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Noble Group, a Repeat of Enron

Fourth Report (Follow up): Noble's Credibility

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Noble Group Ltd Industry: Commodities trading Founded: 1986. Headquartered in Hong Kong.	Rating: (BB+/Ba3) Listed in Singapore (SGX:N21) Market cap: S$2.3b (US$1.6b)
Revenue 9M2015: $54b Net profit 9M2015: $195m Operating cash outflows 9M2015: ($693m) Equity Q3 2015: $5.1b	Stock price: S$0.34 Price target: S$0.10

"When there's uncertainty they always think there's another shoe to fall. There is no other shoe to fall."

Kenneth Lay, Chairman of Enron, August 23rd, 2001

After a year of controversy, it is fair to say that fewer and fewer people believe what Noble's management is telling them. The share price is down 72% and Noble is trading at 32% of its Q3 book value. The bond trades at a distressed value (48 cents). Noble loans are offered with discount near 20%.[1] More trade counterparties now require Noble to open a letter of credit, meaning they fear Noble will not be able to honour its payment obligations. From "blue chip" to a group fighting for its survival, the perception of the company and of its management has dramatically changed over the last year. Noble's senior management has lost its most basic and important asset: credibility. It is gone and will not be returning.

Noble is about to announce record losses in its annual results. The company warned they would recognise a $1.1b writedown of their commodity contracts fair values in addition to the loss on the sale of Agri ($532m). Noble has recognised a total of $2b impairments since we published our first report one year ago, i.e. 35% of their equity at that time. Virtually all our arguments have been acknowledged by this company itself. In an extraordinary case of corporate denial, they still claim their accounting is sound and that our research is malicious misinformation.

[1] http://www.bloomberg.com/news/articles/2016-01-25/singapore-s-80-cent-loans-not-cheap-enough-for-distressed-funds

Noble has not cleaned up its balance sheet. The impairments are very partial. Yancoal is still valued 28 times its market value on the Australian stock exchange (48 times when we published the first report). The valuations of the commodity contracts and of Yancoal are based on a similar discounted cash flow model and a similar forward curve. Noble admitted they have recognised profit for contracts going beyond 15 years. Noble moved its "anchor price" for thermal coal to $55 per tonne in 2020, and claims this is a 20% discount to the average market consensus price of $69 per tonne. What Noble calls "market consensus" is a projection based on the data provided by seven brokers. Noble does not give any information on why these particular seven brokers have been selected. In reality, commodity traders do not use this unusual concept of "market consensus". Instead, they use a transparent, neutral and publicly available source: the commodity forward curve. The forward price for coal in 2020 is around $38 per tonne. Noble projects a price of $55 for 2020 and claims this is conservative… The $1.1b impairment of the fair values is only a compromise between Noble and its auditor, Ernst and Young. Every time Noble was forced to recognise an important impairment it was due to external factors (our first report for Yancoal, the sale of Agri, or the annual audit for the fair values).

It is difficult for Noble to admit they have been deceiving investors for years. So once again Noble awkwardly blames commodity prices for the impairment. Commodities prices have been declining for many years. Coal prices did not fall 48 hours before annual results are published. One year ago, we wrote that it was strange that the fair values had skyrocketed while current and forward coal prices had kept falling. A "normal" trader would adjust its projections beyond the maturity of existing forward curves very regularly and would record losses every quarter. The simple fact Noble recognised this writedown 48 hours before the annual results once again confirms that this company's accounting cannot be trusted.

The forward curve is only one way to manipulate a fair value. There are many others, such as applying an over-optimistic premium over the index. The cargoes traded every day are almost always different from the index specifications. The forward curves are adjusted by the trader for this specific cargo. We have always written that the breakdown between level 2 and level 3 is completely unreliable with Noble's fair values. There are many reasons for that. The most obvious one is that the auditor recognised in the annual report that it is its client that decides if a fair value should be level 2 or level 3: "the Group applies judgement to assess both the observability of inputs to the valuation technique applied, and the significance of the input to the overall valuation of the transaction."[2] For some reason, only the coal portfolio was impaired. There are problems in other commodities: for example the Sundance Resources contract (iron ore) and the US petrochemical contract.

