



Platinum producing powerhouses portray sector's grim outlook

by [Lee Yanru](#)

This year has been an exceptionally challenging period for the global resources sector, as prices of many commodities have declined to their lowest level in the past few years. In particular, precious metals, such as gold, silver and palladium, have plunged more than 40% from their recent highs. Platinum prices have fallen from USD 1233/oz in January, to USD 846/oz last week. Lonmin, the world's third largest platinum miner, has defaulted on its debt in Nov 2015, while the top two players, Impala Platinum Holdings (Impala Platinum) and Anglo American Platinum (Amplats), continue to struggle with worsening credit profiles.

[Amplats](#) produces about 40% of the overall platinum global supply, followed by [Impala Platinum](#) which produces approximately 10% of overall global supply of platinum each year. As platinum mining generally generates more than 60% of these companies' total revenue each year, it is unsurprising that both of these companies are in severe financial distress. As part of these companies' cost-reduction strategy, [massive worker layoffs](#) have been planned. For example in June, Amplats announced 420 managers and supervisors would be dismissed, while Impala Platinum also planned to cut as many as 1600 jobs.

In addition to the job cuts, the miners have also decreased capital expenditures and reduced their mining operations. In September, Amplats announced [a sale](#) of its unprofitable Rustenburg Mines to Sibanye Gold Limited for more than ZAR 4.5bn, and [postponed](#) major capital decisions until 2017. Similarly, Impala Platinum also [announced plans](#) to close two of its shafts and reduce capital expenditure by ZAR 1.3bn.

The credit profiles of both of these companies have been adversely impacted by the plunging platinum prices. In a similar fashion as other commodities, the dismal outlook for platinum is also attributed to several factors. One obvious factor is the major slowdown in China, which constitutes the largest demand for this precious metal. According to the World Platinum Investment Council (WPIC), China consumed 2385koz in 2014, down from 2670koz in 2013 and its consumption is expected to fall further in 2015. Analysts also blamed the uncertain outlook over the [Volkswagen scandal](#) for exacerbating the problems in the platinum industry, considering that demand for platinum, a key component in diesel vehicles, may drop further and lead to an even lower price for platinum. Besides demand side issues, some analysts said that the impending US interest rate hike would be [negative for platinum price](#), as other investment alternatives may be more attractive than non-interest bearing precious metals in a higher interest rate environment.

The RMI-CRI 1-year probabilities of default (PD) also reflect their poor financial conditions. In tandem with the downward trend of platinum price over the past few years, the RMI-CRI 1-year PDs have risen from a low point of around 2-3bps in Jan 2013 to 68.64bps and 117.75bps for Amplats and Impala Platinum in December respectively (See Figure 1).



Figure 1: RMI-CRI 1-year Probabilities of Default (PD) for Amplats and Impala Platinum vs Platinum Spot Price. Source: RMI-CRI, Bloomberg

Moreover, the latest financial statements also highlight the severe deterioration in the financial performance of these platinum powerhouses over the years. Generally, both companies witnessed poor profitability, increased exposure to financial risk, as well as worsening short term liquidity over the years (See Table 1). Amplats [anticipated](#) that its profit will plunge by over 20%.

	Impala				Amplats		
	FY 2012	FY 2013	FY 2014	FY 2015	FY 2012	FY 2013	FY 2014
Net Income Margin (%)	15.15	3.4	0.03	-11.28	-15.59	-2.59	1.12
Net Debt/ Equity (%)	4.60	6.16	8.86	10.40	20.94	22.91	28.93
Quick Ratio	0.45	0.93	0.79	0.45	0.20	0.28	0.19

Table 1: Selected financial metrics for top 2 global platinum producers. Amplats' financial performance for FY 2015 has yet to be released. Source: Bloomberg

In view of the [sluggish global macroeconomic outlook](#), dwindling demand for commodities due to the trend of slowdown in Chinese economy, as well as potential Fed rate hike in this few days, the platinum price is unlikely to bottom soon in the near future. Anglo American and its subsidiaries were downgraded by Fitch and Moody's citing the lower outlook for commodities and downsizing of its cash flow levels. Without an effective prescription for weathering this financial adversity, these platinum powerhouses are expected to venture into an even rougher financial storm in the near future.

