People wait to buy fuel at a fuel station in Colombo, Sri Lanka, on June 27, 2022. Sri Lanka is sending two ministers to Russia to negotiate for fuel – one of the necessities that the Indian ocean island nation has almost run out of amid its ongoing economic crisis. (AP)

Sri Lanka sends 2 ministers to Russia for oil amid crisis

Sri Lanka is sending two government ministers to Russia to negotiate for fuel - one of the necessities nearly exhausted amid the Indian Ocean island nation's economic collapse.

The development comes as Washington and its allies aim to cut off energy imports from Russia in line with sanctions over its war on Ukraine. Since the invasion in late February, global oil prices have skyrocketed, sparking a number of countries to seek out Russian crude, which is being offered at a steep discount.

Power and Energy Minister Kanchana Wijesekera said two ministers were scheduled to leave for Russia on Monday to continue talks that Sri Lanka has been having with Russian authorities to directly purchase fuel, among other related issues.

He urged people Saturday not to line up for fuel, saying only limited stock will be distributed to limited stations throughout next week. He said until the next shipments arrive, "public transport, power generators and industries will be given a priority."

Residents have had to queue for hours and sometimes days to get fuel, sometimes resorting to burning charcoal or palm fronds for cooking.

Wijesekera's comments come while a high-level US delegation is visiting Sri Lanka, seeking ways to help the island nation cope with an unprecedented economic crisis and severe shortages of essential supplies.

Like some other South Asian nations, Sri Lanka has remained neutral on the war in Europe. (AP)

Rapid inflation acceleration is credit negative

Inflation can boost banks' profitability: Moody's

SINGAPORE, June 27: In many G-20 emerging markets banks, the policy rate hikes to curb inflation will improve banks' margins, yet a more rapid acceleration of inflation would necessitate higher loan-loss provisions, erasing margin gains, Moody's Investors Service said in a report published today.

This press release focuses on banks in the ten G-20 emerging markets: Argentina, Brazil, China, India, Indonesia, Mexico, Russia, Saudi Arabia, South Africa and Turkey.

"Now that most central banks have tightened monetary policy to curb inflation, we expect inflation to abate in all ten emerging markets countries in 2023, helping contain asset risks for banks," said Eugene Tarzimanov, a VP-Senior Credit Officer at Moody's and the author of the report. "If inflation rates spike steeply and result in sharp increases in debt-servicing costs for borrowers, banks would have to increase their loan-loss provisions to levels that outweigh gains in margins, which would be credit negative."

Among the ten G-20 emerging markets, Turkey has been facing the steepest inflation, which hit 73% in May 2022, followed by 61% for Argentina. Rising inflation rates are mainly because of supply constraints, increases in the prices of commodities and currency pressures.

Orderly, gradual increases in interest rates will improve banking profits in most emerging market banking systems. As a result, Moody's expects banks in India, Saudi Arabia and South Africa to post comparatively larger increases in margins in 2022-2023.

Banks' credit costs also increase when inflation accelerates. An acceleration of inflation has also historically led to increases in credit costs in seven of the 10 systems. Moody's expects banks in Russia and Turkey to post larger increases in credit costs in 2022-2023. In a scenario where inflation accelerates materially and leads to significant rate hikes, credit costs will also rise in Argentina, South Africa and Brazil.

Asset risks for banks would outweigh margin benefits if inflation rises more sharply. An acceleration in inflation beyond Moody's expectation would lead to higher credit costs that will outweigh the benefits of gains in margins. In this scenario, the profitability of Brazilian and Turkish banks will likely deteriorate more significantly than in other markets.

Outlook on the rating stable

Moody's assigns Baa3 rating to Fertiglobe

FRANKFURT AM MAIN, June 27: Moody's Investors Service ("Moody's") assigned a Baa3 long term issuer rating to Fertiglobeplc (Fertiglobe). The outlook on the rating is stable.