[2] AR 2013 p 158

Noble's operations were cash flow positive in the last two quarters ($580m after interest). However Noble has not given any information on how the short hedges have contributed to this cash generation when commodity prices fell in Q3 and Q4, and how the effect will reverse when commodities prices go up. We believe that Noble's operating cash flow generation is particularly vulnerable to an increase in commodities prices for this reason. Besides, bonuses are paid at the beginning of the year which increases SAO expenses in the first half. Despite the improvement in the second half, Noble ended 2015 with deep negative operating cash outflow ($465m after interest). Net debt post Agri sale proceeds is at least $3.2b ("at least" because Noble includes cash they have no access to). At the end of Q3, Noble had $3b debt to repay within the next 12 months. Moody's downgraded Noble's rating deeper into junk territory by two notches to Ba3. The agency said that the impairment "heightens uncertainty regarding its ability to achieve adequate profitability and cash flow" and underlined "the consequent negative impact on its relationships with banks and counterparties."

1. How Noble Lost Credibility in One Year

Noble's communication is now almost exclusively rooted in denial. The chairman, Mr Elman wants to reassure the market: "it's behind us. There is no reason for us to have any further disruption in that sense."[3]. Mr. Alireza, explained that the bond price is down because the market is illiquid, that the CDS is quoted at sky high level because it is illiquid, that the Yancoal share price is low because it is illiquid, that Noble's shares fell because… it is influenced by the illiquid CDS.

This embarrassing farce continues because there is simply no regulator to put an end to it, as the SEC did with Enron. In the absence of reliable numbers, the market is unable to measure how much this company is worth. Traditional control mechanisms do not work. A regulator's job is to intervene when this kind of situation happens. Investors are on their own and many have sold Noble's securities. Noble has deceived its investors, staff and banks, betraying their trust. With its auditor's help, it has systematically exploited accounting loopholes, particularly those that are prevalent in the commodity industry. What is left from these years of financial manipulation is fair values that will never be realised, senior executives struggling to adjust to this reality, and an audit firm that is paralysed by the same mess that it has helped to create. It is as simple as that.

The market now understands what has happened, and the only remaining question is: how bad is the situation? Whether or not Noble survives, whether or not it is fortunate enough to find a willing investor to pay for these manufactured mark-to-market ("MTM"), in any case, this management has completely lost credibility. They have built this accounting illusion and are responsible for it.

[3] http://www.reuters.com/article/us-noble-group-chairman-exclusive-idUSKCN0V00S1

Decency would command their resignation. They should let outsiders in to clean up the accounts. However, their departure would allow stakeholders to see the books. It is then unlikely that they will make this decision voluntarily. The truth about their financial accounts is the first thing Noble's stakeholders need. It is also the last thing that Noble's senior management want. The interests of Noble's senior management and its stakeholders diverged a long time ago.

As expected, Noble has lost credibility slowly. One year ago, Noble was viewed as a blue chip. When we started researching Noble's financials, we also viewed Noble as a relatively strong company. We found some issues early on but it took us some time to admit how egregious its accounting was.

It is not that Noble did not fight to regain the market's confidence. They fought hard, and more than once, they fought dirty, especially with us. Nothing has reassured investors: the "rebuttals", the awkward junior disgruntled employee story, the legal action against Iceberg, constant defamation, legal threats to the press, the share buybacks, the open letter, the PwC review, the conferences, the promises of a white knight, etc. Every time they have failed to restore confidence. Noble has an army of lawyers, three PR agencies but they don't have the truth, and that's the problem.

Every PR strategy has been used as we explain below. In twelve months, Noble has shown different faces to deal with criticism. What has always remained constant is that <u>they have not offered their stakeholders access to meaningful financial information; in particular the commodity contracts fair values</u>. This has always been the priority. Everything else was a distraction.

