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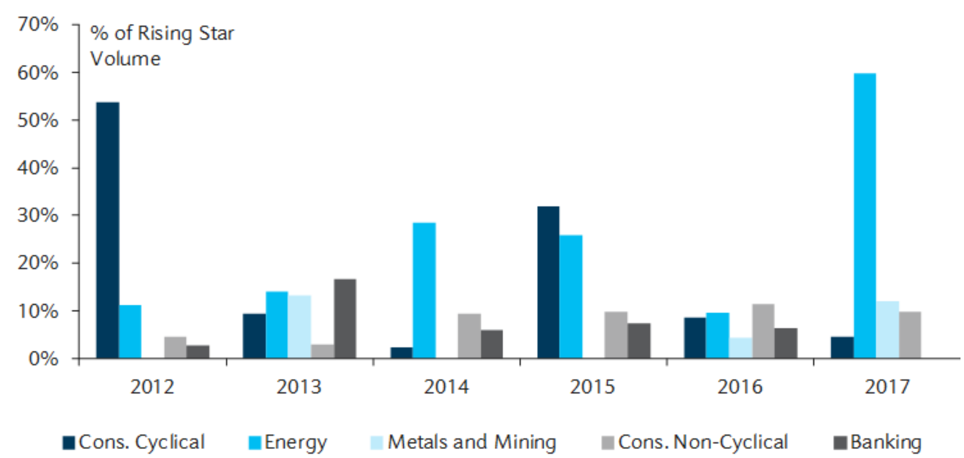
I Get Knocked Down, but I Get Up Again

We examine the ratings downgrade cycle across the Metals & Mining sector in 2015-16 and its rapid response in combating commodity price volatility with asset sales, equity offerings and proactive liability management. These actions have left the sector on the precipice of another significant change in composition: assuming at least some of the rising star candidates cross over in 2018-19, investors will be looking at a smaller, lower-quality, and likely less liquid HY Metals & Mining index by the end of the decade. While Metals & Mining credits are trading at relatively tight levels, we favor Teck Resources (TCKBCN) and Freeport-McMoRan (FCX), while highlighting other potential upgrade candidates.

Down and Now Back Up in Metals & Mining

Commodity credits stand out as one such segment of the market that has already undergone a reasonable amount of credit repair that typically comes at the early stages of a broader credit cycle. After enduring a spell of downgrades in late 2015 and early 2016, energy companies and miners have spent a good portion of the past year improving cost structures and repairing balance sheet strength through asset sales and debt repayment. In the energy sector, proactive deleveraging has driven chunky upgrades for names such as SPLLC, CXO, and CVECN, which together have accounted for more than 60% of the year-to-date rising star mix (Figure 1). But with the stresses that surfaced in 2015-16 now in the rear view mirror we approach the end of 2017 with an eye on potential rising star candidates that provide upside opportunity within Metals & Mining.

FIGURE 1
Rising Star Mix Has Been Dominated by Energy Credits in 2017



Source: Barclays Research

Downgrade Cycle: Steep, but Quick

In response to declining commodity prices and increased sector leverage, Moody's and S&P took significant ratings actions in 4Q15-1Q16, downgrading several credits 1-4 notches and pushing Freeport-McMoRan (FCX), Teck Resources (TCKBCN), and Anglo American (AALLN) into high yield. This is evidenced by the changing composition of the US high yield metals & mining index since the end of 2015 (Figure 2).

FIGURE 2

Historical Index Composition, US High Yield Metals & Mining

Year-End 2015			1H 2016			Year-End 2016			September 2017		
Ticker	Amt ($ mn)	Weighting	Ticker	Amt ($ mn)	Weighting	Ticker	Amt ($ mn)	Weighting	Ticker	Amt ($ mn)	Weighting
MTNA	$ 11,493	14.6%	FCX	$ 13,839	16.7%	FCX	$ 12,059	18.2%	FCX	$ 10,561	18.0%
AA	8,177	10.4%	MTNA	8,674	10.4%	MTNA	7,300	11.0%	MTNA	5,806	9.9%
TCKBCN	6,900	8.7%	AA	7,427	8.9%	TCKBCN	6,069	9.2%	TCKBCN	4,809	8.2%
BTU	4,755	6.0%	TCKBCN	6,828	8.2%	AALLN	3,850	5.8%	HNDLIN	2,650	4.5%
FMCN	3,441	4.4%	AALLN	4,485	5.4%	FMCN	3,441	5.2%	STLD	2,517	4.3%
ACI	3,225	4.1%	FMCN	3,441	4.1%	HNDLIN	2,650	4.0%	X	2,512	4.3%
FMGAU	3,215	4.1%	FMGAU	2,638	3.2%	X	2,523	3.8%	CSTM	1,875	3.2%
CLF	2,900	3.7%	CLF	2,595	3.1%	STLD	2,350	3.6%	KCN	1,750	3.0%
X	2,575	3.3%	X	2,593	3.1%	CLF	2,283	3.5%	ATI	1,500	2.6%
HNDLIN	2,500	3.2%	HNDLIN	2,500	3.0%	AKS	1,596	2.4%	FMGAU	1,500	2.6%
Top 10	**$ 49,180**	**62.4%**		**$ 55,019**	**66.2%**		**$ 44,122**	**66.7%**		**$ 35,480**	**60.6%**
Total	**$ 78,873**			**$ 83,078**			**$ 66,103**			**$ 58,558**	

