

Hyflux Ltd: Special Interest Commentary

Thursday, 21 February 2019

Switching the Lights off?

- Hyflux Ltd (“HYF”) released preliminary restructuring terms.
- For senior unsecured creditors, the preliminary terms are hard to reject given that recoveries are significantly higher than liquidation with the potential for further upside.
- Conversely for junior creditors (ie: perpetual security and preference share holders), the terms are hard to accept given the substantial write-down of principal and equitisation of claims.
- We have sought to provide our take on the various aspects of the scheme to perhaps shine a light on areas that creditors need to understand in order to evaluate the best path forward before the final terms are announced.

OCBC Credit Research currently does not cover HYF. We have presented this paper as a special interest commentary. It follows our previous publications on HYF dated [1 February 2019](#), [22 October 2018](#), and [24 May 2018](#).

Disclaimer: Please note that the following reflects our interpretation of the terms of the scheme. Where legal, financial or other professional advice is required in relation to any particular matter, please seek advice from your own legal, financial or other professional advisors.

Broad Terms of the Scheme

HYF announced its proposed scheme terms in its [affidavit dated 15 February 2019](#). Highlights of the scheme are included from page 24 of the affidavit with a draft of the scheme from page 55. Broad parameters are as follows:

- Senior unsecured lenders, bondholders and contingent claimants (“Unsecured claimants creditors”) will be entitled to receive 27% of Hyflux’s shares post-restructuring as well as SGD232mn in cash distribution. Senior unsecured lenders and bondholders will receive an initial cash payout and equity distribution while the amounts due for the contingent claimants will be paid into an Escrow Account.
- If the contingent claims do not crystallise, there will be subsequent cash payouts and equity distribution from the Escrow Account, with senior unsecured lenders and bondholders receiving 80% of the cash payout and equity distribution while “Management Payout Recipients” will receive the remaining 20% of the cash payout and payout distribution. As per pg 32 of the affidavit, “Management Payout Recipients” are “management of the projects in respect of which the Contingent Claim has become Extinguished¹.”
- Holders of perpetual securities and preference shares (“Debt Securities Scheme Parties”) to receive a cash distribution of SGD27mn (equivalent to 3% of the face value of the securities) and an equity distribution comprising 9% of the enlarged issued share capital. The equity distribution will grow to 10.26% of the enlarged issued share capital as CEO Olivia Lum and other directors have volunteered to distribute their stakes (“directors’ contribution”) to the holders of perpetual securities and preference shares.

Although the proposed scheme has been presented in draft format, we expect the terms to be near-to-final. This is given that the Restructuring Agreement proposed by SM Investments Pte Ltd (“SMI”) is the cornerstone of the scheme and they have previously indicated that they would not be varying their offer. A summary of the terms have been included on pg 35 of the affidavit:

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

Andrew Wong

+65 6530 4736

WongVKAM@ocbc.com

Ezien Hoo, CFA

+65 6722 2215

EzienHoo@ocbc.com

Wong Hong Wei, CFA

+65 6722 2533

wonghongwei@ocbc.com

Seow Zhi Qi

+65 6530 7348

ZhiQiSeow@ocbc.com

¹ Defined per pg 61 of the affidavit as an accepted contingent claim that has either not objected to receiving an extinguishment notice or has been determined to be no longer a liability by the Scheme Manager (Ernst & Young)

Table 1: Proposed scheme distributions

PARTIES	SHARES IN HYFLUX POST REORGANISATION	TOTAL CASH DISTRIBUTION
Investor	60%	Nil
Unsecured Claims Scheme Parties	27%	SGD232mn
Debt Securities Scheme Parties	10.26% (approximately) [9% from the scheme distribution plus a top up of approximately 1.25% (existing ordinary shares) from the directors' contribution]	SGD27mn
Ordinary Shareholders	4% adjusted down to 2.74% to account for the shares contributed by the directors to the Debt Securities Scheme Parties	Nil
Trade Creditors of Hydrochem, Hyflux Engineering and Hyflux Membrane Manufacturing	Nil	SGD13mn

Source: Affidavit dated 15 February 2019

The discrepancy in recoveries is stark and as much as they reflect the seniority of claims in liquidation, they also reflect in our view the large influence of SMI as the proposed strategic investor. We have sought to delve deeper into the terms to give colour to the discrepancy.