First strategy: let's ignore the questions, they'll stop asking them

In February last year, during the conference call for the annual report, Mr Alireza said he did not "plan on spending any management time on this, or shareholders resources on it" referring to the Iceberg reports. A few weeks later, Richard Elman added "We will not be revisiting details of these allegations at this meeting". It was difficult for Noble's management to accept that hard questions could be asked for the first time. It is the responsibility of a public company to explain its accounting. What they wanted was friendly questions in friendly meetings. Contract fair values had not been discussed previously in conference calls. They were an obscure $5.8b fast growing item buried in the receivables group. Credit agencies had not remarked on them. EY noted its reservations at the end of the annual report. The CEO promised a 20% annual return with its asset light strategy. Sell side analysts applauded, or pretended to applaud. The most optimistic of them had targets prices above S$1.8 per share. Unsurprisingly Noble's initial communication strategy failed.

Second strategy: we would love to tell you but it's top secret

The market found the initial response wanting. They reminded Noble that a CEO or a chairman of a public company does not get to choose the questions. Noble Group is more than two people. There are investors, bondholders, banks, suppliers, etc. They have billions at risk on this company. They have the right to ask questions and the right to receive answers.

Simple questions were asked. For example: do you record profit on long-term contracts well before any cash payments is received? How much of your profitability has been based on MTM? Can you show us the largest fair values to make sure everything is fine? Is it true you booked a long term MTM in a hurry on a project not even built, not even financed, as reported by the Financial Times? Why do you keep signing contracts with these tiny associates in Mongolia that never produce anything? How much MTM do you have with your associates? Etc.

Noble has refused to answer these questions. They argue that it is proprietary information, that the rest of the world should not know what is in their books. You may have hundreds of millions of exposure on Noble, but it does not matter. You don't have the right to know the largest exposures. It is none of your business. So please, just give your money to Noble and stop bothering them with these annoying questions. Sit there, and mind your own business.

When a client enters a bank to ask for a mortgage loan, the bank wants to know what property it will be financing. Noble believes themselves to have an extraordinary privilege: they can ask for a loan from a bank without having to show what the bank is really financing. In 2008, an analyst who would spend time reviewing the thousands of loans behind a subprime CDO would have an idea of what it was worth. With Noble, banks are asked to finance something they cannot even see.

In June, Mr Alireza wrote: "Noble Group has responded to all questions raised, contrary to Mr Dee's published statements. These responses have been given in a variety of forms, including directly to stakeholders such as banks and core shareholders, who have been satisfied with the answers." This is incorrect. An ex-shareholder of Noble told us: "At least when we talk to you (Iceberg), it's clear. When we talk to Noble, they never answer our questions." This fund sold its shares early and avoided heavy losses. Many investors did the same.

The case of Noble Group raises a more general question on governance. Can two men, a chairman and a CEO, only two persons representing merely 23% of the company's capital, turn to the 77% and say: "you have no right to see what is in our books"?

Mr Alireza regularly argues that Noble cannot give more information because it would undermine its competitiveness. For example, Noble did not give the price projections to justify Yancoal's valuation: "More detailed public disclosures of these forward estimates would compromise our competitiveness". Do Cargill and Vitol's traders absolutely want to know the price projections used for Yancoal? No, they do not. Absolutely nobody in the industry has any interest in the delusional valuation model of Yancoal. They know how much Yancoal is worth (not much) and they don't need Noble to tell them.

It is also a misconception to present the commodity industry as an industry built on secrecy. Physical traders do not work on secret products in secret laboratories, as if they were Google or Apple. It is a traditional industry based on human relationships, so commercial information circulates well. Traders know who trades with whom, who the suppliers are, who the buyers are, and what the business model is. A competitor who would read the 135-page presentation prepared for the Singapore investors' day would not learn anything important that it does not already know.

Mr Alireza regretted that Noble, as a public company, should have to disclose more information than private companies. Yes, a public company has to be more transparent than a private company. There are very good reasons for it. The shareholders of private commodity traders are often experienced senior physical traders. They understand mark-to-market accounting. Noble's shareholders can be retail shareholders who are not familiar with this method of accounting and its flaws. They do not know how valuation models are prepared, how forward curves are drawn, how easy it is to use accounting loopholes to over-value commodity contracts. These retail shareholders have lost a lot of money because they rely on the auditors to give them the true value of assets. What they don't know is that EY signs off on the accounts because its client follows a standard modus operandi when valuing its contracts. However, many assumptions are still input coming from the client. As the former CFO of Enron, Andrew Fastow, underlined recently, "The accounting rule for 'marked to market' when there is no screen price and no mechanism for price discovery is simply to take the price at whatever the company thinks it is. That is really the rule." [4]