Source: Bloomberg Barclays Indices, Barclays Research

While the amount of debt in the high yield metals & mining index increased only about $5bn over the 18 months from YE14 through June 2016, its composition changed significantly, as fallen angels FCX, TCKBCN, and AALLN replaced several larger coal producers (ie, Alpha Natural Resources [ANR], Walter Energy [WLT], Peabody Energy [BTU], and Arch Coal [ACI]) that filed for Chapter 11 bankruptcy protection in 2H15/1Q16.

Documenting the Sector's Rapid Response to the Commodity Cycle

As Figure 2 suggests, after ballooning to $83+bn of notional debt outstanding in mid-2016, companies have clearly shifted their focus to debt reduction through asset sales, equity offerings, and proactive liability management with excess free cash flow. We see this as a realization that the 2015-16 commodity cycle (as well as any future cycles) is best offset by a lower leverage profile across the sector, in turn improving financial flexibility and lowering the average cost of capital spending.

We summarize the most notable capital market activity in Figure 3, but the result has been a $20+bn reduction in gross debt outstanding and the August 2017 investment grade upgrade of Anglo American ($3.85bn). This leaves the total High Yield Index at around $58.5bn, down approximately 30% in just under 20 months. Across investment grade and high yield, the combined amount of index-eligible metals debt outstanding is down more than 40% since the 2013 peak, with most of the decline coming after late 2015. While the unexpected uptick in global commodity demand in early 2016 marked the beginning of the rally in the metals & mining sector, the decisions by the majority of issuers to improve their balance sheets proactively through maturity extensions, asset sales, and equity issuance have put the sector on much better footing as 2018 approaches.

FIGURE 3

Notable 2016-17 High Yield Metals and Mining Corporate Actions

Ticker	Transaction(s)	Balance Sheet Impact
FCX	- $6.6bn in non-core asset sales - ~$3.5bn of ATM equity issuance 2015-16	Net debt reduced ~$8.3bn in 2016, repaid TL in full - Partial redemption of notes maturing 2019 -22 (3Q17) - Ended 2Q17 w/ ~$4.7bn of cash, 2017-18 notes likely paid off at maturity
TCKBCN	- Issued $1.25bn guaranteed notes - C$1bn debt buybacks (market) - $1bn tender (1Q17, w/ cash)	Gross debt below $5bn at 2Q17, down ~$2.0bn from YE15 - Following 1Q17 tender, redeemed an additional ~$260mn of bonds in 2Q17
HBMCN	- Issued $1.0bn of 2023/25 unsecured notes - C$242mn equity issuance	Refinanced 9.5% 20s, has repaid $123mn in credit facility borrowings YTD
STLD	- Repaid $228mn TL due 2019 - $400mn unsecured issuance (5.0% 2026) - $350mn unsecured issuance (4.125% 2025)	Gross debt reduced $240mn - Redeemed 6.125% 19s, 6.375% 22s in 4Q16-1H17 - Repaid $228mn TL in December 2016 with excess cash
AKS	- Issued ~$600mn of equity - $380mn secured issuance (7.50% 2023) - $400mn unsecured issuance (7.0% 2027) - $280mn unsecured issuance (6.375% 2025)	- Repaid $550mn revolver - Refinanced $380mn 8.75% 2018 secureds - Tendered for 7.625% 20s, 8.375% 22s
X	- Issued ~$500mn of equity - $980mn secured issuance (8.375% 2021) - $750mn unsecured issuance (6.875% 2025)	- Redeemed 6.05% 17s, partially redeemed 2018-21 notes - Fully repaid 7.0% 18s; 6.875% 21s; 7.5% 22s with 2025 proceeds - Increased liquidity, maintained $1.5bn cash balance as of 2Q17
MTNA	- Sold 35% Gestamp stake for €875mn (~$1.1bn) - $3.0bn rights issue	Reduced net debt $3.8bn via (excludng the September 2017 tender): - Tender for ~$1.5bn 2018-22 notes; €625mn notes due 2017-18 - Redeemed $1.4bn 4.5% 17s, €250mn 2016 TL, €1000mn 9.375% 2016s - Tender for aggregate of $1.25bn of notes due 2022, 2039. 2041 (Sep 2017 tender)
AALLN	- $1.7bn Niobium & Phosphate sale - £310mn SA coal - $2.3bn and €600mn notes issuance	Reduced net debt $6.7bn via: - Redeemed ~$3.85bn notes due 2016-20 - Redeemed ~€950mn notes due 2018-20; ~$1.24bn of €/£ notes due 2016-18