Initial low recovery for bondholders though upside exists

Optically low recovery

Per the proposed terms that have been shared, senior unsecured creditors (including senior unsecured lenders, bondholders of the HYFSP 4.25% '18s, HYFSP 4.2% '19s and HYF 4.6% '19s and contingent claimants) are entitled to receive SGD232mn of total cash distribution and a 27%-stake in HYF post-reorganisation. On an assumed SGD1.7bn of senior unsecured creditor claims, assuming the entire contingent claim crystallises (SGD717mn on senior unsecured lenders claims, SGD271mn on bonds and SGD682mn of contingent claims), bondholders would get a cash recovery of 13.9 cents to the dollar and shares recovery of 10.8 cents to the dollar, bringing total recoveries to 24.7 cents to the dollar. Accepting the restructuring terms would entail full and final settlement of their claims against the company.

Key assumptions that affect recovery values:

- (1) As the proof of claim filing date is only due in March 2019, the exact amount of claims outstanding has not been disclosed. As such for the purpose of this paper, we have used the claims amount shared in [HYF's January 2019 townhall presentation \(pg20\)](#) and SGD682mn in accepted contingent claims that will form part of the restructuring deal.
- (2) While equity value post-restructuring is highly uncertain, simplistically we use SGD667mn for this paper, based on SMI's SGD400mn investment for a 60%-stake.
- (3) We also assume that HYF would get lifted from suspension and the common equity continues trading in the public market. An active trading market is an important consideration for shares recovery rate as minority stakes in an unlisted company have limited marketability.
- (4) We also assume that the share price of HYF post-restructuring would reflect the SGD667mn equity valuation we assumed in (2) – this may require a further assumption that existing and new shareholders do not sell shares in a massive rush which could pressure share prices.

Table 2: Initial recovery

Item	Amount
Total cash recovery (SGDmn)	232
Total equity stake of enlarged share capital	27%
Assumed senior unsecured claims including accepted contingent claims: (1) Senior lenders (SGD717mn) (2) Bonds (SGD271mn) (3) Contingent claims (SGD682mn)	1,670
Cash recovery (cents to dollar)	13.9 cents
Shares recovery (cents to dollar)	10.8 cents
Total recovery (cents to dollar)	24.7 cents
Cash as a proportion of total recovery	56%

Source: OCBC Credit Research

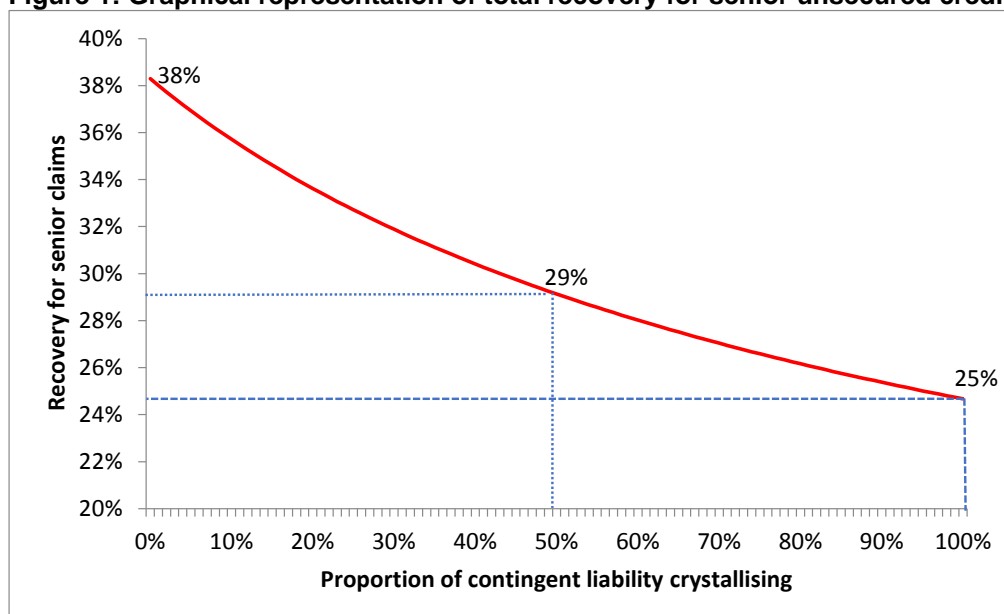
Further upside potential from contingent claims if they do not crystallise

