Asia Credit Research

OCBC Bank

Ezra Holdings Limited: Credit Update

Thursday, 20 October 2016

Navigating Aftershocks

- Potential impairments arising from associate Perisai Petroleum Teknologi's default, coupled with the still challenging environment has driven Ezra Holdings Ltd to another round of consent solicitation over its bonds.
- The issuer is seeking to 1) waive financial covenants till the bond's maturity in April 2018, as well as to 2) waive events of default arising from attempts to restructure indebtedness at both the issuer and its principal subsidiaries.
- We will hold our **Negative Issuer Profile on EZRA and downgrade our bond level recommendation on the EZRASP'18s to Neutral. We will withhold our recommendation regarding the consent solicitation pending the informal bondholder meeting on 25/10/16 for more information.**

Treasury Advisory

Corporate FX & Structured Products

Tel: 6349-1888 / 1881

Interest Rate Derivatives

Tel: 6349-1899

Investments & Structured Products

Tel: 6349-1886

GT Institutional Sales

Tel: 6349-1810

OCBC Credit Research

Nick Wong Liang Mian, CFA

+65 6530-7348

NickWong@ocbc.com

A) Recent Performance / Developments

Company in transition: As mentioned in our previous credit update[1], EZRA continues to be a company in transition, bringing on strategic investors via stake sales and divesting non-core assets in order to generate liquidity to navigate the challenging environment. Below is a summary of the recent events that have occurred:

1. **Environment remains challenging**: EZRA has three core businesses servicing the offshore marine industry: 1) shipyard division (mainly the listed subsidiary Triyards, "ETL") 2) OSV division (mainly the listed subsidiary EMAS Offshore, "EMAS") 3) subsea division (the EMAS CHIYODA Subsea joint venture). All three segments are facing sectorial headwinds, brought about by spending cuts by oil majors given the weak energy market and oversupply of offshore marine assets due to overbuilding during boom times. As a result, EZRA's operations have deteriorated. The difficult environment has been further complicated by the recent bankruptcy of Swiber Holdings, a large offshore marine company, which made access to capital trickier for other offshore marine companies.

2. **Capital infusion from strategic investors**: After signing the share purchase agreement on 31/10/15, the sale of 50% of EZRA's subsea division (now known as EMAS CHIYODA Subsea to Chiyoda Corp was completed on 31/03/16 and reflected in 2QFY2016 results ending May 2016. The ~USD145mn in net cash proceeds were used to pay down net borrowings, including the SGD95mn in bonds that matured in March 2016. Subsequently, EZRA entered into another agreement with Nippon Yusen Kabushiki Kaisha ("NYK"), to sell a further 10ppt of the EMAS CHIYODA Subsea for USD36mn in cash. This sale was completed on 29/09/16, with EZRA committing to reinvest the received amount as a shareholder loan into EMAS CHIYODA Subsea (Chiyoda Corp and NYK will be extending USD11.7mn and USD8.3mn to the JV as well). As such, EZRA now owns 40% of its subsea division, with Chiyoda Corp and NYK owning 35% and 25% respectively.

[1] OCBC Asia Credit - Ezra Credit Update (21 Jul 2016)

3. **Non-core asset divestments continue**: EZRA is in the process of divesting its non-core assets, such as its FPSOs. After announcing a tentative plan in July, EZRA was successful in holding an EGM on the 22/09/16 to divest one of its two FPSOs, the Lewek EMAS (held directly by EZRA as well as indirectly via EMAS Offshore). The transaction would improve its liquidity via monetizing a non-core asset. EZRA expects to book a gain from the divestment, and receive USD68.9mn in cash as part of the proceeds (the balance of the sale consideration are contingent on future performance of the asset). The transaction will likely be captured in EZRA's 1QFY2017 quarter (ending November 2016). The last reported long-stop date to close the transaction was 31/10/16.

4. **Complex financial statements due to asset sales, impairments and provisions**: During 1QFY2016, EZRA had taken ~USD166.3mn in impairments and provisions relating to doubtful debt, fleet impairments (PSVs) and on its joint ventures[2]. During 2QFY2016, as a result of the 50% sale of its subsea division to Chiyoda Corp, EZRA recognized USD181.3mn in disposal losses resulting from the transaction as well as an additional USD25mn in doubtful debt provisions. As mentioned, EZRA also brought on NYK as a JV partner, and will be completing the sale of one of its FPSO during 1QFY2017. Perisai Petroleum Teknologi ("PPT")'s default and on-going restructuring would likely further complicate EZRA's financial statements. EZRA's preliminary FY2016 financial statements (for the fiscal year ending August 2016) were estimated to be released around the end of October.

