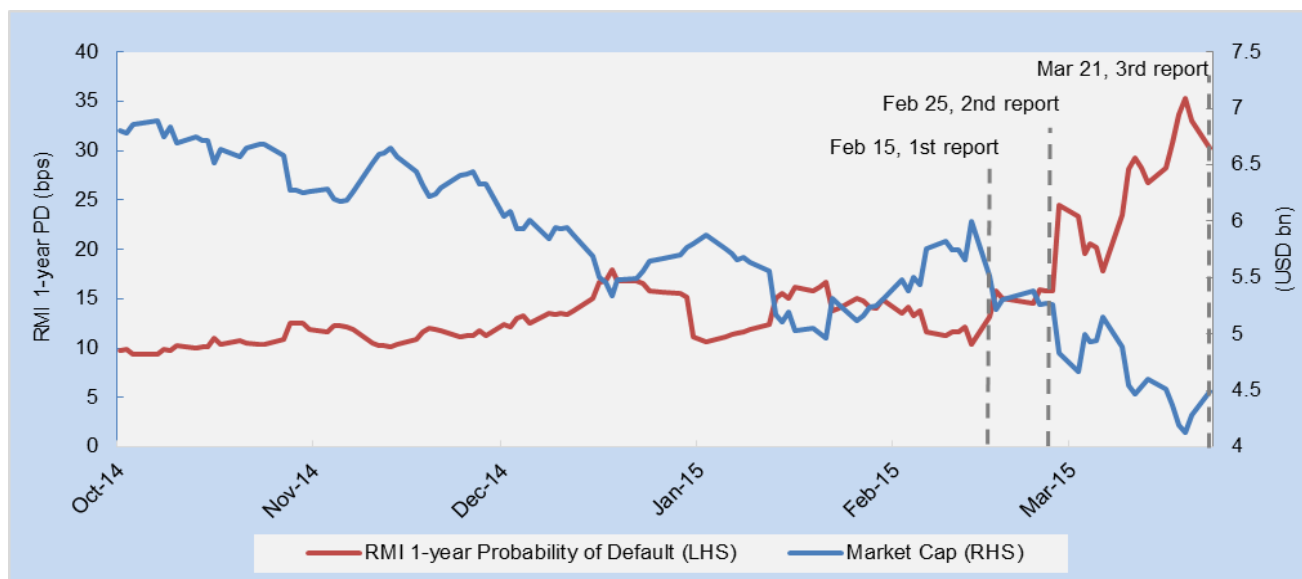


Figure 1: RMI 1-year PD and market cap of the Noble Group. Source: Risk Management Institute, Bloomberg

Iceberg's reports have likely worsened Noble's current situation. However, as indicated by its RMI 1-year PD, the credit profile of Noble began to deteriorate in early Q4 2014. Because of the drastic plunges in global commodity prices, Noble reported a loss of USD 240mn in Q4 2014, hurt by write-offs and provisions. Noble's net profit for the year nearly [halved](#) - a decrease of 46% from USD 243mn in 2013 to USD 132mn in 2014 - due to losses on supply chain assets and other fair value impairments. The impairments on a range of assets and investments totaled USD 438mn, which was mainly contributed by the impairment costs of USD 200mn related to Yancoal Australia LTD, a coal miner in which it has a 13% stake. Yancoal's business was hit by a glut in supply and weaker demand from Asia, putting its shareholder Noble under pressure. By the end of 2014, Noble recognized Yancoal with a book value of USD 322mn which is much higher than its market value of [USD 16mn](#) according to WSJ calculation.

	Revenue	Net Income	Net Income Margin	Return on Equity	Return on Assets	Cash Flow from Operations
2014 Q3	23,314.0	153.9	0.66	9.35	2.40	247.9
2014 Q4	20,993.7	-240.0	-1.14	2.18	0.66	-802.4

Table 1: Financial data of the Noble Group (Return on Equity and Return on Asset are measured in %; the other financial accounts are measured in USD mn). *Source: Bloomberg*

Further, the changes of Noble's financial reporting data in Table 1 represent its worsening performance in Q4 2014. As the middleman between raw materials producers and consumers, Noble makes a margin based on the operations of commodity contracts. Its revenue at mining and mineral businesses has been hurt by the [tumbling commodity prices](#). This situation was aggravated by the impairments, which contributed to a negative net income and net income margin. The return on equity and return on assets also dropped substantially. A negative cash flow from operations further indicates its reduced ability to meet financial obligations and cover losses under credit events.