Credit News

Anglo American digs in for restructuring battle in South Africa

Dec 13. Anglo American is prepared to fight in South Africa over its restructuring plans, as Anglo considers exiting its investment in the country's largest iron ore miner. Kumba Iron Ore is on a long list of assets Anglo is considering putting up for sale as part of proposals outlined to arrest the miner's underperformance in a deepening commodities downturn. The iron ore price has sunk to less than USD 40 per tonne, below the cost at which Sishen, Kumba's largest mine, can get ore to China. Anglo would face months of delicate negotiations with South Africa's government and labour unions if it changes the status of its investment of Kumba. ([FT](#))

Britain could be downgraded over Brexit referendum, S&P warns

Dec 11. S&P, the only major ratings agency that still gives Britain an AAA ranking, has said the country remained at risk of a downgrade due to David Cameron's decision to hold a vote on whether to leave the European Union. S&P claimed that the overall effect of immigration had been positive for the economy over the past decade and that the referendum represented a risk to Britain's financial services sector, its exports and the wider economy. In a worst-case scenario, a Brexit could also harm sterling's role as a global reserve currency, removing what has been a significant support for S&P's 'AAA' rating on the UK since the start of the global financial crisis. ([Telegraph](#))

South African banks drop most in 14 years

Dec 10. With the shocking dismissal of Finance Minister Nhlanelhla Nene and subsequent replacement by a little-known lawmaker, South Africa's banking index plummeted by the most since October 2001, wiping out USD 8.6bn in share value. Additionally, the rand depreciated by as much as 5.4% against the dollar, its largest decline since September 2011. The announcement of Nene's dismissal also caused yields on government rand-denominated debt due in Dec 2026 to soar to its highest since July 2008. Other financial services companies was also hit by this highly concerning news with Johannesburg's benchmark life assurance index losing 9.1%, the most in 18 years. ([Bloomberg](#))

Bank of Korea holds key rate at record low before Fed meeting

Dec 10. The Bank of Korea left its benchmark rate unchanged for the sixth consecutive month as board members opted to wait for the Federal Reserve's anticipated rate hike and assess its impact on the global economy and markets. The central bank may revise down its 2016 outlook next month because of a delay in the global economic recovery and a drop in oil prices. An additional rate cut might be taken by the bank of Korea to aid corporate activities and exchange-rate competitiveness. ([Bloomberg](#))

Singapore builders face wall of debt as earnings drop

Dec 9. Singapore builders are entering 2016 with another wall of debt coming due, falling confidence and declining earnings. After a record USD 9.6bn of bonds were repaid this year, Singapore builders are facing USD 6.4bn of maturities next year, USD 2.3bn in 2017 and USD 7.4bn in 2018. Five of six industry indicators - net profit, inventory, employment, selling price and new orders - are seen shrinking in the first three months of next year. While the economy averted a recession in the last quarter, the slowest growth in almost two years is weighting on contractors amid falling property values, rents and occupancy rates. ([Straits Times](#))

China insurer valuations double those of banks as premiums soar ([FT](#))

Switzerland aims to cut debt by CHF 3.4bn in 2016 ([Reuters](#))

China said to form state-owned fund to deal with mining debt ([Bloomberg](#))

Regulatory Updates**Regulatory changes force investment banks into 'capital light' activities**

Dec 13. Since the financial crisis, the wave of regulation has pushed investment banks further away from their traditional business. Instead, they are going deeper into other "capital light" activities, which require less regulatory capital and are mostly carried out by non-banks. For example, Deutsche Bank, Credit Suisse and Barclays are repositioning themselves towards activities such as advising on M&A and helping clients raise finance, while turning away from more traditional activities such as lending and trading. In a few years, the central activities of these investment banks could be indistinguishable from those of their non-banking rivals, such as the advisory boutiques that help with deals and fundraising, some of the large asset managers, or the big four accounting firms which now boast corporate finance divisions. ([FT](#))

Basel restores rating role in overhaul of banks' credit risk

Dec 10. The Basel Committee on Banking Supervision reintroduced the use of external ratings in a draft revision of its standardized approach to measuring credit risk for interbank business. Ratings would be the primary basis for assigning risk weights, in jurisdictions that allow their use. However, the approach would also be subjected to due diligence requirements, which could eventually lead to a higher risk weight than that determined by ratings. ([Bloomberg](#))

Austrian banks face Basel capital charge on Franc mortgages

Dec 10. In its proposal to standardize credit risk measurement, the Basel Committee on Banking Supervision suggested to apply a 50% risk weight add-on to unhedged exposures, where the lending currency differs from the currency of the borrower's main source of income. The rule, if approved, will create the highest impact for banks in Austria and Poland, the two European countries with the biggest stock of such loans. ([Bloomberg](#))

Big changes to insolvency laws planned ([The Australian](#))**Top UK banks face USD 39bn shortfall under BOE failure rule ([Bloomberg](#))**

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