Source: Company Reports, Barclays Research

Highlighting Rising Star Potential in 2018-19

Outside of the macroeconomc outlook and its effect on base metal prices, the question asked by most investors is how soon the recent trend of debt reduction will lead to the next round of upgrades. Management teams have been vocal in their desire to return to their investment grade roots, and we continue to expect excess capital/liquidity to be allocated to reducing debt and extending maturities (albeit at a slower pace than in 2016-17). As a result, we see this discussion on the timing of investment grade upgrades linked largely to the rating agencies and their commentary on individual credits and the sector broadly.

In the Appendix, we summarize the key credit positives and negatives per Moody's and Standard & Poor's, but our fundamental credit analysts also provide their issuer-specific thoughts on the key issues that will likely drive the timing of an investment grade upgrade for potential rising star candidates:

- **Teck Resources (TCKBCN)**: We see current credit metrics (0.7x net leverage estimated at YE17) as worthy of an IG upgrade, particularly given the $2+bn of debt repayment since 2Q16 (now below its $5bn corporate debt target), but expect the agencies to be slower to give management the benefit of the doubt after its decision not to sell any assets or issue equity in 2015-16 to combat the commodity cycle. TCKBCN has a publicly stated intention to return to mid-BBB ratings, but we will be focused on how the company intends to fund its growth projects, notably the ~$4.7bn Quebrada Blanca Phase 2 project (QB2). Maintaining higher cash balances, thus limiting the need to use the balance sheet, should help shift the perspective on management and its willingness to manage to IG ratings, despite its aspirations to expand the asset portfolio. The company announced a 20mn share buyback authorization on October 5, which shows a shifting preference to shareholder returns, but this program (~C$575mn at the current share price) can be funded with excess free cash flow generated in 2017-18 while keeping net leverage <1.0x. (Brian Lalli)

- **Freeport-McMoRan (FCX):** The rally in copper prices continue to support FCX's credit metrics ($3.00/lb copper in 2H17 would push net leverage to ~1.5x), but the overhang of the ongoing negotiations about Grasberg likely limits FCX's ability to get back to investment grade over the next two years. We see positive momentum, particularly at Moody's, as cash on hand is used to address near-term maturities and leverage remains low, but we see the pace of upgrades continuing to lag TCKBCN given a less diverse portfolio of assets. (Brian Lalli)

- **Steel Dynamics (STLD):** With net leverage of ~1.0x and FCF/debt of ~30%, STLD has (in our estimate) investment grade-worthy credit metrics but a management team that has remained consistent in its comfort at the high-BB ratings level. While CFO Theresa Wagler suggested on the 2Q17 earnings conference call that an upgrade to IG may happen organically, we see this outcome as less likely, given the company's focus on both organic and inorganic growth across the domestic steel market. Should management ever change in its desire to grow, the company could be a rising star candidate in fairly short order, but this is not our base case. (Brian Lalli)

- **ArcelorMittal (MTNA):** The company acted decisively in response to the downturn: since 1Q16, it has sold assets, raised equity, and reduced debt. 2017's improved EBITDA generation will contribute to an improvement in leverage this year. However, with capex set to increase in 2018 (the company recently announced an investment program in Mexico and has Ilva-related expenditures) and given our cautious view on the trajectory of steel prices, we believe leverage will move sideways next year. While management has communicated a desire to return to investment grade, MTNA is comfortably positioned within the BB+ category, and we expect this to remain the case next year. We therefore see the targeted return to IG as more likely to be a 2019+ development rather than a near-term event. (Maggie O'Neal)

- **Fortescue Metals Group (FMGAU):** Currently rated Ba1/BB+ at the corporate level, the upgrade potential at Moody's and S&P is tied to two main factors: the sensitivity to iron ore prices, which have moved lower as of late, and the need to maintain a very low leverage profile, with an unsecured capital structure, that allows flexibility to offset the single end-market exposure. S&P noted that it "views the prospect of further upward rating action as remote," so the trajectory of ratings will be driven by how aggressive management remains in reducing debt with excess cash flow in 2018-19. (Not Covered)

