Moody’s upgrades Glencore on ability to weather volatile commodity markets Share on Twitter

Moody’s has upgraded Glencore because of its increased resilience to volatile commodity markets but said the miner’s rating was likely to remain capped because of environmental and corporate governance concerns.

Glencore is the world’s biggest producer of seaborne thermal coal, which is burnt in power stations to generate electricity, and operates in some of the world’s most challenging jurisdictions, including the Democratic Republic of Congo and Zambia.

This sets the company apart from its peers, which include BHP and Rio Tinto.

Moody’s said risks around the transition to cleaner forms of energy and exposure to high risk countries meant Glencore’s rating would remain at Baa1 even if its financial position improves substantially.

“Glencore’s rating remains constrained by the company’s geographic exposure to mining assets in countries such as the Democratic Republic of Congo and Zambia as well as its exposure to coal mining assets which Moody’s considers to have financial risks,” said the agency.

Some analysts reckon Glencore could make itself more attractive to big institutional investors - and boost its share price - by spinning-off its coal business and selling a stake in its DRC assets. Shares in Glencore shares have dropped almost 17 per cent over the past month, hit by weaker raw material prices, revised guidance for its copper and nickel businesses and news of an investigation by the US commodity markets regulator into potential corrupt practices.

Moody’s said its upgrade reflected Glencore’s reduced debt levels and ability to withstand a downturn in commodity markets. Aided by rising prices, assets sales and cost cutting, Glencore’s adjusted net debt has more than halved since 2014 to $14.7bn. “While we don’t expect Glencore’s financial profile to strengthen further beyond the level achieved in 2018, sustained low production cost and reduced debt levels have increased the company’s resilience to volatile commodity prices,” it said.

Moody’s expects Glencore’s to generate at least $2bn of free cash flow this year and maintain a Baa1 rating. The upgrade comes after Glencore announced it would close two old shafts at its Mopani copper business in Zambia and focus on the construction of new shafts. “Operational performance across the group has been below expectations for several quarters and, most recently, first quarter production missed expectations and full year guidance was lowered for the copper and nickel divisions,” analysts at Deutsche Bank wrote in a note to clients. “Copper guidance could be lowered further in the second of 2019 once the business review at Katanga [a mine in the Democratic Republic of Congo] is complete.”