If Noble fears they will lose competitiveness through an increase in transparency, why are they a publicly listed group in the first place, and not a private company? If Noble were a private company and the majority of the shareholders were professional physical traders, would Mr Alireza's life be easier? Of course not. During meetings, the shareholders would go straight to what matters: the breakdown of the fair values on the balance sheet. They would ask critical information: "Give me your largest positive and negative MTM". They would not need EY or PwC. Physical traders are pragmatic. When they see a contract, they don't want to know if the valuation observed rule 3.2.b of chapter 13 appendix 5. They want to know how much it is worth. They would go to the middle office,

[4] http://www.straitstimes.com/business/beware-of-short-sellers-targets

ask for a copy of the contracts and calculate the MTM themselves. Being a public company has never been a handicap for Noble. It has always allowed the company to avoid tough questions regarding its accounting from the professionals.

Third strategy: let’s write rebuttals that no competent professional will take seriously

Once Noble realised the questions would not go away, they tried to write rebuttals. They tried because after our third report was out, they declared defeat and moved to the next strategy (let’s sue our critics).

The problem with rebuttals is that people familiar with the industry read them. Some arguments are given the benefit of the doubt by industry outsiders but they are immediately recognised as flawed by the specialists. Since we started publishing about Noble, we have yet to meet a physical commodity trader who is not convinced that Noble fundamentally misrepresents its financial position. They do not need to read our reports. They just read Noble’s rebuttals. This was not without consequences because Noble needs credit from these counterparties.

For example, Noble explained early that Noble has huge net fair values because it is asset light. It would be a “category of one”. Really? There are thousands of commodity trading firms in the world. They come in all sizes, not only the big names familiar to the public. At least 95% of them are asset light and there is absolutely nothing new, unique, or innovative about being asset light. Most physical traders are asset light. They were asset light 3,000 years ago. Asset light means the trader buys stuff somewhere and sells the same stuff somewhere else. This has been done before.

No asset light trader has fair values anywhere near Noble’s. Let’s take one example: World Fuel Services (“WFS”), a large US-listed fuel products trader with turnover of $30b in 2015. WFS is much more asset light than Noble with $224m fixed assets (25% of Noble’s fixed assets). According to the “Noble theorem” (asset light means high MTM), we would expect WFS to have very high MTM. WFS’s net MTM as of Q3 were $10m. This is 0.2% of Noble’s net MTM.

Noble also argued that traders such as Glencore don’t have large MTM because they source raw materials from their own mines. Does Glencore not have offtake agreements? This is an absurd argument for anybody with knowledge of the industry. Glencore has a high number of offtake contracts. A basic Google search reveals many of them. Page 30 of Glencore’s annual report: “Our marketing activities require access to significant amounts of third party supplies of commodities”. Glencore also supplies mountains of commodities to customers including power plants. They have long term supply contracts with these power plants.

Another common argument used by Noble is that they have little exposure to commodity prices because they are asset light. Unlike other asset light traders, Noble has accumulated huge mark-to-market on its balance sheet. Behind these fair values, there are counterparties, for example miners. Noble recognised that “the majority of net fair values as at 30 June 2015 is comprised of physical commodity contracts in thermal coal, metallurgical coal, and coke”. This is not the best place to have exposure these days as this sector is devastated. With the recent fair value impairment and the increase in the discount rate to 20%, Noble has finally (but only partially) recognised that both the valuation of its fair values and the credit risk of its counterparties were not adequately priced.

As for the counterparties that cannot find financing, they do not perform at all. For example, Sundance Resources is in financial distress. Why would someone build a multi-billion dollar iron ore mine in Africa where there is a weak legal environment, when there is already too much iron ore in Australia, which is closer to China? Cargill, Vitol, and Glencore do not have these kinds of contracts to our knowledge. They do not book long term profit for these kinds of contracts. Most importantly, they impair their assets when they have to. Sundance Resources, Cockatoo Coal, the petrochemical project… How much profit has been booked against these contracts? We will never know because Noble is not telling the market.