- **Kinross Gold Corp (KCN):** We estimate that KCN will finish 2017 with gross and net leverage of 1.5x and 0.5x, respectively. As the company progressed on the first phase of its Tasiast expansion (with commercial production expected in 2Q18), management used asset sales and equity issuance to fund growth and debt reduction while maintaining a strong cash balance of $1.1bn in 2Q17. In late September, KCN announced that it plans to proceed with additional expansions at Tasiast (Mauritania) and Round Mountain (Nevada). Although we expect the company to outspend cash flow in 2018, this should facilitate KCN's transition to greater mine diversity and mine life, easing concerns about its exposure to gold production in Russia. Moreover, using a gold price of $1,150-1,250/oz, we estimate that KCN will finish 2018 with net leverage of 0.7-1.1x and a cash balance of at least $700mn. KCN is rated investment grade by Fitch and has a BB+ rating with positive outlook at S&P, which we think could upgrade the company in the next six months and move KCN 2021s, 2024s, and 2027s into the investment grade index. With just $250mn outstanding, the KCN 2041s would not be eligible for the high grade index. If KCN is upgraded, our expectation is that the 2027s would trade in a +200bp context (near the current offer side), while we think that the 2041s could trade at +275bp, or roughly 5pts higher. For more on Kinross, please see *Approves Tasiast Phase II and Round Mountain Projects*. (Harry Mateer)

Broader Portfolio Implications

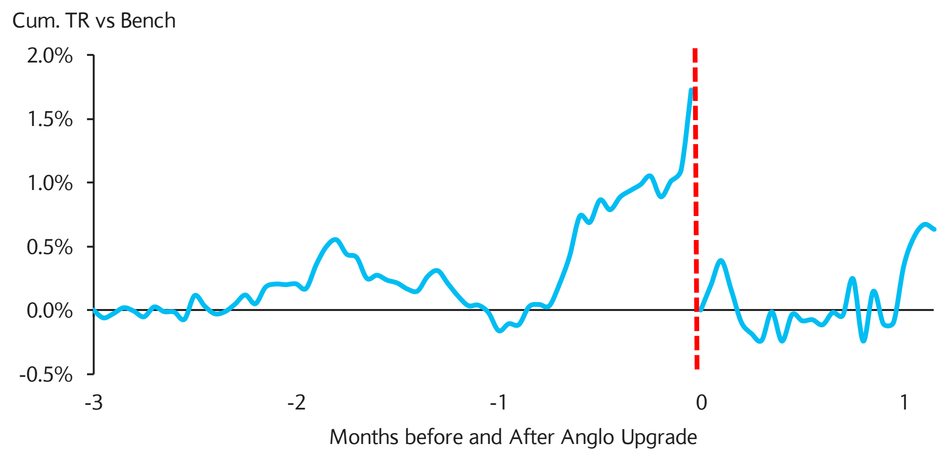
When Do Markets Start to Price in Potential Upgrades?

Seasoned credit investors often surmise that ratings changes tend to be a lagging indicator of credit quality relative to what market pricing dictates (for prior work on this topic please see *Fallen Angels May Rise Again*). Of course, positive event risks, such as M&A and equity capital raises, are harder for the markets to anticipate, but the sector-specific data suggest that positioning prior to ratings moves affects portfolio performance.

The most recent upgrade data point of Anglo American PLC is one example worth a closer look. The company's unsecured bond rating was upgraded to BBB- by S&P on August 11, 2017, and to BBB- from BB+ by Fitch shortly thereafter on August 18. As shown in Figure 4, this particular upgrade was far less well anticipated by credit investors, with a majority of the outperformance registering within the month of the ratings moves. The outperformance has continued after the upgrade, but at a much more modest pace. Anglo American is a somewhat unique example, as it was issued 144a-for-life and was upgraded back to investment grade status after losing it just 18 months prior. We note that the US High Yield Index includes 144a securities, but the US Investment Grade Index does not. As a result, the post-upgrade outperformance has been more muted given the lack of a marginal investment grade buyer (Please see *144a Rising Stars Shine Just as Bright*). But the pace and magnitude of ratings changes does highlight the speed at which operating conditions deteriorated in the broader metals & mining sector, as well as the actions various managements took to address resultant credit concerns.

FIGURE 4

Cumulative Outperformance versus Benchmark of Anglo Bonds around Upgrade Event



Note: Excess returns measured relative to the high yield index prior to upgrade and investment grade index after it.
Source: Bloomberg Barclays Indices

Technicals Playing a Role through Index Transitions

The transition of a number of names from investment grade to high yield and then potentially back to investment grade requires further study into how the various indices would be affected, because flows from differing investor bases in the two segments of the market matter. To help frame the compositional changes, Figure 5 compares the high yield and investment grade metals indices by ratings, duration, and size before and after potential upgrades of FCX, TCKBCN, and MTNA. The changes, while less relevant for the investment grade metals sector, are particularly significant for the high yield metals index. Relative to the upgrade cohort, the existing names in the US high yield index are lower in quality and shorter in duration and, thus, have a notable effect on valuations at the index level (+62bp on spread, +55bp on YTW, and -$1.0 on price). With roughly $21bn of index-eligible debt transitioning between the high yield and the investment grade index, the metals share would decrease 160bp as a percent of the high yield index and increase roughly 40bp in the investment grade index.