There have always been questions about how commodity traders do business. By the nature of the industry, most of the trading companies are private firms and retain some opacity in their operation to prevent their rivals from copying them. Nonetheless, listed trading firms like Noble have to be more financially transparent compared to its private peers. Given the recent developments, the spotlight on Noble is not likely to go away in the near term.

## Credit News

### China's internet boom starts to fade

**Mar 24.** The excitement about China's Internet boom is fading, due to a wave of poor earnings at Chinese technology companies. Half of the 14 Chinese dot-coms that debuted in the US last year are now trading below their initial sale prices, with a -3.1% return on average, compared with a 6.1% increase in the Nasdaq through Mar 20. ([Bloomberg](#))

### Fed's Fischer says rate rise probably warranted by end-2015

**Mar 23.** Federal Reserve Vice Chairman Stanley Fischer said raising interest rates from near zero "likely will be warranted before the end of the year" and subsequent increases probably won't be uniform or predictable. These are the first comments since Chair Janet Yellen's press conference after the Federal Open Market Committee meeting on Wednesday, which opened the door to a rate increase as soon as June, while also indicating a slow step on that once they get started. ([Bloomberg](#))

### Possible default of Austrian bad-bank bond rattles Europe

**Mar 22.** Heta Asset Resolution, the so-called bad bank, has revealed a hole of up to EUR 7.6bn after an audit of its balance sheet. After that, as suggested by Austria's financial regulator, the senior bondholders could suffer a potential loss with write-down up to 50%, despite the fact that the bonds were guaranteed by the regional government of Carinthia. This decision could also lead to a re-pricing of government-backed debt across Europe. ([FT](#))

### Riskiest governments race to sell bonds

**Mar 19.** Taking advantage of the record low global interest rates, on Mar 19 the world's riskiest governments including Armenian, Bulgarian and Ecuadorian governments rushed to issue bonds. Despite their poor credit ratings and the fact that Ecuador recently defaulted on its debt, investors were attracted by the higher yields as the returns available in much of the steadier end of the bond market are so slim. To compensate investors for the increased risk, junk-rated, or high-yield, bonds pay higher interest rates than issuers with investment-grade ratings, so riskier countries issue bonds with fewer competing debt sales on offer. ([WSJ](#))

**IMF fears emerging markets instability**

**Mar 17.** A day before Federal Reserve chairwoman was expected to signal rising US interest rates on Mar 18, the head of the IMF warned that emerging markets might face a new period of economic instability. It was said that negative “spillover” effects from these increases would lead to a repeat of the crisis in 2013 characterized by capital flight and rapid currency depreciation. Emerging economies were also warned that the recent strength of the US currency can cause sudden and steep jumps in debt servicing costs for companies with dollar debts. ([FT](#))

**Zero rates feeding bubbles, says Bullard ([FT](#))**

**Fortescue pulls USD 2.5bn bond as iron ore distress deepens ([FT](#))**

**Regulatory News****China said to weigh easing curbs on foreign securities firms**

**Mar 23.** Potential reforms to China’s securities industry allow overseas firms to gain control of their local joint ventures. The foreign-owned joint ventures will also be permitted to expand into areas beyond stock and bond underwriting. Foreign-backed joint ventures didn’t benefit to the same extent as local firms did after China started to open its capital markets to the WTO. However, loosening restrictions of 49% ownership let foreign-backed joint ventures more effectively compete with local incumbents. ([Bloomberg](#))

**Further MIFID II developments**

**Mar 18.** The European Securities and Markets Authority (ESMA) drafted a Consultation Paper (CP) to seek stakeholders’ views on Regulatory Technical Standards (RTS) under Regulation (EU) No 600/2014 (MiFIR). After the MiFID II/MiFIR consultation paper published at the end of last year, ESMA recently published a new consultation paper, which adds a transparency section to the previous one. The consultation will run until Mar 20, 2015 after which ESMA will finalize its draft RTS, which are to be sent for endorsement to the European Commission in mid-2015, with a view to MiFID II/MiFIR coming into effect from Jan 3, 2017. ([Compliance services](#))

**Wall street turns to specialty lenders to counter tighter rules**

**Mar 18.** A specialty lender backed by Goldman Sachs came into existence on the New York Stock Exchange as the latest move by Wall Street to counter tighter rules on high-risk loans. New York-based Goldman joins Credit Suisse Group AG and others in having created tax-advantaged, specialty lenders called “business development companies” that enable the firms to lend to one of the fastest-growing segments of the US market - small companies with no credit ratings. Currently bank lending is limited by guidelines designed to rein in financing of debt-laden buyouts. ([WSJ](#))

**Key regulator shows no sign on budging on muni bank rule ([Reuters](#))**

**Southeast Asia makes vital push in banking integration ([Bellingham Herald](#))**