Many investors have not yet realised the asset light argument repeated so many times by this company is incorrect. Unlike other asset light traders, Noble has a substantial indirect exposure to low commodity prices because of its huge fair values and indirect exposure to weak trade counterparties.

Noble did not convince hedge fund managers either. They dug a hole every time they tried to justify the valuation of Yancoal. A company worth $80m cannot be valued $4b (or even $2.5b after our first report forced Noble to record an impairment). Yancoal is a public company. Analysts can read the financial statements, and assess whether it is worth $4b. Yancoal would be bankrupt without the support of Yanzhou. Mr Alireza explains that the low valuation of Yancoal is due to the illiquidity of its stock. Any trainee at Goldman Sachs knows that low volume means high volatility. It does not mean low valuation. Indeed, the value of Yancoal’s 13% stake fluctuated from a minuscule $11m, to an even more minuscule $3m, to a slightly less minuscule $15m and is currently worth $9m. This is very far from Noble’s valuation of $522m in February 2015.

Fourth strategy: discrediting, attacking, threatening and suing critics

Noble realised that situation was getting out of control and tried to silence its critics. Attempts at discrediting critics, legal action, pressure, threats…. This company that calls itself “Noble” showed who they really are.

Help! We are under attack by a junior disgruntled ex-employee

We have to thank Mr Alireza for the disgruntled junior employee story because it convinced many that what was wrong was not Iceberg but the CEO of Noble. Facing hard questions on its accounting for the first time last year, Mr Alireza was particularly nervous and described Iceberg as led by a disgruntled, incompetent and junior employee (among other allegations).

An emotional narrative is always a good PR trick. It is more appealing than technical discussions on accounting. There must be a PR book somewhere with a chapter: “What should you do if you have manipulated your financial accounts for years and you are exposed?”. Noble cannot win with financial arguments. Did Mr Alireza think that by throwing mud, questions would stop? Instead, he undermined his own credibility.

Unfortunately for Noble and its PR firms, hedge funds care about the arguments: are they correct or not? They also know that a famous name written on a financial report has never been a guarantee that the report is of good quality. Sell side analysts are not at liberty to write what they want, especially if their bank has substantial exposure to a company. Fund analysts read our reports, checked the numbers, conducted their own due diligence, and reached their own conclusions. If what we wrote was incorrect, nobody would have paid attention anyway. We spent a lot of time to quantify the issues, rather than simply spotting one problem on the balance sheet and jumping to dramatic conclusions. Many companies have often been compared to Enron, not always for valid reasons. Noble is truly a new Enron: a massive financial manipulation based on the systematic exploitation of accounting loopholes.

The “Iceberg matter”, as Mr Elman described it, is not finished because it has never been an Iceberg matter. It is not us who manipulated the financial statements. Yes, we exposed the manipulation. That’s our crime. Sorry for that, but we did not manipulate the accounts. Noble did. They have deceived investors for years and now the illusion is over. For what is worth, nobody at Iceberg is junior or disgruntled.

Legal threats to the press and legal action against Iceberg

Noble has not hesitated to legally threaten the press when a critical article was about to be published. Noble boasts itself to be the world’s 76th largest company in terms of revenue but they reacted like an insecure second-tier company. It is interesting to see how Glencore’s reaction to criticism has been completely different. Glencore did not sue or threaten its critics. Large groups that have confidence in their balance sheet ignore criticism and focus on business at hand. Companies that have manipulated their accounts will start screaming, suing and nervously defaming critics.

If they were consistent, Noble should sue all the organisations that raised concerns over the valuation of their mark-to-market from Goldman Sachs to S&P. However, this is where the PR chest beating ends: they will not fight against the legal departments of strong organisations.

With regards to the legal action between Noble and Iceberg, we were very confident when it started and of course we are even more confident now. Virtually all our arguments have already been acknowledged. The confirmation of these arguments can be found in Noble's financial statements. Of course if we wrote optimistic and friendly research, we could make one mistake every paragraph, nobody would sue us. Unfortunately, this is the way capital markets work, which leads to capital misallocation. We have not benefited from the decline in Noble's securities. In fact, with the legal action expenses, it is a financial loss for us. We may have long/short positions for other names in the future (with a report published or not).

