Asia Credit Research

# Ezion Holdings Limited: Credit Update

**Thursday, 08 February 2018**

## Moving On

- EZI announced that it has successfully secured refinancing from its six secured lenders, having signed binding term sheets to refinance USD1.5bn. The new financing package includes minimal fixed principal repayments over the next six years, as well as decreased interest rates on these loan facilities. In addition, EZI also obtained USD118mn in additional revolving credit facilities for working capital. Next steps would be for an EGM to be convened in March 2018 to seek shareholders' approval for the various shares and warrants issuance.

- On a fully diluted basis, assuming that all stakeholders exercise their conversion options or warrants, existing shareholders (assuming they exercised their 3-for-5 warrants) would control 53.3% of EZI while noteholders would control 37.3%. Be reminded that the bulk of the noteholders' stake come from either the optional conversion of their bond, or the warrants they receive as a sweetener for early conversion.

- Based on the current terms, the new securities to be issued to noteholders will be issued within 30 days after the passing of the relevant resolution during the EGM.

### A) Restructuring Clears Milestone

EZI announced that it has successfully secured refinancing from its six secured lenders (DBS, OCBC, UOB, MayBank, CIMB and Caterpillar Financial), having signed binding term sheets to refinance USD1.5bn. The new financing package includes minimal fixed principal repayments over the next six years, as well as decreased interest rates on these loan facilities. In addition, EZI also obtained USD118mn in additional revolving credit facilities for working capital. This clears the next important step in EZI's restructuring process, given that noteholders (as major senior unsecured creditors) have approved[1] for the restructuring of the bonds to proceed during the consent solicitation exercise ("CSE") held last November.

In our view, the advancement of the restructuring process should be of comfort to noteholders. There was always the chance that negotiations with secured lenders could breakdown, given that secured lenders have the benefit of collateral in supporting recoveries. Though no details were provided regarding the new terms of the financing package, based on the information provided EZI would benefit in having a more manageable debt amortization schedule over the next six years, as well as lower interest burden. These would give more financial flexibility via cash preservation for EZI to operate given the still nascent recovery in offshore oil and gas upstream activity. The additional USD118.2mn working capital facility would also be helpful in funding EZI's operations.


**Treasury Advisory**
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Tel: 6349-1810

**OCBC Credit Research**
**Nick Wong Liang Mian, CFA**
+65 6530-7348
NickWong@ocbc.com


[1] OCBC Asian Credit Daily (21 Nov 2017)

That being said, we would likely only see the full effects of EZI's revised debt servicing needs from 2Q2018 results onwards (assuming that the restructuring goes as planned). Secured lenders were also given various incentives to agree to the refinancing as well as for the additional facilities. For example, the secured lenders will receive 171mn warrants for providing the new USD118.2mn (SGD171mn) working capital facility. They would also receive 65.1mn new shares (priced at SGD0.2763 per share) which would translate into a fee of 3%, based on USD1.5bn (SGD2.17bn) amount refinanced. In addition, to align management with the secured lenders, the founding Chew family will be charging 100mn of their shares to the secured lenders (out of Mr Chew Thiam Keng's deemed interest of 217.6mn shares).

As various stakeholders as well as professional service providers will be issued new shares and/or warrants, we thought it would be worthwhile to estimate the full dilutive impact that stakeholders would face in the event that all the disclosed conversion of shares and warrants are exercised in the next section.

### B) Fully Diluted Shareholding

| | Shares | Conversion / Warrants | | Total | |
|---|---|---|---|---|---|
| Existing Shareholders | 2,073,843,405 | | | 2,073,843,405 | 33.3% |
| **Series B bonds (SGD333mn)** | | **1,338,962,605** | | **1,338,962,605** | **21.5%** |
| **Series 8 perp (SGD119.5mn)** | | **480,498,592** | | **480,498,592** | **7.7%** |
| **Interest shares** | **38,113,207** | | | **38,113,207** | **0.6%** |
| **Bond consent fee shares** | **11,442,000** | | | **11,442,000** | **0.2%** |
| **Series B & 8 sweetener warrants** | | **452,500,000** | | **452,500,000** | **7.3%** |
| RCF warrants | | 171,000,000 | | 171,000,000 | 2.7% |
| T/L consent shares (3% fee) | 65,083,500 | | | 65,083,500 | 1.0% |
| Unsecured lender warrants | | 94,221,498 | | 94,221,498 | 1.5% |
| Professional fee shares | 157,000,000 | | | 157,000,000 | 2.5% |
| Shareholder Warrants (3:5) | | 1,244,306,043 | | 1,244,306,043 | 20.0% |
| Private subscriber options | | 100,437,500 | | 100,437,500 | 1.6% |
| | | | | **6,227,408,350** | **100.0%** |

*Source: Company, OCBC*

On a fully diluted basis, existing shareholders would be diluted down to 33.3% for their current stake, though they would have a total stake of 53.3% if they exercise the 3 warrants they receive for every 5 shares they currently own. For those that took securities with conversion rights, noteholders / perpetual holders would in aggregate hold 37.3%. To be clear, the above table makes the assumption that all stakeholders would exercise either their conversion rights or exercise their warrants. As can be seen above, the actual shares to be issued immediately are distinctly lower. It should be reminded that the option to convert remains with noteholders[2]

### C) What Happens Next

EZI would have to call for an EGM for shareholders' approval to issue the new shares as well as the warrants. Management's target is to convene the EGM in March 2018. Based on the current terms, the new securities to be issued to noteholders (such as the Series B Convertible Bonds) will be issued no later than 30 days after the passing of the relevant resolutions during the EGM. EZI has also yet to release its 4Q2017 results.

[2] OCBC Asia Credit - Ezion Credit Update (24 Oct 2017)

Based on media reports, it would seem that EZI may be seeking to delay its financial filings. As mentioned previously, EZI has several old jack-up rigs that are not currently utilized and may need to be impaired.

Looking forward, EZI's balance sheet would likely look very different giving the potential impairments to come. This would be mitigated by the new equity being raised, as well as deleveraging that occurs depending on the conversions of debt into equity. For now, we will continue to hold EZI at Negative (7) Issuer Profile.

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