Asia Credit Research

OCBC Bank

Ezra Holdings Limited: Credit Update

Tuesday, 05 April 2016

Turning the Page

- **Chiyoda Subsea JV completed**: After first announcing the binding MOU on 27/08/15, Ezra has executed its joint venture with Chiyoda Corp ("Chiyoda") on 31/03/16. The 50:50 joint venture holds EMAS AMC, the subsea division of EZRA. The JV is known as EMAS CHIYODA Subsea, and has commenced operations with effect from 01/04/16. The JV is strategic in nature, with EMAS AMC benefitting from Chiyoda's LNG market presence (Chiyoda is supposedly the world's number one LNG contractor, having built more than 40% of worldwide liquefaction capacity)[1]. Chiyoda has good access to the offshore markets of Australia and East Africa. Chiyoda benefits from EMAS AMC's subsea construction expertise, specifically in the areas of flexible / umbilical work in deepwater regions. In aggregate, EMAS Chiyoda Subsea would be better positioned to participate in major project tenders with the stronger financial backing. As mentioned in our previous reports[2], we believe that the JV would be a credit positive for Ezra in aggregate.

- **Infusion of fresh liquidity**: Based on the original MOU signed in August 2015, Chiyoda would pay Ezra USD150mn in cash for the 50% stake in EMAS AMC. In addition, Chiyoda will invest a further USD30mn into EMAS CHIYODA Subsea, to provide the JV with additional working capital (note that the consideration may be adjusted lower based on accounts post-closing). Ezra had previously stated in the MOU that it intends to utilize net proceeds from the transaction to reduce its gearing levels. It is worth noting that Ezra has redeemed its SGD95mn in bonds maturing on 21/03/16. This was refinanced by a SGD100mn term loan that was secured against Ezra's shareholdings in EMAS Offshore and Triyards. Currently, the only bond left outstanding is the SGD150mn EZRASP'18s due April 2018.

- **The transaction could drag 3QFY2016 earnings**: It should be noted that based on the initial transaction considerations mentioned in the MOU, as the stake in EMAS AMC will be sold below book value, Ezra estimated that it would in aggregate generate a loss of ~USD9.5mn, based on the financial quarter ending May 2015. Given that the transaction took longer than expected to close (the original intent was to close by end-2015), the magnitude of adjustments is likely to be larger by the time 3QFY2016 results (ending May 2016) are out.

- **Eyes on 2QFY2016**: Given the challenging environment and weak 1QFY2016 performance, we will review 2QFY2016 results (likely to be published around the middle of April) before deciding on any changes to Ezra's Issuer Profile (currently Negative). We believe however that the risk-reward has improved for the EZRASP'18s given the execution of the JV, and are now moving the bond to **Overweight**.

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[1] https://www.chiyoda.com.au/

[2] OCBC Asia Credit - Ezra Credit Updates (1 Sep 2015), (12 Nov 2015) & (2 Feb 2016)