Bell Pottinger, the PR firm that needs a PR firm

Noble has no less than three communication agencies. One agency called Bell Pottinger was hired to manage the crisis. Bell Pottinger has built a solid reputation as one of the most controversial and unethical PR firms in the world. They regularly work for dictators with the worst record in terms of torture or massacre of civil populations.[5] They also angered the founder of Wikipedia who attacked their "ethical blindness" after widespread editing of online pages.[6]

With Noble, their aggressive style has irritated many journalists to the point where we were told some of them had to contact regulators, bringing their attention to these practices. Noble has definitely found a PR firm that matches their style with Bell Pottinger. Now, they have to recruit a fourth PR firm to manage the communication of their existing PR firm.

Fifth strategy: the smoke screen

After months of failure, Noble decided to completely overhaul its strategy and started its worldwide transparency tour. The strategy could be summarised as "This was just a misunderstanding. Noble was not transparent enough so this attracted malicious criticism. But now we are transparent, so everything is fine."

The CEO was the champion of this strategy. For anybody who wanted to know more about the business model of this company, Noble had a five-hour, 135-page presentation that could cure the most acute cases of insomnia in the investors' community. The only problem is that the investors did

[5] http://www.theguardian.com/media/2013/dec/09/bell-pottinger-tim-bell-pr-interview
[6] http://www.independent.co.uk/news/uk/politics/wikipedia-founder-attacks-bell-pottinger-for-ethical-blindness-6273836.html

not want to know more about the business model of Noble. It is a physical commodity trader. We already knew that. What investors wanted to know is the breakdown of their net fair values and the valuation models. Of course, Noble did not release any useful information. Noble has never been more transparent, they have just gotten more clever.

Another example of smoke screen was the PwC review. As expected, PwC did not revalue the contracts. In a long disclaimer, PwC underlined: “This report may not be relied on by you”. Investors followed PwC’s advice, and did just that: they ignored the report. The day it was published, the share price fell by 7%. Six months after this useless review, Noble was forced to impair its fair values.

And when nothing works, denial

Then finally when nothing else seems right, when the market no longer believes what you have to say, it is better to bury your head in the sand and simply deny reality.

To all the shareholders or creditors who might be slightly worried about the situation, Noble’s CEO has one message: everything is under control. After the investors’ day in Singapore he said: “I do think we addressed all the misconceptions about the firm”. Mr Alireza even ran a seminar in Singapore to explain to the independent directors how to deal with “short attacks”.

The share price is down 73% since Mr. Alireza’s appointment in 2012. Noble’s rating has been downgraded by three notches to junk. The CDS is prohibitive. However, Mr Elman defended his performance: “I think he's faring well.” The shareholders have seen a remarkable destruction of value but they still do not know how much Mr Alireza is being paid.

The CEO believes that the problems have come from Iceberg and the bad short sellers. The CDS have been manipulated, in turn manipulating the bond and the stock markets. Who manipulates Noble’s CDS? We won’t know because he did not say. We think that many CDS buyers were Noble’s banks who were unable to sell their risk down. The share price of a large and liquid market cap cannot be manipulated over one year. It is mathematically impossible. Even if a few hedge funds committed billions or dozens of billions to push the share down, they would never have been able to succeed against the market. What Noble is calling manipulation is the market’s complete loss of confidence in the company’s senior management.

One of the most remarkable things with Noble is that the CEO has become the only person who gives any detail on the accounting in public. Mr Elman hardly communicates and only speaks with very vague expressions such as “gossip and rumour”. The former CFO Mr Van der Zalm is gone. He was very cautious in his public statements. He is officially "Vice-Chairman of Finance" for Noble but his LinkedIn profile does not mention it at the time this report was written. During the Singapore investment day, Noble's managers carefully avoided references to accounting and focused on the business aspects. We identified many examples of aggressive accounting in the Hard Commodity business. The heads of this business, Will Randall and Neil Dhar, have been remarkably discreet since the beginning of this controversy.