5. **Aftershocks from Perisai Petroleum Teknologi's default**: PPT is an associate company of EZRA's. EZRA directly owns 136.7mn shares in PPT while EMAS owns a further 144.7mn shares. As such, EZRA's aggregate stake in PPT is ~22.3%. Beyond the ownership stake, EMAS has three joint ventures / associates with PPT (SJR Marine (L) Ltd, Emas Victoria (L) Bhd and Intan Offshore Sdn. Bhd.). PPT was unable to redeem its SGD125mn in bonds that matured on 03/10/16, and is currently in default after failing to obtain bondholders' consent to restructure the bonds. <u>The default by PPT has triggered cross default clauses in loan facilities held in the three joint ventures / associates with EMAS</u>:

Entity	Facility Type	Outstanding (as at 30/09/16)
Intan Offshore	Term Loan	USD26,963,800
SJR Marine	Term Loan	USD20,500,000
Emas Victoria	Term Loan Bank Guarantee	USD142,330,000 USD25,000,000

Source: KLSE filing

The above are the total notional size of the facilities affected.

B) The Current Situation

On 12/10/16, in a reply to the KLSE, PPT disclosed the cross default details across its loan facilities and made the statement that it is insolvent. On 13/10/16, EZRA made an SGX filing regarding the disclosure made by PPT, and indicated that it was monitoring the situation and that it was assessing the impact of PPT's disclosure on the EZRA group[3].

<u>On 18/10/16, EZRA launched a consent solicitation exercise to amend certain terms for its sole SGD150mn EZRASP'18 bond issue outstanding (maturing on 24/04/18)</u>. A summary of the broad terms is as follows:

[2] OCBC Asia Credit - Ezra Credit Update (19 Apr 2016)
[3] OCBC Asian Credit Daily - 14 October 2016

Management Rationale:

I) The weak operating environment and strong headwinds in the foreseeable future could result in further asset impairments as EZRA is preparing its FY2016 results. This could result in more losses being recognized for the fiscal year.

II) As PPT was unable to successfully negotiate a favourable outcome with its bondholders, and given the cross defaults that might trigger as a result of a default on PPT's bonds, EZRA may need to assess its investment in PPT as well as the accounting impact that might result from this. Things remain influx as PPT indicated that (as of 12/10/16) it was in talks with a financial institution to secure financing which may allow PPT to negotiate a mutually acceptable debt restructuring with its creditors (including bondholders).

III) In seeking financial flexibility, the EZRA group is currently in discussions with various parties regarding its financial obligations and is reviewing options including the securing of additional working capital, amending the repayment profile of certain financial obligations, extending certain repayment obligations, issue of new securities and the sale of non-core assets and/or refinancing existing loans.

Proposed Amendments / Waivers:

A. **Waiver of financial covenants**: EZRA is seeking to waive any current as well as future potential breaches of its financial covenants. This includes EZRA's interest coverage (EBITDA / Interest Expense), minimum consolidated total equity and maximum net gearing (net debt / equity) financial covenants[4]. Waivers are being sought for any breaches till the 24/04/18 (the maturity date of the EZRASP'18s).

   Our Thoughts: We believe that the above is necessary for EZRA to avoid technical default should it violate its covenants. The potential impairments on EZRA's fixed assets as well as possible write downs on EZRA's investments in PPT / PPT-related JVs could cause EZRA to trip its minimum consolidated total equity covenant of USD600mn (EZRA last reported USD797.8mn in total equity for the quarter ending May 2016). It could also cause EZRA to trip its net gearing limit of 175% (end-3QFY2016: 138%) due to the fall in equity.

B. **Waiver of event of default upon attempts to restructure indebtedness**: This specifically relates to the Event of Default under Condition 10(e) of EZRA's MTN programme, which in summary considers any attempts towards restructuring material indebtedness (which includes bonds, loans etc) at both EZRA and its Principal Subsidiaries (which covers both EMAS and ETL) to constitute as an event of default, hence allowing bondholders to accelerate and demand immediate repayment. In this report, we will describe this as the "**right to accelerate**".