Background: The recovery amounts for the contingent claims (which we assumed to be SGD682mn) would be set aside in an Escrow Account. Such amounts would only be distributed to the contingent claimants when contingent claims get crystallised before the claim expiry date (2 years of restructuring effective date). Contingent claims are not existing claims and would only materialise upon some uncertain future event. As a recap, SMI's investment is also conditional upon the full and final settlement of contingent claims and in our view, setting aside monies and equity stake upfront caters for the possibility of a future unknown claim which reduces SMI's investment risk in HYF.

Not all contingent claims are likely to crystallise: Based on the currently available disclosure, contingent claims include those relating to TuasOne, legal disputes, corporate guarantees, bankers guarantees, performance bonds and those in relation to two rental agreements with landlords. While some of these contingent claims could be crystallised, we think there is a good chance for a significant amount of contingent claims not to crystallise eventually (eg: rental related) post-restructuring, should the company emerge as a going concern post-restructuring.

Significant potential upside with bondholders entitled to receive payouts if claims do not crystallise: 80% of the amounts set aside in the escrow for contingent claims that do not crystallise will be paid out to senior unsecured creditors in two tranches (one and two years respectively from restructuring effective date) while the remaining 20% of the amounts will be set aside for "Management Payout Recipients" to incentivise completion of projects. In the upside scenario where none of the contingent claims get crystallised by the end of two years, recoveries for senior unsecured claimants (bank lenders and bondholders only, given contingent claims have expired) may increase by up to ~55% to 38 cents to the dollar (22 cts in cash, 16 cts in equity) from 24.7 cents initially (13.9 cts in cash, 10.8 cts in equity).

Figure 1: Graphical representation of total recovery for senior unsecured creditors



Source: OCBC Credit Research

Table 3: Recovery analysis for senior unsecured creditors

	Crystallisation of contingent claims		
	0%	50%	100%
Original cash in escrow (SGDmn)	94.7	94.7	94.7
Original equity in escrow (SGDmn)	73.5	73.5	73.5
Cash paid to contingent claimants	0	-47.4	-94.7
Equity paid to contingent claimants	0	-36.8	-73.5
Cash in escrow for distribution	94.7	47.4	0.0
- 80% distributed to senior unsecured	75.8	37.9	0.0
Equity in escrow for distribution	73.5	36.8	0.0
- 80% distributed to senior unsecured	58.8	29.4	0.0
Additional cash recovery for senior unsecured (cents to dollar)	0.08	0.03	-
Additional equity recovery for senior unsecured (cents to dollar)	0.06	0.02	-
Total cash recovery (cents to dollar)	0.22	0.17	0.14
Total equity recovery (cents to dollar)	0.17	0.12	0.11
Total recovery (cents to dollar)	0.38	0.29	0.25
Cash as proportion of total recovery	56.3%	57.5%	56.3%

Source: OCBC Credit Research

Greater downside for bondholders if company falls into liquidation

Based on the liquidation analysis performed by company's financial advisor, senior unsecured lenders and bondholders will only get 3.8% to 8.7% in recovery in liquidation. Given the large downside in liquidation versus the proposed recoveries in restructuring, we think senior unsecured creditors have more incentives to support the restructuring terms versus rejecting which may risk pushing the company into liquidation.

