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***S&PGR Revises Alumina Otlk To Positive; 'BB+' Rtgs Affirmed**

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The following is a press release from S&P Global Ratings:

-- AWAC's earnings and cash flows have improved materially in 2017 due to strong alumina prices and the solid operating performance of its assets.
-- We expect the favorable trading conditions to continue in 2018, supporting AWAC's strong dividend distribution to its shareholders.
-- As a result, we are affirming the 'BB+' issuer credit rating and senior unsecured debt ratings on Alumina Ltd.
-- We are revising the outlook to positive from stable, reflecting a one-in-three chance that Alumina could be upgraded if AWAC's strong dividend distribution is sustainable and Alumina maintains a low leverage level.

MELBOURNE (S&P Global Ratings) April 18, 2018--S&P Global Ratings said today that it had affirmed the issuer credit rating and associated issue rating on Alumina Ltd. at 'BB+'. The outlook on the long-term rating is positive. The recovery rating on Alumina's debt remains unchanged at '3'.

We revised the outlook to positive to reflect the increasing earnings and cash flows of Alumina's joint-venture (JV) Alcoa World Alumina and Chemicals (AWAC), as well as the improving credit quality of AWAC's operating company, Alcoa Corp. In addition, we expect both Alumina and AWAC to maintain a low level of debt, which is key to their resilience amid volatile commodity prices.

In our view, AWAC's operating performance and dividend payment are key to Alumina's credit quality. Being a 40% stakeholder in AWAC, Alumina relies solely on the dividend distribution from AWAC to service its debt and corporate expense. To reduce the potential risk of structural subordination, AWAC's amended charter agreement limits any substantial debt funding at the asset level.

We consider material debt funding at the AWAC asset level as less likely. This is because the target enterprise debt level at AWAC is limited to US$75 million over the foreseeable future (or US$200 million if Alcoa achieves an investment-grade rating), when permissible under Alcoa's amended revolving facility. AWAC also has a track record of keeping its debt low at the asset level. Its funding comes mainly from internally generated cash flows or capital injection by its JV partners. AWAC has to use any debt it undertakes to fund growth projects.

We expect the favorable trading conditions in the alumina industry to continue in 2018. China's structural reforms and limited refinery growth in the rest of the world should support balanced supply and demand dynamics in the alumina industry. In addition, demand for alumina remains healthy due to steady economic growth globally.

We expect alumina prices to average around US$350 per ton in 2018. In 2017, AWAC recorded a multi-year high EBITDA of US$1,633 million, compared with US$394 million in 2016, mainly due to higher alumina prices. Average realized alumina prices at AWAC increased to US$335 per ton in 2017 from US$242 per ton in 2016.

At our alumina price assumption for 2018, Alumina should continue to receive strong dividends from AWAC, supporting strong credit metrics. Furthermore, assuming Alumina maintains its currently low leverage, it can still generate credit metrics consistent with the 'BB+' rating even if alumina prices fall moderately from our assumption.

Alumina's business risk profile reflects our view that AWAC's good business position as one of the world's largest alumina producers provides AWAC with the size and scope to adjust its operations to respond to market conditions. Tempering these strengths is Alumina's minority shareholding in AWAC rather than direct control over AWAC's cash flows. Alumina's JV partner, Alcoa Corp., is the majority owner and operator of the assets, and as such, poses a counterparty risk for Alumina, in our view.

The positive outlook reflects a one-in-three chance that we could upgrade Alumina over the coming quarters if AWAC maintains strong dividends and Alumina keeps its leverage low. For the 'BBB-' rating, we expect Alumina's pro rata free operating cash flows (its 40% share of AWAC's free operating cash flows minus Alumina's corporate and interest expenses) to debt to be maintained at or above 40%.

Further improvement in Alcoa's credit quality would add immediate upside rating pressure to Alumina.

We could revise the outlook on Alumina back to stable if:

-- AWAC were to raise a material amount of debt, resulting in significant structural subordination of Alumina's financial obligations.

-- We forecast Alumina's financial profile would weaken significantly because of persistently depressed alumina prices, or significantly higher operational and/or caustic costs. These scenarios would likely include Alumina's free operating cash flow to debt sustaining below 40%.

-- Any negative rating actions on Alcoa Corp. could place downward pressure on the rating on Alumina because of counterparty risk.

RELATED CRITERIA

-- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017

-- Criteria - Corporates - General: Recovery Rating Criteria For Speculative-Grade Corporate Issuers, Dec. 7, 2016

-- 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: Group Rating Methodology, Nov. 19, 2013

-- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013

-- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013

-- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013

-- Criteria - Corporates - Industrials: Methodology For Standard & Poor's Metals And Mining Price Assumptions, Nov. 19, 2013

-- General Criteria: Methodology: Industry Risk, Nov. 19, 2013

-- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012

-- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

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