Noble would like to go back to the situation in February last year when life was flowers and merry songs. Things will never go back to normal. It's over. Mr Alireza and Mr Elman are fighting a war they already lost. They can burn all our reports, or stick needles in miniature iceberg dolls, this won't solve their accounting issues. The genie is out of the bottle. Noble's accounts are so heavily manipulated that the company cannot hide these toxic assets forever. Its shareholders will finally decide that a new CEO and a new chairman are needed to bring credibility back. If Noble finds a miraculous investor willing to inject funds without serious due diligence, this investor will soon realize how misleading the picture was. This will lead to the same result: new management.

2. Time for Noble's Shareholders to Take Things in Their Hands

Noble is running out of time and options. They have to refinance their short term debt and market confidence is very low. The company has been looking for investors since August at least. The due diligence stage is clearly an issue. It is not easy to find new investors for a company accused of aggressive accounting. Any competent investor would arrange its own independent valuation of the commodity contracts. They would realise that Noble's balance sheet is toxic, and there are a lot more skeletons there.

One potential investor would be Mr Elman himself. Mr Elman received $202m from the sale of his stake to CIC in 2009 and dividends since he founded Noble.[7] If Mr Elman is convinced Noble is a great company and that Iceberg is wrong about everything, he should probably reinject more money into this fantastic undervalued business than he did. When Glencore raised $2.5b through a share placing, management bought $550m. The CEO, Mr Glasenberg, spent $211m personally.

The list of saleable assets is also shrinking. Noble is throwing everything they can overboard to lighten the ship. The last substantial asset is probably Energy Solutions. Nobody asks this question to Noble: why don't you sell your commodity contracts since they are worth billions and you claim they are properly valued? That seems to be the most obvious measure. Commodity contracts can be sold. There is a market for that provided the price is right. Noble keeps repeating they are properly valued

[7] http://www.bloomberg.com/bw/stories/2009-09-23/cic-pays-850-million-for-stake-in-singapores-noble-groupbusinessweek-business-news-stock-market-and-financial-advice

so why on earth they don't sell these contracts? The answer is obvious. This was Enron's problem before they collapsed and now it has become Noble's problem.

The bond market is closed. So Noble relies on their banks. Every year, the banks have automatically renewed the revolving credit facilities without asking too many questions. This year will be completely different. Glencore has recently refinanced its RCF. There are two major differences between Noble and Glencore. Glencore has generated ample operating cash flow ($7.5b in the first six months of 2015) and they sit on tangible assets. On the other hand, Noble will record substantial operating cash outflow for 2015 ($465m after interest), and sits on manufactured MTM.

Despite months of controversy, and an impressive PR effort, bank credit analysts, credit agencies, equity analysts, shareholders should ask themselves this simple question: do I have any idea what is behind these billions of fair values? Do I know who these counterparties are? Do I have at least a list of the top 20 or even top 50 counterparties? The answer is probably no.

Every time we talked to stakeholders of Noble we told them the same thing. Do not believe anybody: Noble, its executives paid by Noble, its auditor paid by Noble, its "independent" directors paid by Noble, or any party in this controversy, including Iceberg. Get direct access to the balance sheet numbers, especially the fair values (positive and negative). Give the contracts to an independent valuation specialist paid by you, not an auditor paid by Noble. Technical compliance to extremely loose accounting rules is not the issue. The issue is how much it is worth. No need to review all the contracts. The largest exposures (positive and negative) are enough to measure the crisis. This exercise costs a few thousand dollars and can save you hundreds of millions of provisions.

Shareholders and banks that put billions of risk on Noble have the right to know what is in the books. This is a listed company financed by a multitude of banks, bondholders and suppliers. Not a private company controlled and financed by two people. The chairman and the CEO will probably refuse to disclose this information. At that time, stakeholders will have to make a choice: exit or replace management. The only chance for this company to regain credibility is to bring external executives on board. Only executives who have never been involved in this fiasco will have the courage to tell the truth. They will review the balance sheet, recognise unavoidable impairments, start frank discussions with the banks, and they will try to right the ship before it sinks.