No other choice for junior creditors?

Background: Preference shareholders ("N2H") and perpetual capital securities holders ("BTWZ") who are junior to bond holders would vote together as a creditor class in the proposed restructuring. While terms governing both of these securities are not exactly the same, there are sufficient justifications for both to be grouped together. Chiefly, in a liquidation scenario, both would rank equal. N2H and BTWZ holders have been offered SGD27mn in cash and a 10.26%-stake in the company (after allocation of directors' shares).

Recovery analysis: On SGD900mn of amount outstanding (excluding accrued distributions, if any), this would be a cash recovery of 3 cents to the dollar. Similarly assuming an equity value of SGD667mn (which is itself a highly uncertain number), the 10.26%-stake is SGD68.4mn and represents 7.6 cents to the dollar in shares recovery, bringing total recoveries to 10.6 cents to the dollar. Again similar to senior unsecured lenders, accepting the restructuring terms would entail full and final settlement of their claims against the company.

Is the proposal fair?

Seniority matters...: Given that senior unsecured lenders and bondholders are also being equitized, it is fair that junior creditors (ie: N2H and BTWZ) also get equitized. It is also acceptable that senior unsecured lenders and bondholders achieve a higher return than junior creditors. This concept is preserved both in liquidation (through legal priority of payments) and in a restructuring (higher bargaining power due to seniority in a liquidation).

...though fairness is difficult to judge given lack of precedence: However, it is hard to judge whether the gap in recoveries are consistent with the relative bargaining power. There are no precedent cases or standards in the SGD bond market for us to say whether or not the difference in recoveries is within market norms. It is also ultimately subjective and a matter for the senior and junior creditors to negotiate in order to get the restructuring to pass. On one hand, senior unsecured creditors will say it is fair because by right the junior creditors should get nothing (in liquidation). On the other hand, it will likely not be seen as fair for the junior creditors as they suffer a very significant quantum of losses. In any event, this is the first time in the SGD bond market that we are seeing a situation where there are a myriad class of creditors, in terms of seniority of ranking and investor profile with a large gap in bargaining power (in part due to large number of investors). Past

restructurings usually involved fewer stakeholders (i.e. just bank lenders and bondholders), which are more similar in ranking and homogenous within their groups. The key difference between the two was the ability and willingness of bank lenders to provide short term liquidity (that helps companies continue as going concerns) at the expense of bond holders. In HYF's case, SMI is the expected liquidity provider, rather than bank lenders.

Something better than nothing? While terms for N2H and BTWZ holders appear vastly inferior to those for bondholders, it has been made evidently and frequently apparent that their recoveries in a liquidation scenario would be zero. Hence the belief of HYF that any form of recovery under the proposed scheme will provide a 'better return'. Leading to the catch-all phrase of "something is better than nothing" being frequently tossed around.

Junior holders can have a say: However this does not necessarily mean that N2H and BTWZ holders should just take what they can get. As we previously mentioned, N2H and BTWZ holders still have a say in the restructuring outcome as senior creditors will be dependent on junior creditors to support a restructuring proposal to achieve a better return via a restructuring over absorbing bigger losses in liquidation. In liquidation, bargaining power for junior tranches is significantly lower as the rules governing priority of payments are well set out, however, it is worth noting that in a restructuring scenario, negotiation becomes more important. Unity amongst N2H and BTWZ holders however will be crucial. While this may prove difficult given the sheer number of N2H and BTWZ holders (more than 34,000), it could ultimately be a source of strength in a negotiation and used to answer some key questions to understand if the proposal is indeed fair for N2H and BTWZ holders:

- 1. Common shareholders take the least losses?** Based on the restructuring terms, our estimated losses for bondholders range from 61.7% - 75.3%, depending on how much contingent debt crystallises into senior unsecured claims. Preference shareholders (N2H) and perpetual holders (BTWZ) holders will see a significantly larger loss of 90.3% (or 89.4% post-transfer of directors' equity stake). Conversely, common shareholders, who contributed just 3.3% of total capital (~2.2% less directors' equity stake) before HYF entered into moratorium, would see their total capital contribution increase to 4% (~2.7% less directors' equity stake) post-restructuring. Losses for common shareholders (based on book value) are 58.7%, which is smaller than the estimated losses for senior unsecured and junior holders.

Table 4: Estimated losses, assuming no crystallisation of contingent liability

Capital providers	Before restructuring		After restructuring		Cash payout SGD mn	Total recovery SGD mn	Loss %
	Book value (SGD mn)	%	%	Implied equity ^{***} SGD mn			
	SMI, proposed	-	0.0%	60.0%	400.0		
Bank creditors & Noteholders	1,670	63.4%	24.8%	165.3	213.1	378.3	(61.7%)
Management Payout Recipients	-	0.0%	2.2%	14.7	18.9	33.7	-
Preference & Perpetuals holders ^{**}	900	34.2%	9.0%	60.0	27	87	(90.3%)
Common shareholders ^{**}	64.5	2.4%	4.0%	26.7		26.7	(58.7%)
Total Capital	2,634.5	100%	100%	666.7			

As of Aug 2018 ^{**}As of Mar 2018 ^{***}Based on SGD400mn for 60% stake

Table 5: Estimated losses, assuming all contingent liability crystallise

Capital providers	Before restructuring		After restructuring		Cash payout SGD mn	Total recovery SGD mn	Loss %
	Book value (SGD mn)	%	%	Implied equity ^{***} SGD mn			
	SMI, proposed	-	0.0%	60.0%	400		
Bank creditors & Noteholders & Contingent	1,670	63.4%	27.0%	180	232	412	(75.3%)
Management Payout Recipients	-	0.0%	0.0%	0	0	0	-
Preference & Perpetuals holders ^{**}	900	34.2%	9.0%	60	27	87	(90.3%)
Common shareholders ^{**}	64.5	2.4%	4.0%	26.7		26.7	(58.7%)
Total Capital	2,634.5	100%	100%	666.7			

As of Aug 2018 ^{**}As of Mar 2018 ^{***}Based on SGD400mn for 60% stake

2. Did the distribution of Hyfluxshop prejudice the financial position of HYF and distribution for BTWZ?

- **Background:** On 5th Feb 2018, HYF went ex-dividend which spun off Hyfluxshop (“Dividend in specie”). On 22nd May 2018, HYF applied to the High Court of Singapore to commence a court supervised process to reorganise their liabilities and business. On 27th May 2018, the distribution for BTWZ was due but failed to be paid (“missed distribution”).
- **A breach may have occurred, in our view:** In our view, the missed distribution for BTWZ following the Dividend in specie may have breached a condition² of HYFSP 6% PERP 27/05/2020 (“BTWZ”), which includes a dividend pusher with a 6-month look back. In other words, the distribution for BTWZ, which falls within 6 months of the payment of the Dividend in specie, cannot be deferred.
- **Payment in specie may have prejudiced the distribution for BTWZ:** The net tangible asset value in Hyfluxshop that was spun off amounts to ~SGD14mn. In addition, Hyfluxshop owes SGD20mn to Hyflux in the form of preference shares. The total amounts (~SGD34mn) spun off and due from Hyfluxshop is more than the missed distribution, which amounts to a ~SGD15mn impact (3% distribution rate for 6 months).