FIGURE 5

Pro Forma Compositional Changes in the US Metals and Mining Indices Assuming Freeport, Teck, and ArcelorMittal Upgrades

	US HY M&M	Pro Forma US HY M&M*	US IG M&M	Pro Forma US IG M&M*
Amt Outs. ($mn)	58,558	37,381	46,355	67,532
Market Val. ($mn)	61,480	38,937	52,864	75,407
# of Bonds	104	78	55	81
# of Issuers	49	46	10	13
Index Rating	BA3/B1	B1/B2	BAA1/BAA2	BAA2/BAA3
OAD	4.72	3.42	9.84	8.98
Maturity	8.02	6.05	15.57	14.32
OAS	327	389	158	177
Yield to Worst	5.28	5.83	3.97	4.08
Price ($)	103.6	102.5	112.8	110.5
% of Index**	4.5%	2.9%	1.0%	1.4%

Note: * The pro forma high yield (or investment grade) metals index considers the current snapshot of the index if FCX, TCKBCN, and MTNA are upgraded. Source: Bloomberg Barclays Indices

Away from the technical flows related to transitions from high yield to investment grade that will dictate near-term relative value, we see other qualitative factors worth noting for the longer term. The metals & mining sector has had a number of transitions between the two markets over the past decade that will lead investors to question managements' dedication to defending credit quality and ratings in the next inevitable commodity downturn. Select management teams have lost credibility with investors after giving up on efforts to protect ratings through a downturn, finding that the levers to preserve credit quality were perhaps less potent than they otherwise believed.