The Baa3 issuer rating balances Fertiglobe's low Moody's adjusted leverage, high profitability and cash generation capability against its exposure to a cyclical end-market and its significant share of capacity in Egypt (B2 negative) and Algeria, which exposes the company to the political and event risks of operating in these countries. The Baa3 rating also reflects a commitment to maintaining an investment grade rating and Moody's expectation that the company will swiftly adapt its capital allocation in case of meaningful earnings deterioration. Fertiglobe's ownership structure, with OCI N.V. (OCI, Baa3 stable) as 50% controlling majority shareholder, Abu Dhabi National Oil Company (ADNOC) owning a 36% share, and the remaining shares listed on the Abu Dhabi Stock Exchange, also supports the rating.

Ratings

For the last twelve-month period ending March 2022, Fertiglobe's Moody's adjusted gross leverage was around 0.7x debt-to-EBITDA (net leverage 0.1x), which even in the context of the currently strong pricing environment is low for the rating category. The company benefits from competitively priced fixed price gas contracts which in some cases contain cost escalation clauses if ammonia / urea prices increase above certain thresholds. These gas price contracts position the company in the first quartile of the global urea and ammonia cost curves. Furthermore the company benefits from strategically located production capacity east and west of the Suez Canal.

Despite the importance of Fertiglobe's plants to the economies of Egypt (B2 negative) and Algeria, Moody's views operating in these countries as carrying a high level of economic, political and operational risk. The rating agency estimates that Egypt and Algeria combined contribute between 50% and 60% of cash flow available to service debt at the level of Fertiglobe plc. The company's track record of operating in these environments indicates some ability to effectively manage the exposure. Also, the national gas companies of Egypt and Algeria are minority shareholders in Fertiglobe's subsidiaries Egyptian Basic Industries Corporation and SorfertAlgerie SPA respectively, which partially mitigates the exposure. Finally, Moody's believes EBITDA and cash generated from Abu Dhabi alone could service Fertiglobe debt and support credit metrics in line with an investment grade rating. In particular solid expected cash generation provides the company with sufficient financial flexibility to address its balance sheet structure in such an unlikely scenario that OCI's operations in Egypt and Algeria contribute no cash flow to the group.

Fertiglobe's dividend policy is to distribute all excess cash flows (after accommodating for growth investments) to its shareholders, while maintaining an investment grade rating. The company pays a semi-annual dividend, and Moody's would expect management and shareholders to swiftly change capital allocation priorities if the investment grade rating should be at risk.

Liquidity profile

Fertiglobe's liquidity profile is excellent. As of March 2022 the company had around $1.26 billion of cash on balance sheet and access to a $300 million undrawn revolving credit facility. In combination with expected FFO generation of close to $2 billion, these sources are sufficient to comfortably cover expected dividend payments (including minority dividends) of around $1.5 billion and capital expenditures of around $130 million in 2022.

ESG considerations

As an owner and operator of nitrogen fertilizer production facilities the company is exposed to high environmental risks including the risk of carbon transition and increasingly stringent regulations aimed at reducing greenhouse emissions. For example the "European Green Deal" proposes a so-called carbon border tax for imports with a high carbon footprint. Furthermore the company's revenues could be exposed to regulation aiming at reducing the use of nitrogen fertilizer in order reduce the nitrogen concertation in the ground water.

The credit quality of Fertiglobe's controlling shareholder OCI to some degree depends on dividend payments from Fertiglobe. Moody's expects that dividend payments from Fertiglobe continue to support OCI's credit quality without negatively impacting Fertiglobe's credit quality.

The stable outlook assumes Fertiglobe will maintain a balanced approach towards capital allocation such that dividend payments and growth investments will not lead to an increase in leverage.

Factors

Moody's could downgrade Fertiglobe's rating if its Moody's adjusted debt/EBITDA would exceed 2.0x for multiple quarters in a row and if in this scenario management would not take appropriate actions to preserve credit quality. A failure to maintain free cash flow (after dividends) at least around break-even levels, enabling the company to maintain its current capital structure would also be negative for the rating.

In the context of the high proportion of EBITDA and cash flows generated in Algeria and Egypt an upgrade of the rating is currently unlikely. A more diversified production footprint or a production footprint exposing the company less to lowly rated sovereigns would be a prerequisite for a positive rating action.

Methodology

The principal methodology used in these ratings was Chemicals published in June 2022 and available at https://ratings.moodys.com/api/rmc-documents/389870. Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.