3. Should upside from the extinguishment of contingent liabilities be shared?

- **Use of proceeds:** As per pg 10 of the affidavit, proceeds of the perpetuals and preference shares were used to fund Tuaspring. As per the non-exhaustive list of contingent claims from Schedule 2 on pg 87 of the affidavit, the majority of claims are banker’s guarantees. Given that Tuaspring is expressly excluded from the scheme, this could weaken the potential for proceeds from extinguishment of contingent liabilities to be shared.
- **Who gets the 20%?** Little is known of the profile of the Management Payout Recipients, and why they receive a return when they are not parties to the Scheme. What are the implications should they not receive the incentive to manage on-going projects?

4. What is the company’s outlook?

- **Financial information still lacking:** As it stands, the SGX has granted additional waivers for HYF to provide its 2QFY2018, 3QFY2018 and FY2018 financials to 30 June 2019. The reason given by HYF for the extension request is that release of financials during the reorganisation process “may potentially result in inaccurate and incomplete reflection of financial information”. This means however that investors may potentially only have access to dated financial information when assessing any restructuring or reorganization proposal if no further information is announced during the scheme meetings. The latest publicly available financial statements for the group on a consolidated level was for 1QFY2018 and we previously asked the question of what has happened to HYF’s asset values.
- **Liquidation is only part of the story:** Pg 268 of the affidavit details the liquidation analysis and estimated realisation outcomes by HYF’s financial advisor Ernst & Young. However liquidation is the very thing that the scheme is seeking to avoid. As yet, supporting information for Scheme Parties (which include unsecured claimants creditors and holders of perpetual capital securities and preference shares) to get comfort that HYF can continue as a going concern is lacking. This is a significant information gap as the preferred course of action by the issuer is a debt haircut and partial equitization for both classes of creditors. In contrast, during the noteholder consultation period as part of its consent solicitation exercise, ASL Marine Holdings Ltd published [forecast operating cashflows](#) as part of its request to extend bond maturities and not equitize existing obligations.
- **Somewhat more important for junior creditors:** Release of financial forecasts would go some way in placating the doubts of the junior creditors. This is given (1) the substantial haircut on commencement of the scheme; (2) the fact that the bulk of the expected recovery is in the form of equity; and (3) the likelihood of eventual full repayment is heavily conditional on a recovery in HYF’s performance and hence share price. As proposed minority shareholders in HYF, further information and quantitative details of how the new majority shareholders would improve total shareholder value and effectively run the business would also assist in the eventual scheme implementation.

² Extracted from BTWZ’s information memorandum: “The Issuer may not elect to defer any distribution if ... a dividend, distribution or other payment has been declared or paid...”

5. Infrastructure critical to Singapore's future

- **Lending a helping hand:** Recognizing the importance of reliable infrastructure as well as its significant cost, the government has flagged for two years running the possibility of support to fund large scale infrastructure projects. This is expected to come from both indirect support (Changi Airport Development Fund and Rail Infrastructure Fund) and potential direct support through the provision of government guarantees (Clifford Capital Pte Ltd, Changi Airport's Terminal 5) or the government using its balance sheet and credit rating to lower the cost of building infrastructure. Most of the support announced so far is targeted towards transportation infrastructure.
- **Basic needs should be looked after:** As important as transportation infrastructure is, it cannot operate without electricity. The same in effect goes for Singapore's population – it cannot operate without water. The [government has indicated](#) as such that water security is critical to Singapore's survival. While the Public Utility Board has step-in rights to take over Tuaspring and certain other mechanisms to protect its operations, there appears nothing similar to that currently proposed by the government to support its financial health or protect those that financed the infrastructure.

Where to from here?