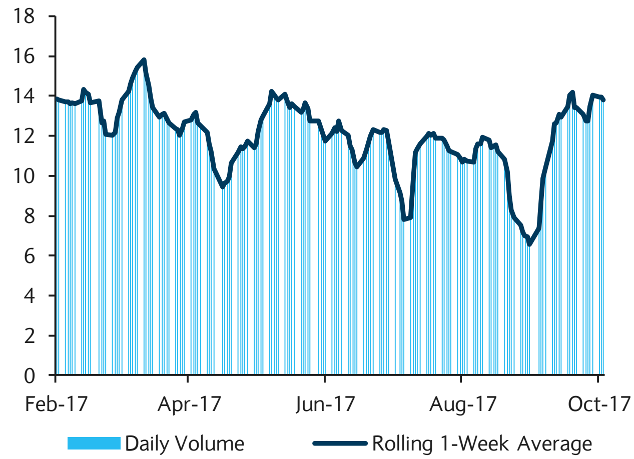
APPENDIX

Rating Agency Summary

Ticker	Ratings (Moody's/S&P)	Upward Momentum	Downward Momentum
FCX	Corp Family: B1 / BB- Outlook: POS / STA	**Moody's:** Balance sheet improvement and the better free cash flow generation, given low cost position and high quality assets. **S&P:** The potential for ratings improvement could occur if debt to EBITDA is sustained below 4.0x, which would likely be a result of the company's reaching its $10bn net debt target by the end of 2017.	**Moody's:** Downside risk to ratings could be triggered should leverage remain above 5.0x or copper prices become pressured to below $2.00/lb **S&P:** A lowering of ratings could occur if it appears that leverage will remain above 5.0x, which could be the result of delayed asset sales or a change in the company's business risk profile with the potential to push EBITDA margins below 25%.
TCKBCN	Corp Family: Ba2 / BB Outlook: STA / STA	**Moody's:** An upgrade could be possible with a reduction in volatility of financial performance, prudent financial policy and capital investment, adjusted debt/EBITDA under 2.75x and maintenance of good liquidity. **S&P:** The stable outlook reflects the expectation that Teck will generate sharply higher earnings and cash flow over the next 12 months and corresponding reduction in financial risk related to Fort Hills.	**Moody's:** The potential for a downgrade could exist if the company were to releverage to debt/EBITDA above 3.5x and return to negative free cash flow. **S&P:** Downside risk to ratings could occur, given significantly weakened credit metrics in the event of a sharp correction in commodity prices or protracted operational challenges that weaken the company's cost profile or liquidity.
STLD	Corp Family: Ba1 / BB+ Outlook: STA / POS	**Moody's:** Favorable changes could be made to ratings should STLD sustain debt/EBITDA under 3.0x, EBIT/interest coverage above 4.0x, and EBIT margins in the mid-teens and show consistent free cash flow generation. **S&P:** An upgrade could occur if the company is able to maintain FFO/debt greater than 50%, EBITDA margins above 8%, a strong liquidity position, and a long-term financial policy commensurate with an investment grade rating. The positive outlook reflects the company's improved results, which are expected to continue in 2018 and beyond.	**Moody's:** Steel Dynamics ratings are constrained by the volatility in the global steel industry and the overall challenges that continue to plague the industry. **S&P:** Ratings could be lowered if metrics decline, resulting from aggressive financial policies, declining steel demand in key end-markets or excess steel capacity pressuring prices/realizations.
MTNA	Corp Family: Ba1 / BB+ Outlook: STA/ STA	**Moody's:** Rating could be upgraded if the company's adjusted debt/EBITDA were to trend below 3.0x, profitability were to improve with adjusted EBIT margin above 8% and (CFO-div)/debt were above 25%, and FCF is positive a on a sustainable basis. **S&P:** Rating upside could be triggered by FFO to debt above 25%, potentially averaging closer to 30% over the medium term. Positive free operating cash generation and improving EBITDA per tonne. Continuing realization of the 2020 cash requirement reduction plan if there is sustainably stronger performance vs. peers and improved visibility of cash generation.	**Moody's:** Potential downgrade if adjusted debt/EBITDA remains above 4.0x; profitability falls, with adjusted EBIT declining sustainably below 6% (CFO-div)/debt decreases below 15%; and FCF is negative over multiple years. **S&P:** Downgrade not anticipated by S&P in the near term, but rating could be lowered if there is a sharp drop in demand for steel in the group's core markets. Adjusted FFO to debt remains below 20% and cash flow after investment and dividends is negative. Debt increases from material acquisitions or shareholder distributions.
AALLN	Corp Family: Baa3 / BBB- Outlook: STA/ STA	**Moody's:** Maintain strong liquidity, coupled with positive FCF generation, strong cash flow generation and (CFO-dividend)/debt at or above 30%. Balanced approach to investments to maintain improved metrics and strong financial position among a range of commodity price scenarios. **S&P:** A further upgrade within the next 12 monthsis unlikely. However, rating action could occur subject to one or more of the following: targeting a net debt to EBITDA of 1.0-1.5x and keeping to the current dividend policy. FFO to debt rising above 60% throughout the cycle with stable cash flows and competitive position improving, reflected in EBITDA margin.	**Moody's:** Downside risk include reversal of deleveraging trend, adjusted debt to EBITDA above 2.5x and adjusted (CFO-dividend)/debt consistently below 25%. **S&P:** Lower rating if S&P FFO to debt falls below 45% on average through the cycle. If key commodities (iron ore, diamonds and coal) are affected by a pronounced slowdown. Divestment of key assets, creating volatility of cash flow. Spinning off the Kumba Iron Ore assets to shareholders without a proportional decrease in debt would likely affect the rating.

Source: Moody's Investor Service, Standard & Poor's, Barclays Research

High Yield Average Institutional Trade Volume ($bn)

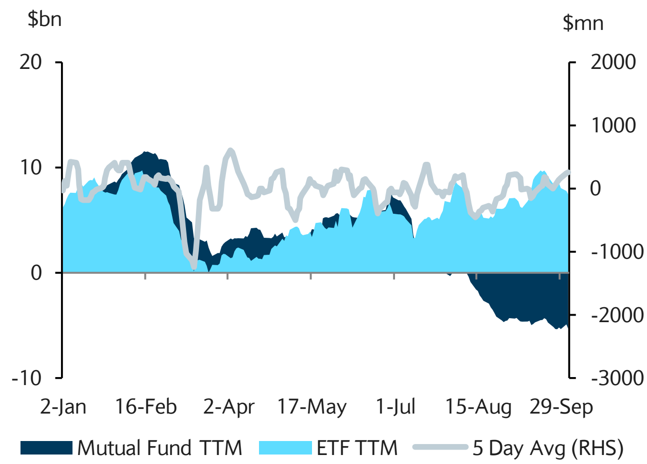


Note: Includes both registered and 144A volumes. Source: FINRA TRACE

On-the-Run HYCDX versus US High Yield Index (bp)

