MOODY'S

HD **Moody's-rated corporates face manageable impact from Australia's rising natural gas prices**

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Moody's Investors Service says that rising natural gas prices in eastern Australia will not materially affect the credit quality of most Moody's-rated Australian corporates over the next two to three years, as their exposure to the market price of gas is mangeable.

"Currently, most Australian corporates have low-cost legacy gas contracts and/or small gas exposures, but we expect prices to rise to around AUD8 to AUD10 per gigajoule by 2018 from the current AUD4 to AUD6," says Spencer Ng, a Moody's Assistant Vice President and Analyst. Such a trend will not materially weaken the affected issuers' credit profile beyond our rating expectation.

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"The **company** more affected by the higher gas prices is industrial gas user, Incitec Pivot Limited (rated Baa3/stable) , which is likely to see its earnings negatively impacted by around AUD50 **million** (approximately 7% of FY13 EBITDA), because natural gas is a key ingredient in its fertilizer manufacturing process. Moreover, one of its key gas supply contract expires in December 2014," adds Ng.

"But even in the case of Incitec, the expected fall in its earnings over the next two years will not weaken its credit quality such as to prompt us to take a negative rating action."

Moody's analysis is contained in its just-released report titled "Rising Natural Gas Prices in Eastern Australia Will Hurt Manufacturers, Help Gas Producers," and is co-authored by Ng and Kirsten Lee, an Associate Analyst.

Moody's report says natural gas prices in eastern Australia will likely rise over the next five years, as demand for gas increases faster than supply.

"Natural gas consumption along Australia's east coast will increase substantially as liquefied natural gas export facilities in Queensland come online gradually over the next two years," says Ng.

"While dedicated **coal** seam gas developments will be the primary source of fuel gas, we believe supplementary gas supply will be required from domestic gas fields," adds Ng.

"The rising demand without a corresponding increase in supply will be a key contributor to the expected increase in prices. Liquid natural gas sales contracts linked to **oil** prices will also push up gas prices."

Moody's report named east coast gas producers, Origin **Energy** Limited (Baa2 stable) and BHP Billiton Limited (A1 stable), as beneficiaries of the price increases, saying the two companies -- which own domestic gas fields -- will see their EBITDA increase modestly over time.

As for **mining** companies, the report says most Moody's-rated **mining** companies are unaffected by the higher natural gas prices along Australia's east coast region because the majority of Moody's-rated operate in western Australia, which has an independent gas market.

For **mining** companies that operate on the east coast, Moody's report says their exposure to the higher prices will depend on their reliance on gas to meet their **energy** needs. For instance, Newcrest **Mining** Ltd's (Baa3 negative) exposure is limited because it primarily sources its **energy** needs from electricity rather than gas.

Subscribers can access the report at https://www.moodys.com/research/Rising-Natural-Gas-Prices-in-Eastern-Australia-Will-Hurt-Manufacturers--PBC_162842.

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