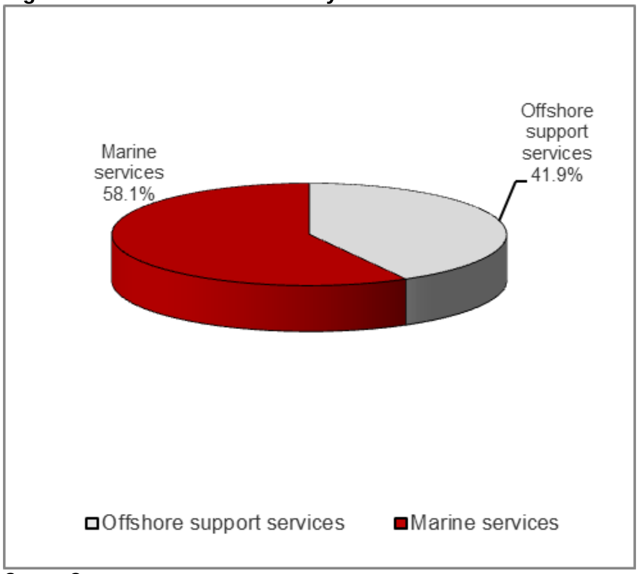
Ezra Holdings Ltd

Table 1: Summary financials

Year ended 31st August	FY2014	FY2015	1Q2016
Income statement (US$ mn)		restated	restated
Revenue	1,488.4	543.8	152.3
EBITDA	141.8	76.3	16.7
EBIT	69.6	7.0	-0.9
Gross interest expense	51.3	52.3	11.2
Profit Before Tax	74.7	79.1	-50.7
Net profit	45.3	43.7	-55.3
Balance Sheet (USD'mn)			
Cash and bank deposits	178.9	417.8	138.1
Total assets	3,363.0	4,177.3	3,818.7
Gross debt	1,551.9	1,470.2	1,214.8
Net debt	1,373.0	1,052.3	1,076.7
Shareholders' equity	1,185.8	1,365.3	1,334.4
Total capitalization	2,737.7	2,835.5	2,549.3
Net capitalization	2,558.8	2,417.6	2,411.1
Cash Flow (USD'mn)			
Funds from operations (FFO)	117.4	113.0	-37.8
CFO	140.1	142.5	12.5
Capex	327.4	320.5	9.7
Acquisitions	0.0	-25.2	0.0
Disposals	8.5	30.3	0.0
Dividend	5.4	0.0	0.0
Free Cash Flow (FCF)	-187.3	-178.0	2.8
FCF adjusted	-184.1	-122.5	2.8
Key Ratios			
EBITDA margin (%)	9.5	14.0	10.9
Net margin (%)	3.0	8.0	-36.3
Gross debt to EBITDA (x)	10.9	19.3	18.2
Net debt to EBITDA (x)	9.7	13.8	16.2
Gross Debt to Equity (x)	1.31	1.08	0.91
Net Debt to Equity (x)	1.16	0.77	0.81
Gross debt/total capitalisation (%)	56.7	51.8	47.7
Net debt/net capitalisation (%)	53.7	43.5	44.7
Cash/current borrowings (x)	0.4	0.6	0.3
EBITDA/Total Interest (x)	2.8	1.5	1.5

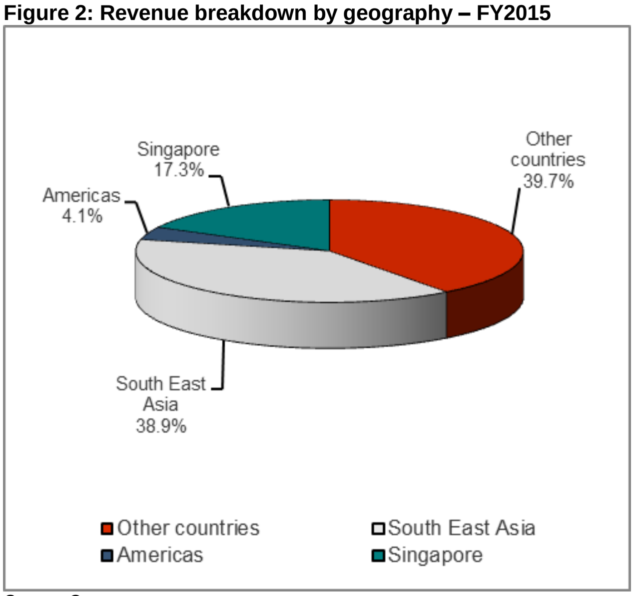
Source: Company, OCBC estimates
**Adjusted FCF = FCF –Acquisitions – Dividends + Disposals*

Figure 1: Revenue breakdown by business – FY2015



Source: Company

Figure 2: Revenue breakdown by geography – FY2015



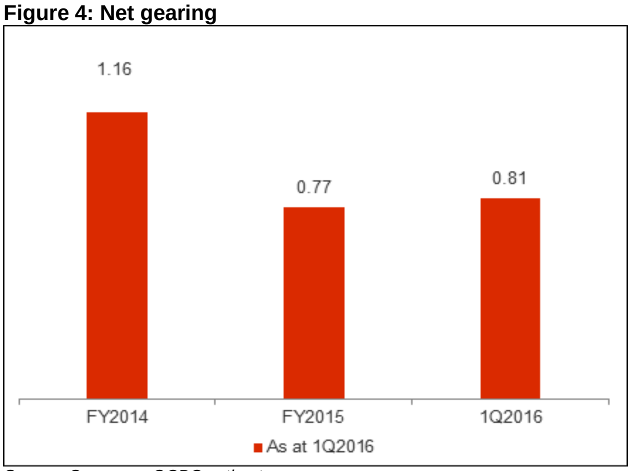
Source: Company

Figure 3: Debt Maturity Profile

Amounts in (USD'mn)	As at 30/11/2015	% of debt
Amount repayable in one year or less, or on demand		
Secured	233.9	19.3%
Unsecured	275.1	22.6%
	509.0	**41.9%**
Amount repayable after a year		
Secured	445.1	36.6%
Unsecured	260.8	21.5%
	705.9	**58.1%**
Total	**1214.8**	**100.0%**

Source: Company

Figure 4: Net gearing



Source: Company, OCBC estimates

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