Credit Research Initiative
Risk Management Institute, National University of Singapore
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Weekly Credit Brief
Dec 12 - Dec 18

Concerns remain in Jet Airways' credit prospects despite rising share price

by Yu Ning

Jet Airways India Ltd (Jet Airways), the second largest full-service airline in India, has seen its stock price soar nearly 50% in the past few months, a boom in investors' confidence that largely came from the efforts on international network expansion under the Codeshare agreement to Europe with Air France KLM in November and on cutting operating expenses through termination of services of some expatriate pilots in October. Corresponding to the market cheer, the RMI-CRI 1-year Probability of Default (PD) decreased by more than 100bps from Sep 29, 2017 to 167.05bps on Dec 15, 2017. However, it still takes an onerous task for Jet Airways to remove the concerns about its credit prospects.

	Q3 2016	Q3 2017
Net Income (INR mn)	5,488.20	496.30
Net Worth (INR mn)	-63,660.40	-65,350.30
Debt / Capital (%)	N.A.	188
Interest Coverage Ratio	2.75	2.04

Table 1: Standalone unaudited financial results for Jet Airways. *Source: Jet Airways*

Jet Airways had posted net losses for consecutive years until 2016 when its bottom line finally turned black. The cumulative net losses lead to the negative net worth, and in turn, a larger-than-one leverage ratio. The positive earnings in the recent two years are not sufficient to improve the firm's capital strength to a strong level. Also, the possibility of constant earnings improvement seems uncertain, as Jet Airways' net profit for Q3 2017 plunged by 91% YoY to INR 496.3mn from INR 5,488.2mn largely due to rising jet fuel prices and inefficient capacity utilization.

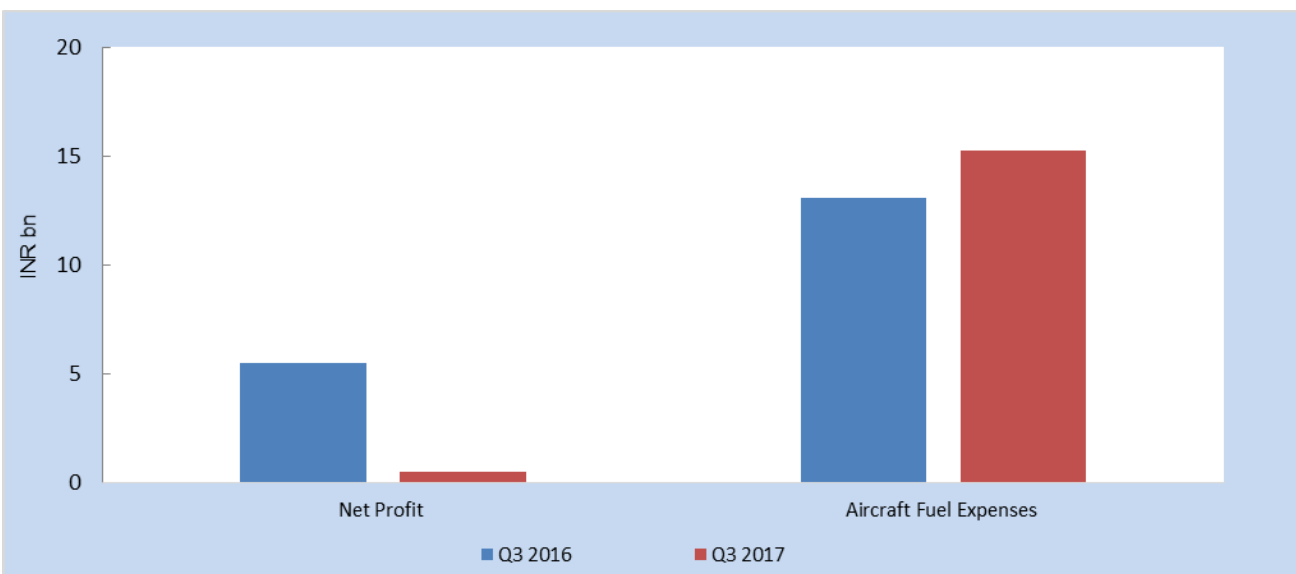

Figure 1: Net profits and aircraft fuel expenses for Jet Airways. *Source: Company website*

Aviation turbine fuel, commonly known as jet fuel, has seen its price increase to INR 116.03 per gallon by September 2017, representing a growth of 31.6% YoY. Fuel expenses, the largest item which accounts for nearly one-fourth of total operating expenses, rose 16.7% YoY in Q3 2017 (See Figure 1). The ascending jet fuel price hurts Jet Airways' profitability due to its inability to fully pass the higher cost to customers.