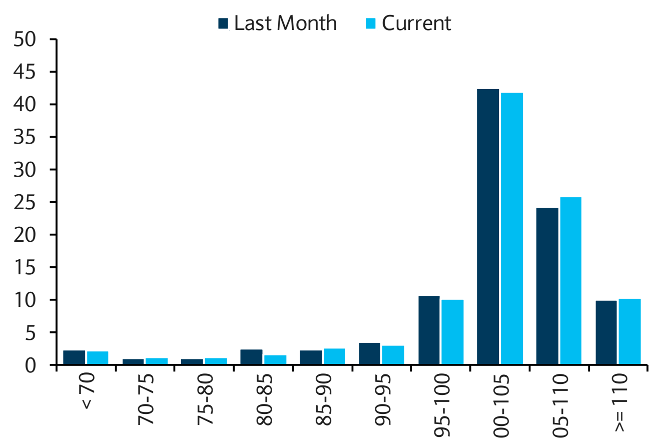
Source: Barclays Research

Flows to High Yield Mutual Funds and ETFs (YTD)



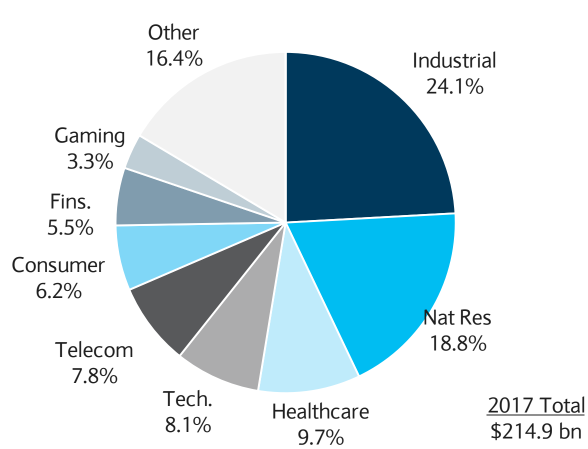
Note: Daily reporters only. Source: EPFR

High Yield Index Price Distribution by Par (%)



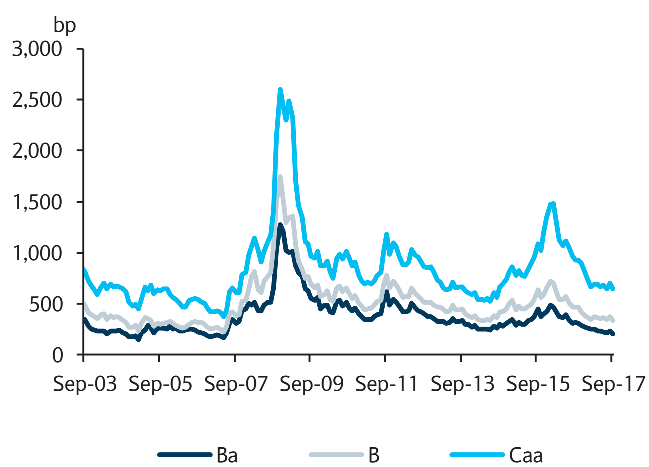
Source: Barclays Research

High Yield Supply by Sector (YTD)



Source: Barclays Research

High Yield Spreads by Credit Quality



Source: Bloomberg Barclays Indices

Analyst Certification

We, Rizwan Hussain, Arvind Kumar, Nikhil Kunder, Sirisha Kurada, CFA, Brian Lalli, Harry Mateer, Abhishek Mittal, CFA, Maggie O'Neal, Bradley Rogoff, CFA and Soren Willemann, hereby certify (1) that the views expressed in this research report accurately reflect our personal views about any or all of the subject securities or issuers referred to in this research report and (2) no part of our compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

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ANGLO AMERICAN CAPITAL PLC, A/CD/D/J/K/L/M/N
AALLN 3 1/4 04/03/23 (EUR 111.08, 04-Oct-2017)

ARCELORMITTAL, CD/CE/D/J/K/L/M/N
MTNA 2 7/8 07/06/20, Market Weight (EUR 106.57, 04-Oct-2017)
Valuation Methodology: Front-end of curve supported by balance sheet management measures of the company. Trade towards tighter range of the Pan European HY Basic Industry Index, limiting scope for outperformance from current levels.
Risks that May Impede Achievement of the Rating: Downside risk includes sharp deterioration in demand for steel leading to lower EBITDA and higher leverage.

Upside risks include higher deleveraging following better than expected operating environment.

FMG RESOURCES AUGUST 2006 PTY LTD, CD/J/K/M
FMGAU 9 3/4 03/01/22 (USD 112.63, 04-Oct-2017)

FREEPORT-MCMORAN INC, CD/CE/J
FCX 6 7/8 02/15/23, Overweight (USD 108.25, 04-Oct-2017)
Valuation Methodology: We prefer the FCX O&G exchanged bonds due 2022/23, as they received one- and two-year call date extensions, respectively, which provides potential upside should the company target these higher-coupon notes in any tender offers.