   Our Thoughts: The case for the above waiver is more mixed. On one hand, the loans that EMAS (a Principal Subsidiary of EZRA) has exposure to in the joint venture with PPT could potentially be in default due to cross defaults caused by PPT. As such, EZRA could potentially need the flexibility to resolve the cross defaults. In addition, EZRA's management had in the past[5] indicated that they were seeking to restructure vessel financing loans (for example changing such loans into bullet facilities rather than amortizing facilities) to preserve interim cash flow and make viable tenders for its vessels. Should the vessel loans be material in size, such restructurings could also constitute as an event of default. On the other hand, EZRA is seeking for investors to give up an important protection, and that is the right to accelerate and demand immediate repayment should the attempted

[4] OCBC Asia Credit - Ezra Credit Update (12 Nov 2015)
[5] OCBC Asia Credit - Ezra Credit Update (2 Feb 2016)

restructurings prove unacceptable to bondholders. An example of this acceleration occurring include some of Rickmers Maritime Trust ("RMT")'s bondholders rejecting RMT's proposed bond restructuring and exercising their right to accelerate[6]. We would have preferred if the waiver was over the impacted subsidiaries, rather than a blanket waiver for the entire EZRA group. Currently, given the uncertainty over the PPT situation, and given likely additional material information to be shared by management over the informal bondholders' meeting on the 25/10/16, we will not be able to provide a recommendation regarding the current consent solicitation at this point in time.

It should be noted that the proposed amendments above do not seek to restructure the coupon, principal or maturity on the EZRASP'18s. Even if the current consent solicitation succeeds with the above two waivers given, any future attempts to restructure the EZRASP'18's coupon, principal or maturity will have to undergo yet another consent solicitation exercise with bondholders having a say on the restructuring (provided that EZRA does not enter liquidation or judicial management). This was the case for the successful restructuring of Otto Marine, Ausgroup and Marco Polo Marine's bonds.

C) Intermission to Review

The current timeline for the EZRA consent solicitation is to vote by 5pm on 02/11/16 to receive the early consent fee of 10bps, or to vote by 10am on 07/11/16 to receive the normal consent fee of 5bps. The actual meeting for the bondholder vote will be held at 10am on 09/11/16.

We will be awaiting further information from management during the informal bondholders' meeting before making our recommendation regarding the consent solicitation. We will continue to hold EZRA's Issuer Profile at Negative. We will also be downgrading our bond recommendation on the EZRASP'18s to Neutral given the uncertainties arising from the PPT cross default, potential impairments on PPT related ventures as well as uncertain outcomes over the potential restructuring of EZRA's various indebtedness leading to our inability to gauge fair value for the EZRASP'18s.