In addition, Jet Airways continues to face a fierce competition in the industry, where low-cost carriers like Interglobe Aviation are growing fast in India. While other players in the industry are expanding their capacity, Jet Airways is lagging behind domestically, with only four aircrafts added in a year. Two-thirds of the company's capacity has been allocated to the international business segment, whose profits contributed only 55% to total in Q3 2017, down from 62% YoY. This is mainly due to the decreasing demand from business in the Gulf area, weighing on the profitability of the international segment.

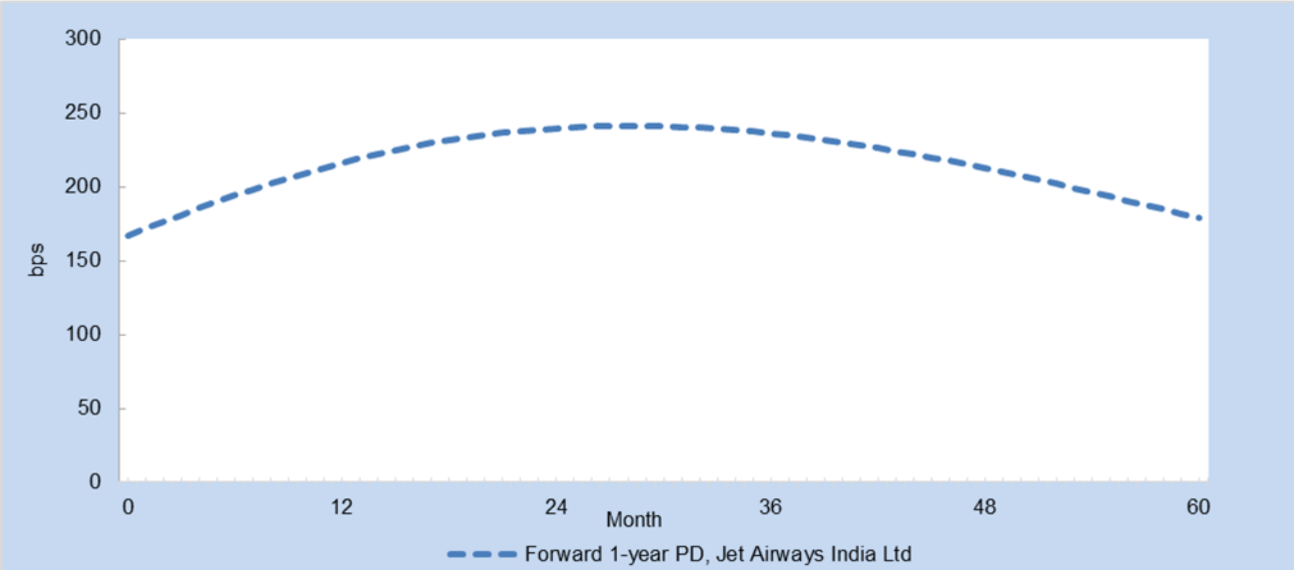

Figure 2: RMI-CRI Forward 1-year PD term structure for Jet Airways on December 15, 2017. *Source: RMI-CRI*

Due to the factors above, it becomes clear that the road ahead will not be smooth for Jet Airways. As Figure 2 shows, the RMI-CRI Forward 1-Year Probability of Default (Forward PD) for Jet Airways increases for the upcoming two years and remains relatively high thereafter. Intuitively, the Forward PD computes the credit risk of the firm on a future period, which works like a forward interest rate. For instance, the 3-month Forward PD is the probability that the firm defaults during the period from 3 months onwards to 1 year plus 3 months, conditional on the firm surviving the next 3 months. The Forward PD term structure of Jet Airways shows that the Forward PD gradually steepens with time to peak about 3-year time, suggesting that based on the market information on December 15 2017, Jet Airways' credit profile is likely to deteriorate in the near future.

Although Jet Airways has been striving to improve its profits, an effort that was already recognized by the stock market, both its vulnerable financial strength and increasing RMI-CRI Forward 1-year PD indicate that the credit prospects for Jet Airways remain concerning. The worries might not be relieved until a stable profit stream is seen and its net worth turns positive.

Credit News

Singapore chip firm global A&T files for bankruptcy in NY

Dec 18. Global A&T Electronics, a Singapore-based chip assembler filed for Chapter 11 bankruptcy on December 17. The company listed debt of more than USD 1bn and assets of over USD 500mn in Chapter 11 papers. Even though Global A&T seemed to have resolved the problem of a 2013 debt exchange after announcing a settlement in mid-September, the filing became inevitable as other bondholders did not give up their own lawsuit over the debt exchange. Such disputes arise when creditors try to leapfrog each other in the priority scheme to get repayment, and such incidents are increasing in frequency, due to low interest rates in recent years that allowed companies to refinance and take on multiple layers of debt. (Bloomberg)