Risks that May Impede Achievement of the Rating: Weaker-than-expected copper markets/realizations pressure cash flow and leverage, and an unexpected issue in the Grasberg negotiations

KINROSS GOLD CORP, CD/CE/J
KCN 5 1/8 09/01/21 (USD 107.13, 04-Oct-2017)

STEEL DYNAMICS INC, CD/CE/J
STLD 5 1/2 10/01/24, Market Weight (USD 107.00, 04-Oct-2017)

Valuation Methodology: Balancing the strong credit fundamentals/potential IG upgrade with management's stated intentions to pursue growth (and use excess cash for share buybacks), we rate the STLD 2023-26 unsecured notes Market Weight. Strong FCF and low net leverage (1.1x at 2Q17) will insulate the credit, even if volatility returns to the steel market, but further spread tightening is limited to IG compression, which we are not expecting this year.
Risks that May Impede Achievement of the Rating: Heavy cyclicality of/excess capacity in the domestic steel industry

TECK RESOURCES LTD, CD/CE/D/E/J/K/L/M/R/U
TCKBCN 6 08/15/40, Overweight (USD 109.25, 04-Oct-2017)
Valuation Methodology: At current levels, we favor the long end of the TCKBCN curve (lower dollar price, longer duration) and rate the 2040-43 notes at Overweight.
Risks that May Impede Achievement of the Rating: Weaker-than-expected commodity markets/realizations pressure cash flow and leverage

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For sectors rated against the Bloomberg Barclays U.S. High Yield 2% Issuer Capped Credit Index, the Bloomberg Barclays Pan-European High Yield 3% Issuer Capped Credit Index excluding Financials, the Bloomberg Barclays Pan-European High Yield Finance Index or the Bloomberg Barclays EM Asia USD High Yield Corporate Credit Index, the analyst expects the six-month total return of the sector to exceed the six-month total return of the relevant index.

Market Weight (MW):
For sectors rated against the Bloomberg Barclays U.S. Credit Index, the Bloomberg Barclays Pan-European Credit Index, the Bloomberg Barclays EM Asia USD High Grade Credit Index or the Bloomberg Barclays EM USD Corporate and Quasi-Sovereign Index, the analyst expects the six-month excess return of the sector to be in line with the six-month excess return of the relevant index.
For sectors rated against the Bloomberg Barclays U.S. High Yield 2% Issuer Capped Credit Index, the Bloomberg Barclays Pan-European High Yield 3% Issuer Capped Credit Index excluding Financials, the Bloomberg Barclays Pan-European High Yield Finance Index or the Bloomberg Barclays EM Asia USD High Yield Corporate Credit Index, the analyst expects the six-month total return of the sector to be in line with the six-month total return of the relevant index.

Underweight (UW):
For sectors rated against the Bloomberg Barclays U.S. Credit Index, the Bloomberg Barclays Pan-European Credit Index, the Bloomberg Barclays EM Asia USD High Grade Credit Index or the Bloomberg Barclays EM USD Corporate and Quasi-Sovereign Index, the analyst expects the six-month excess return of the sector to be less than the six-month excess return of the relevant index.
For sectors rated against the Bloomberg Barclays U.S. High Yield 2% Issuer Capped Credit Index, the Bloomberg Barclays Pan-European High Yield 3% Issuer Capped Credit Index excluding Financials, the Bloomberg Barclays Pan-European High Yield Finance Index or the Bloomberg Barclays EM Asia USD High Yield Corporate Credit Index, the analyst expects the six-month total return of the sector to be less than the six-month total return of the relevant index.

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Sectors in U.S. High Yield Research are defined using the sector definitions of the Bloomberg Barclays U.S. High Yield 2% Issuer Capped Credit Index and are rated against the Bloomberg Barclays U.S. High Yield 2% Issuer Capped Credit Index.

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Overweight (OW): The analyst expects the six-month excess return of the issuer's index-eligible corporate debt securities to exceed the six-month expected excess return of the relevant sector.
Market Weight (MW): The analyst expects the six-month excess return of the issuer's index-eligible corporate debt securities to be in line with the six-month expected excess return of the relevant sector.
Underweight (UW): The analyst expects the six-month excess return of the issuer's index-eligible corporate debt securities to be less than the six-month expected excess return of the relevant sector.
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Market Weight (MW):
The analyst expects the three-month excess return of the country's index eligible bonds to be in line with the three-month excess return of the Bloomberg Barclays EM USD Sovereign Index.
Underweight (UW):
The analyst expects the three-month excess return of the country's index eligible bonds to be less than the three-month excess return of the Bloomberg Barclays EM USD Sovereign Index.
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28% have been assigned Market Weight rating which, for purposes of mandatory regulatory disclosures, is classified as a Hold rating; 30% of issuers with this rating category are investment banking clients of the Firm; 80% of the issuers with this rating have received financial services from the Firm.
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