ALUMINA
LIMITED

ASX Announcement 5 February 2016

Long term credit rating

Standard & Poor's today advised that Alumina Limited's long term credit rating has been affirmed at BBB-.

Alumina Limited Chief Executive Officer, Peter Wasow, commented, "We are pleased that Standard & Poor's have affirmed the Company's investment grade rating. The change from stable to a negative outlook recognises that credit ratings are impacted by the current volatility and uncertainty in commodity markets. The Company continues to maintain a low net debt level of US$101.2 million and gearing of 4.8% as at 31 December 2015".

Stephen Foster
Company Secretary

5 February 2016

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Research Update:

Alumina Ltd. Ratings Affirmed At 'BBB-', Outlook Revised to Negative On Low Metal Price Assumptions

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Research Update:

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Overview

- Ongoing excess supply and lower-than-expected demand from China and other developing markets have dampened alumina prices, and led to a revision of Standard & Poor's price assumptions for aluminum.
- We therefore expect Alumina's rating buffer to reduce in 2016 if alumina prices do not recover, placing downward pressure on the rating.
- As a result, we are revising the outlook to negative.
- We have affirmed the issuer credit rating Alumina and its associated issue ratings at 'BBB-', reflecting the company's conservative balance sheet and modest level of cash flow leverage.

Rating Action

On Feb. 5, 2016, Standard & Poor's Ratings Services revised the rating outlook on Alumina Ltd. (Alumina) to negative from stable. At the same time, we affirmed the 'BBB-' issuer credit rating on the company and its associated issue ratings.

Rationale

The outlook revision reflects our view that Alumina's rating buffer will reduce if low alumina prices were to persist for a prolonged period. In line with most metals, ongoing excess supply and lower-than-expected demand from China and other developing markets have materially reduced alumina prices to about US$200 per ton in January 2016, from about US$350 per ton in January 2015.

Alumina critically depends on the dividend stream paid to it by Alcoa World Alumina and Chemicals (AWAC) for its operations. Alumina is a minority (40%) stakeholder in (AWAC). Although AWAC has a track record of maintaining a high dividend payout, the current low alumina and aluminum prices have strained AWAC's ability to distribute a dividend to Alumina that would support Alumina's financial metrics being consistent with our expectations for the 'BBB-' rating.

Furthermore, Alumina's status as a minority shareholder of AWAC is a key constraint to the rating, as it relies on the 60% shareholder and operator of AWAC, Alcoa Inc. (Alcoa; BBB-/Stable/A-3) to respond to the current adverse trading conditions. However, we believe that AWAC will take steps to further cut costs such as its overhead expenditure. As evidenced in the past, AWAC could curtail higher cost refiners such as Suralco and Point Comfort to conserve cash. In addition, we believe that AWAC and Alcoa have an incentive to pay sufficient dividends to ensure that Alumina can meet its fixed obligations even during periods of weak commodity prices.

We continue to view Alumina's business risk profile as fair, reflecting AWAC's good business position as the world's largest alumina producer; as such AWAC has the size and scope to adjust its operations to respond to market conditions. Tempering these strengths is Alumina's minority shareholding in AWAC and Alumina's critical dependence on the dividend stream paid to it by AWAC.

In late 2015 Alcoa announced a proposal to split the company into two independent upstream and downstream businesses. At present the credit impact on Alumina is not certain. We are conscious that the counterparty's credit quality will be a key determinant affecting Alumina's ability to influence AWAC's operating strategy, shareholder control, financial policy, and ultimate capital structure of the de-merged upstream business.

Our base-case scenario for Alumina is based on the following assumptions:
- Price assumptions for aluminum of US$1,500/ton over 2016, US$1,550/ton over 2017, and US$1,650/ton in 2018;
- Australian dollar/U.S. dollar exchange rate average of US$0.68 in 2016 and 2017; and
- AWAC producing between 13 and 15 million tons over 2016 and 2017.

Liquidity

We consider Alumina's liquidity as being adequate, based on our expectation that the sources of liquidity including cash, funds from operations, and undrawn bank lines, will exceed liquidity uses by greater than 1.2x in the next 12 months.

Principal liquidity sources:
- Funds from operations (FFO) of about US$40 million-US$80 million over the next 12 months; and
- Undrawn credit lines maturing beyond 12 months of about US$290 million.

Principal liquidity uses:
- Dividends in 2016.

Outlook

The negative outlook on Alumina reflects the ongoing challenging commodity market conditions. In our view, if there is no sustained improvement in alumina prices, Alumina's ratings buffer in its financial metrics will likely reduce, potentially placing downward pressure on the ratings.

Downside scenario

We would lower the ratings if we forecast the company's financial profile will weaken significantly because of persistently depressed alumina prices in the next six months and consider a rebound in its credit metrics to be unlikely. Such deterioration could be demonstrated if the company's FFO to debt remains at less than 45% and its FFO cash interest coverage stays at less than 9x by fiscal 2017.

In addition, any negative rating actions on Alcoa could place downward pressure on the rating on Alumina because of increasing counterparty risk. Apart from being the operator of AWAC, Alcoa was also an off-taker for 32% of AWAC's smelter-grade alumina shipments in 2014.

Upside scenario

We could revise the outlook to stable if the company successfully restores the buffer in its key credit metrics, which include an adjusted FFO-to-debt ratio of greater than 45% and FFO cash interest coverage of greater than 9x. The scenario could occur if there is a sustained improvement in alumina prices or a meaningful reduction in AWAC's production costs.
In addition, we would expect to review details of the proposed Alcoa demerger when it becomes available before revising the outlook to stable.

Ratings Score Snapshot

Corporate Credit Rating: BBB-/Negative/--

Business risk: Fair
- Country risk: Low
- Industry risk: Moderately high
- Competitive position: Fair

Financial risk: Modest
- Cash flow/Leverage: Modest

Anchor: bbb-

Modifiers
- Diversification/Portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Financial policy: Neutral (no impact)
- Liquidity: Adequate (no impact)
- Management and governance: Fair (no impact)
- Comparable rating analysis: Neutral (no impact)

Related Criteria And Research

Related Criteria

- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria - Corporates - Industrials: Key Credit Factors For The Metals And Mining Upstream Industry, Dec. 20, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk - November 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Criteria - Corporates - General: 2008 Corporate Criteria: Rating Each Issue, April 15, 2008

Ratings List

Ratings Affirmed; CreditWatch/Outlook Action

	To	From
Alumina Ltd.		
Corporate Credit Rating	BBB-/Negative/--	BBB-/Stable/--

Ratings Affirmed

Alumina Ltd.	
Senior Unsecured	BBB-

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at www.spcapitaliq.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.