Venezuela default more likely on sovereign bonds than PDVSA's: bondholders

Dec 16. According to some bondholders and legal experts, Venezuela is more likely to default on its sovereign bonds than on those of state-run oil company PDVSA. About 90% of Venezuela's foreign exchange capacity comes from PDVSA, and the upcoming payments for PDVSA's bonds over the next year are lower than those owed on the nation's sovereign bonds. Furthermore, PDVSA's bonds do not include collective action clauses (CACs), whereas the majority of outstanding Venezuelan government include CACs that allow a debt restructuring to proceed as long as authorization from 75% of participants. On the contrary, some investors believe that there is little upside in both assets, due to declining oil production and the presence of a hyperinflationary economy that is spiraling downward at a rapid rate. (Reuters)

Portugal gains Fitch investment grade rating as debt ratio falls

Dec 16. Fitch Ratings revised Portugal's rating from BB+ to BBB with a stable outlook, two levels above speculative grade, which restored the nation's investment grade status amid improving debt dynamics. Portugal's credit rating was once cut to junk in late 2011, when the country was going through a bailout program provided by EU and IMF. However, the Portugal's recent favorable debt dynamics are driven by a combination of previous structural fiscal measures, the recent cyclical recovery and a substantial improvement in financing conditions. Tourism and exports have been boosting the economy, with the government forecasting growth will accelerate to 2.6% this year. The government aims to cut the deficit to 1% of gross domestic product in 2018 from 1.4% in 2017. Portugal's debt burden remains high. The European Commission forecasts government debt will drop to 124.1% of GDP in 2018 from 126.4% in 2017. (Bloomberg)

Cobalt International Energy files for bankruptcy

Dec 14. After its earlier warning on the possible chapter 11 reorganization, Cobalt International Energy filed for bankruptcy officially on December 14. The company reported that a host of factors leading to its bankruptcy, which include a failed sale of its Angolan assets to an Angolan quasi-governmental entity and its involvement in shareholder lawsuits over its Angolan operations. The company was alleged to have breached compliance rulings by paying foreign government officials to get business. Long-term debts of the company stand at USD 2.8bn and it is in discussions with debt holders on the restructuring the proposed sales of its assets. Cobalt has previously deferred interest payments of USD 12.3mn and USD 8.1mn that were due on November 15 and December 1 respectively. (WSJ)

J.G. Wentworth files for chapter 11 bankruptcy protection

Dec 12. J.G. Wentworth (JG), a specialty-finance company that buys life-insurance policies and other illiquid assets, filed for Chapter 11 bankruptcy protection in U.S. Bankruptcy Court on December 12 again after they filed for bankruptcy protection in 2009 for the first time. JG had reached a deal on a debt-for-equity swap with lenders before the bankruptcy. In this prepackaged bankruptcy, JG negotiated with key creditors and solicited votes on its plan before actually filing its Chapter 11 petition. Prepacks allow JG to shorten the costly bankruptcy process. The balance-sheet restructuring will cut the company's annual debt service to about USD5 million from USD32 million. One of the company's lenders has agreed to provide up to USD70 million in new financing. JG's operating units, which also include a mortgage-lending business, won't be part of the bankruptcy filing and won't be affected by the balance-sheet restructuring. (WSJ)

US court removes creditor hurdle to a Westinghouse bankruptcy plan (CNA)

World's biggest coal port looks to life after fossil fuels (FT)

Top mining stock becomes 2017's worst loser on China steel shift (Bloomberg)

Regulatory Updates

Borrowing rules tightened for those heavily in debt

Dec 15. The Monetary Authority of Singapore (MAS) announced that borrowing rules will be tightened for those heavily in debt starting from January 2018. Borrowers with unsecured debts exceeding six times of their monthly income will not be able to obtain new unsecured credit. However, borrowers are not required to reduce the limit of their existing credit facilities. The move is a step up from the current limit introduced in 2015, which aims to prevent borrowers from accumulating excessive amount of debts. Existing limit restricts individuals from borrowing more than 18 times their monthly income and this will be reduced to 12 times by June 2019. Since the introduction of borrowing limit, the number of borrowers outstanding unsecured debts exceeding their annual income has come down by 21,000. (CNA)

Malaysia among APAC countries better prepped for IFRS 9 – Fitch

Dec 14. According to Fitch Ratings, Malaysia is among the Asia Pacific markets that is better prepared for the implementation of the IFRS 9 in 2018. This is due to its banks' experiences in terms of stress testing, internal capital adequacy assessments and using models for internal ratings-based risk weighted asset calculations. IFRS 9 requires banks to book impairments for expected credit losses instead of making provisions when losses are incurred and it widens the scope of financial assets that is subjected to expected credit losses to include non-loan assets and some off-balance-sheet items. The implementation of IFRS 9 is likely to see higher provisioning at most banks in the Asia Pacific region and will have wide-ranging effects on bank processes and loan performance assessments. (The Edge Markets)

Finance Ministry meets PSB brass to gauge capital requirements (The Economic Times)

China keeps IPOs on tight leash to protect policy goals (FT)

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