[6] OCBC Asian Credit Daily - 7 October 2016

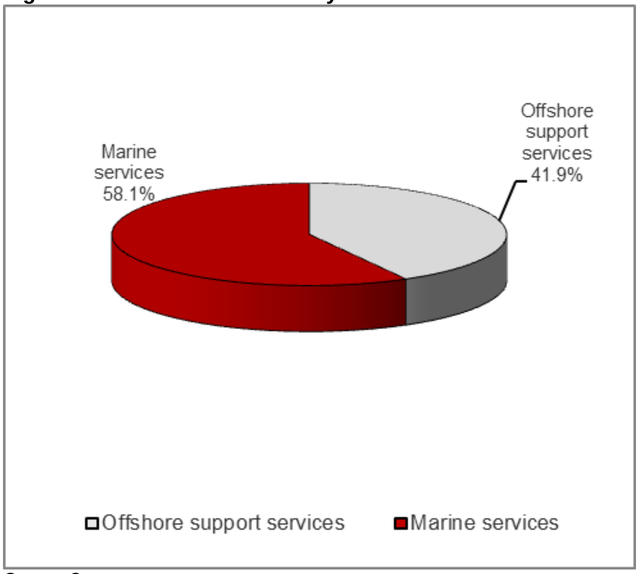
Ezra Holdings Ltd

Table 1: Summary financials

Year ended 31st August	FY2014	FY2015	9M2016
Income statement (US$ mn)		restated	restated
Revenue	1,488.4	543.8	389.2
EBITDA	141.8	76.3	-92.7
EBIT	69.6	7.0	-146.0
Gross interest expense	51.3	52.3	33.4
Profit Before Tax	74.7	79.1	-577.8
Net profit	45.3	43.7	-548.1
Balance Sheet (USD'mn)			
Cash and bank deposits	178.9	417.8	109.5
Total assets	3,363.0	4,177.3	2,320.5
Gross debt	1,551.9	1,470.2	1,210.9
Net debt	1,373.0	1,052.3	1,101.4
Shareholders' equity	1,185.8	1,365.3	797.8
Total capitalization	2,737.7	2,835.5	2,008.7
Net capitalization	2,558.8	2,417.6	1,899.2
Cash Flow (USD'mn)			
Funds from operations (FFO)	117.4	113.0	-494.8
CFO	140.1	142.5	-86.9
Capex	327.4	320.5	143.9
Acquisitions	0.0	-25.2	0.0
Disposals	8.5	30.3	207.7
Dividend	5.4	0.0	0.0
Free Cash Flow (FCF)	-187.3	-178.0	-230.8
FCF adjusted	-184.1	-122.5	-23.1
Key Ratios			
EBITDA margin (%)	9.5	14.0	-23.8
Net margin (%)	3.0	8.0	-140.9
Gross debt to EBITDA (x)	10.9	19.3	-9.8
Net debt to EBITDA (x)	9.7	13.8	-8.9
Gross Debt to Equity (x)	1.31	1.08	1.52
Net Debt to Equity (x)	1.16	0.77	1.38
Gross debt/total capitalisation (%)	56.7	51.8	60.3
Net debt/net capitalisation (%)	53.7	43.5	58.0
Cash/current borrowings (x)	0.4	0.6	0.2
EBITDA/Total Interest (x)	2.8	1.5	-2.8

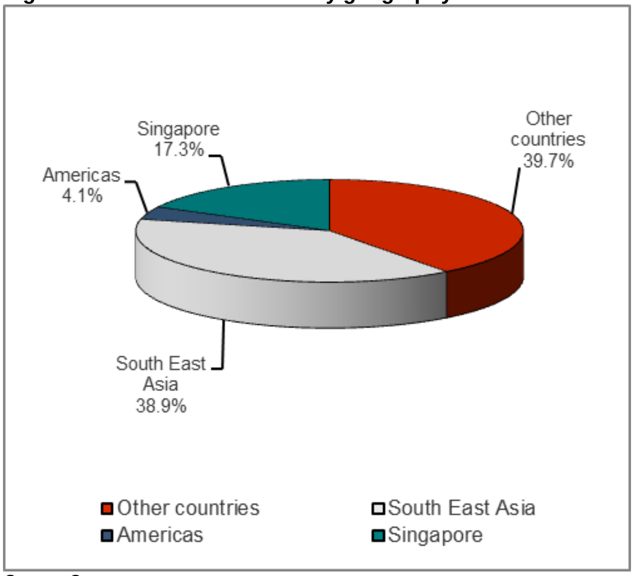
Source: Company, OCBC estimates
**Adjusted FCF = FCF –Acquisitions – Dividends + Disposals*

Figure 1: Revenue breakdown by business – FY2015



Source: Company

Figure 2: Revenue breakdown by geography – FY2015



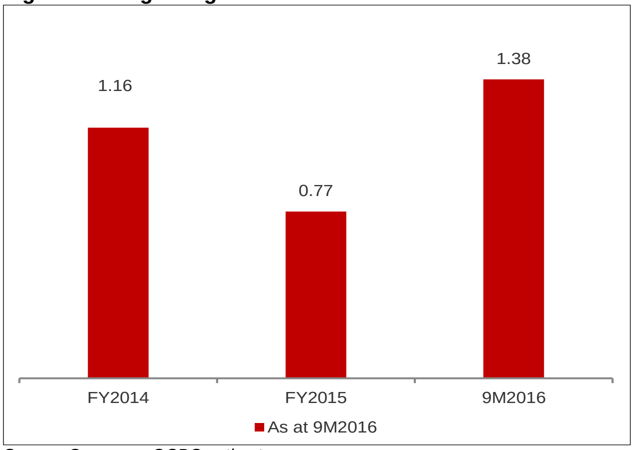
Source: Company

Figure 3: Debt Maturity Profile

Amounts in (USD'mn)	As at 30/06/2016	% of debt
Amount repayable in one year or less, or on demand		
Secured	257.9	21.3%
Unsecured	266.4	22.0%
	524.2	**43.3%**
Amount repayable after a year		
Secured	503.9	41.6%
Unsecured	182.8	15.1%
	686.7	**56.7%**
Total	**1210.9**	**100.0%**

Source: Company

Figure 4: Net gearing



Source: Company, OCBC estimates