A one way ticket: Developments thus far have been somewhat of a one way street, and focused on only one outcome, that of the Restructuring Agreement with SMI. This has allowed them to exert considerable influence on the process, albeit as a back seat driver. It is hard to judge if this offer is the best that Scheme Parties can get given the lack of information. We cannot compare to other bids by strategic investors given detailed terms of alternative bids were not disclosed to the public, in particular whether competing bids were as heavily conditional as that of SMI (which require the full and final settlement of debt). It is likely that even if it became known that a superior financial offer was available, that HYF could counter that the SMI deal was a better strategic fit for the future of the company. Since the offer was announced, there have been no other offers to compare. Apart from the lack of known offers, there are still questions about the company's asset values. Perhaps by understanding the true picture of the balance sheet will it be clearer why Scheme Parties (e.g. bondholders, preference shareholders, perpetual security holders) face only one offer on the table.

What we know from other restructurings: However from the multitude of restructurings in the SGD space of late, the path to restructuring has been different. The majority of distressed companies have tried to address their financial difficulty by firstly seeking to restructure as a going concern, firstly internally and then eventually through out-of-court processes. This is because, an application for a court supervised restructuring and debt moratorium (as was the case with HYF), could result in value destruction and impact current contractual obligations and future prospects as well as potentially crystallize contingent liabilities. We have also seen more than one outcome eventuate – from out-of-court restructurings through consent solicitations (bond extensions by ASL Marine Holdings Ltd, partial equitization for Pacific Radiance Ltd) to court driven judicial management (Swiber Holdings Ltd, Swissco Holdings Ltd) to eventual liquidation. Even then, liquidation has followed different paths for Ezra Holdings (Chapter 11 liquidating plan to facilitate the orderly liquidation of assets and subsequent distribution of assets to creditors while operating) and Rickmers Maritime Trust (eventual sale of the Trust's entire fleet of 14 vessels for a consideration insufficient to cover its Syndicate loan).

The truth amongst doubts: While the variance in process and outcomes highlight that restructuring outcomes are idiosyncratic and dependent on the situation, one thing is usually clear, regardless of the reasons for financial distress and the actions of management. Recoveries in a liquidation have tended to be poorer than in restructurings as going concerns. In the case of Rickmers Maritime Trust, the initial expected theoretical recoveries of around 40cents in the dollar through exchange of bonds into perpetual capital securities were reduced to ~11cents in its eventual liquidation. Conversely, Swiber Holdings continues to be under Judicial Management (since October 2016) and was recently granted in November 2018 an extension by the Singapore High Court of the judicial management period until 31 December 2019 and an extension until 31 May 2019 for the Judicial Managers to provide a restructuring proposal and organize a creditors meeting as a result of Seaspan Corporation's cash injection offer of USD200mn. If anything, what the above highlights is that there can be many paths to recovery and realisation.

Conclusion

The expected lower recoveries for Scheme Parties appear to be a tough pill to swallow. However given the variability in recoveries and Scheme Parties profiles, it will be a tougher pill to swallow for some than others.

For bondholders, the preliminary proposal is hard to reject given the lack of alternatives and the potential upside in the scheme compared to the liquidation scenario. This provides more incentive to support the scheme against risking liquidation.

On the other hand, the preliminary proposal is difficult to accept for perpetual security and preference share holders. This is given the proposed 3% cash recovery on the face value of their securities and the proportionately larger component of equity as part of total recoveries. Combined with the current lack of information, it is hard to assess if the preliminary proposal has merit, particularly with Scheme Parties giving up their seniority in any possible future restructuring by becoming equity holders.

That said, rejecting the eventual scheme is not an easy decision and bondholders or perpetual security and preference share holders who are thinking of doing so must be clear of their reasons for choosing it in the absence of any current alternatives. There appears little doubt that recoveries under the scheme would be better than in a liquidation so it is important to understand the possible scenarios if the eventual scheme is rejected:

1. **Terms are improved by SMI or other stakeholders.**
 - **Chances of improvement by SMI seem remote.** As disclosed in the affidavit, SMI is unlikely to come up with a better offer. As we have mentioned previously, any variation in terms amongst Scheme Parties and Management Payout Recipients (ie: redistribution of the pie) would be as a result of negotiation.
2. **Recoveries are improved through the emergence of new stakeholders.**
 - **Chances of this also seem remote.** Four months have passed since the announcement of the Restructuring Agreement with SMI with no other suitors emerging and nine months have passed since the application of the debt moratorium. We have previously discussed the remote likelihood of government intervention and that the longer that time goes on, the clearer it becomes that while the industry and domestic asset HYF operates is strategically important, HYF itself as a company is not.
3. **No better offer appears.**
 - Restructuring deal does not get passed during Scheme meetings held 5 April.
 - SMI walks away by 16 April 2019 which is the long-stop date under the Restructuring Agreement.
 - Courts lift the company out of its Debt Moratorium on 30 April 2019.
 - Liquidation commences, offtakers step-in for key assets
 - Potentially lower recovery to Scheme Parties vis-à-vis the proposed restructuring terms

As far as recoveries go, the motivation for saying no ultimately is to achieve a better outcome than what is currently being proposed (scenarios 1 or 2). But it risks a far worse outcome than the one contemplated in the scheme to begin with (scenario 3). With a higher certainty of outcome under scenario 3, there is likely to be little incentive for scenario 1 to eventuate. That said, **there may still be time to seek for improved terms before the final terms are announced.** If no improved alternatives transpire by the time the final terms are put to vote in April 2019, accepting the scheme may boil down to picking the lesser of two evils.

Analyst Declaration

The analyst(s) who wrote this report and/or her or his respective connected persons held financial interests in the above-mentioned issuer or company as at the time of the publication of this report.

Disclaimer for research report

This publication is solely for information purposes only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our prior written consent. This publication should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities/instruments mentioned herein. Any forecast on the economy, stock market, bond market and economic trends of the markets provided is not necessarily indicative of the future or likely performance of the securities/instruments. Whilst the information contained herein has been compiled from sources believed to be reliable and we have taken all reasonable care to ensure that the information contained in this publication is not untrue or misleading at the time of publication, we cannot guarantee and we make no representation as to its accuracy or completeness, and you should not act on it without first independently verifying its contents. The securities/instruments mentioned in this publication may not be suitable for investment by all investors. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. This publication may cover a wide range of topics and is not intended to be a comprehensive study or to provide any recommendation or advice on personal investing or financial planning. Accordingly, they should not be relied on or treated as a substitute for specific advice concerning individual situations. Please seek advice from a financial adviser regarding the suitability of any investment product taking into account your specific investment objectives, financial situation or particular needs before you make a commitment to purchase the investment product. OCBC and/or its related and affiliated corporations may at any time make markets in the securities/instruments mentioned in this publication and together with their respective directors and officers, may have or take positions in the securities/instruments mentioned in this publication and may be engaged in purchasing or selling the same for themselves or their clients, and may also perform or seek to perform broking and other investment or securities-related services for the corporations whose securities are mentioned in this publication as well as other parties generally.

This report is intended for your sole use and information. By accepting this report, you agree that you shall not share, communicate, distribute, deliver a copy of or otherwise disclose in any way all or any part of this report or any information contained herein (such report, part thereof and information, "**Relevant Materials**") to any person or entity (including, without limitation, any overseas office, affiliate, parent entity, subsidiary entity or related entity) (any such person or entity, a "**Relevant Entity**") in breach of any law, rule, regulation, guidance or similar. In particular, you agree not to share, communicate, distribute, deliver or otherwise disclose any Relevant Materials to any Relevant Entity that is subject to the Markets in Financial Instruments Directive (2014/65/EU) ("**MiFID**") and the EU's Markets in Financial Instruments Regulation (600/2014) ("**MiFIR**") (together referred to as "**MiFID II**"), or any part thereof, as implemented in any jurisdiction. No member of the OCBC Group shall be liable or responsible for the compliance by you or any Relevant Entity with any law, rule, regulation, guidance or similar (including, without limitation, MiFID II, as implemented in any jurisdiction).

Co.Reg.no.:193200032W