MOODY'S
INVESTORS SERVICE

Rating Action: Moody's assigns Ba2 CFR to Tianqi Lithium and withdraws Baa3 issuer rating; outlook negative

18 Jun 2019

Hong Kong, June 18, 2019 -- Moody's Investors Service has assigned a Ba2 corporate family rating to Tianqi Lithium Corporation and has withdrawn the company's Baa3 issuer rating.

At the same time, Moody's has downgraded the senior unsecured rating on the bonds issued by Tianqi Finco Co., Ltd and guaranteed by Tianqi Lithium to Ba2 from Baa3.

The ratings outlook is negative.

These actions conclude Moody's review for downgrade initiated on 29 May 2019.

RATINGS RATIONALE

"The downgrade reflects Tianqi Lithium's slower than expected deleveraging following its acquisition of a 23.8% stake in Sociedad Quimica y Minera de Chile S.A. (SQM, Baa1 stable), with its high leverage exacerbated by a weakened operating performance amid volatility in lithium chemical prices," says Gerwin Ho, a Moody's Vice President and Senior Credit Officer.

As a result of these developments, the company has much less financial flexibility than Moody's had anticipated at this stage after the acquisition, positioning it more appropriately at the Ba rating level.

"The negative outlook reflects the uncertainty related to Tianqi Lithium's equity financing plan and the continued volatility in lithium chemical prices, which could further delay deleveraging and weaken its liquidity position," adds Ho, who is also Moody's Lead Analyst for Tianqi Lithium.

Tianqi Lithium's leverage increased following its acquisition of a 23.8% stake in SQM in December 2018, which brought its total stake in the company to 25.9%.

While Tianqi Lithium plans to refinance the acquisition loans and reduce its leverage through equity financing, it had yet to complete this plan as of the middle of June.

In particular, the company has delayed its second listing in Hong Kong, for which it received approval from China's securities regulator in November 2018.

The company's proposed rights issue, which was approved by its shareholders in April, could raise proceeds of up to RMB7 billion, which Moody's expects would help reduce debt/EBITDA to about 5.1x in 2019 and 3.8x in 2020, with SQM accounted for on an equity method basis.

However, the company's ability to complete the proposed rights issue is still subject to regulatory approval, capital market execution and market conditions.

While Tianqi Lithium's revenue fell by 20% year-on-year in 1Q2019 amid declining lithium chemical prices, Moody's expects the company will grow its revenue in the next 12-18 months as increased sales volumes will offset lower prices.

At the same time, any greater volatility in lithium chemical prices than Moody's currently expects could further weaken the company's cash flow generation and further delay its deleveraging.

Tianqi Lithium's liquidity is weak. As of 31 March 2019, the company's cash reserves, including restricted cash, of RMB1.8 billion were insufficient to cover its short-term debt of RMB3.2 billion.

However, Moody's expects the company will be able to roll over its debt with domestic banks, given its profitable operations and strong market position.

The company also has a track record of access to diversified funding channels, including onshore debt instruments such as medium-term notes.

In addition, the company has a public equity funding channel through its listing in Shenzhen.

Tianqi Lithium's Ba2 corporate family rating reflects the positive demand outlook for lithium chemical products, the company's strong position in the lithium chemical industry, and its robust profitability, driven by the improved operating efficiency of its chemical production facilities in Australia.

On the other hand, the rating is constrained by Tianqi Lithium's product concentration in lithium minerals and lithium chemicals, with limited revenue scale, and its exposure to regulatory risks.

Environmental, social and governance (ESG) issues are material to the rating outcome and were assessed as follows.

Firstly, the company benefits from global trends to reduce carbon emissions, as lithium is a core input into the manufacture of electric vehicles, with rising demand for such vehicles in turn supporting solid demand for lithium.

Secondly, its mining and chemical production operations are exposed to environmental and safety risks. However, these risks are somewhat mitigated by the solid safety track record of the company's Australian and Chinese operations.

Thirdly, the company's ownership is concentrated and only a minority of its board consists of independent directors. Moreover, the company's acquisition of a 23.8% stake in SQM hints at an aggressive financial policy. These governance concerns are counterbalanced by the company's consistent low leverage prior to the SQM acquisition, and its settled management team that has demonstrated solid execution capability over the past few years.

The senior unsecured rating is exposed to both legal and structural subordination as a substantial portion of the liabilities are at the operating company level and there is secured lending related to the acquisition financing. Downward pressure on the rating could emerge if the company does not succeed in refinancing all or part of the acquisition loan through non-debt financing.

The outlook on Tianqi Lithium's ratings could return to stable if the company executes its refinancing plan, improves its liquidity position and maintains a strong operating performance, with debt/EBITDA improving to around 4.0x or below in the next 6 to 12 months.

Downward rating pressure could emerge if (1) the company fails to reduce its debt over the next six months, such that adjusted debt/EBITDA exceeds 4.0x in the next 6 to 12 months; or (2) if it fails to improve its liquidity position or make progress in removing the legal subordination of unsecured creditors to the acquisition financing.

The principal methodology used in these ratings was Chemical Industry published in March 2019. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

Headquartered in Chengdu, Sichuan Province, Tianqi Lithium Corporation is a leading lithium chemicals producer that mines, makes and sells lithium minerals and lithium chemicals.

The company owns a 51% stake in the Greenbushes lithium mine in Western Australia. It also owns a 25.9% stake in Chilean chemical producer Sociedad Quimica y Minera de Chile S.A. (SQM, Baa1 stable).

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this credit rating action, and whose ratings may change as a result of this credit rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

With reference to the withdrawal of the ratings of Tianqi Lithium Corporation: The rating has been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

Moody's considers a rated entity or its agent(s) to be participating when it maintains an overall relationship with Moody's. Unless noted in the Regulatory Disclosures as a Non-Participating Entity, the rated entities are participating and the rated entities or their agent(s) generally provide Moody's with information for the purposes of its ratings process. Please refer to www.moodys.com for the Regulatory Disclosures for each credit rating action under the ratings tab on the issuer/entity page and for details of Moody's Policy for Designating Non-Participating Rated Entities.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on www.moodys.com for additional regulatory disclosures for each credit rating.

The first name below is the lead rating analyst for this Credit Rating and the last name below is the person primarily responsible for approving this Credit Rating.

Gerwin Ho
VP - Senior Credit Officer
Corporate Finance Group
Moody's Investors Service Hong Kong Ltd.
24/F One Pacific Place
88 Queensway
Hong Kong
China (Hong Kong S.A.R.)
JOURNALISTS: 852 3758 1350
Client Service: 852 3551 3077

Clement Cheuk Yiu Wong
Associate Managing Director
Corporate Finance Group
JOURNALISTS: 852 3758 1350
Client Service: 852 3551 3077

Releasing Office:
Moody's Investors Service Hong Kong Ltd.
24/F One Pacific Place
88 Queensway
Hong Kong
China (Hong Kong S.A.R.)
JOURNALISTS: 852 3758 1350
Client Service: 852 3551 3077