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Transforming Big Data into Smart Data

Weekly Credit Brief

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Story of the week

Trouble continues in Bumi Resources as its RMI PD stays high
By Dexter Tan

Time is running out for Jakarta-listed Bumi Resources Tbk PT, as the world's largest coal exporter struggles to meet its mounting debts. The company's Q1/2014 financial statement indicated the miner had USD 27mn of cash and USD 6.82bn of total liabilities. Despite, total liabilities have dropped about 6.75% compared with the previous quarter, there are pending coupon payments on its USD 300mn 12% bonds maturing in November 2016. Bumi, now has up till June 11 to pay up or face default. The coupon payments were originally due May 12 but Bumi extended it to push for approval from other creditors for its USD 1.35bn debt restructuring with China Investment Corp (CIC). A default by Bumi may just scupper the CIC deal and potentially trigger default clauses in Bumi's other loans and thus aggravating its RMI probability of default. Apart from the coupon payments, Bumi is on the hook for USD750mn in bank loan amortizations from China Development Bank and China Investment Corp, and an USD375mn convertible bond that matures this year.

The coal miner's effort to convince its biggest creditor, CIC to a restructuring agreement to significantly reduce debt and lower firm's finance charges and its disposal of part of its 65% ownership stake over PT Kaltim Prima Coal for some USD746.94mn also provided Bumi a lifeline by hoisting its revenue in Q1 2014 to USD349.34mn. Still, the Bumi-CIC deal requires the approvals of other creditors. RMI, which has been tracking Bumi through its probability of default (PD) recorded that the company's 1-year probability of default reached its 5-year high of 1074bps at the end of April. Since then, after the rescue agreement from CIC and its divestment of PT Kaltim Prima Coal has led to its RMI 1-year PD declining to 693bps. Nevertheless, the likelihood of a near term default remains high as Bumi needs to cough out the interest payment on its debts by next week. Bumi's 1-year PD has always been above the aggregate RMI PD for Indonesia listed coal mining group of 39.78bps. Its 87% subsidiary Jakarta-listed Bumi Resources Minerals also showed a similar trend with its RMI 1-year PD at 292bps.

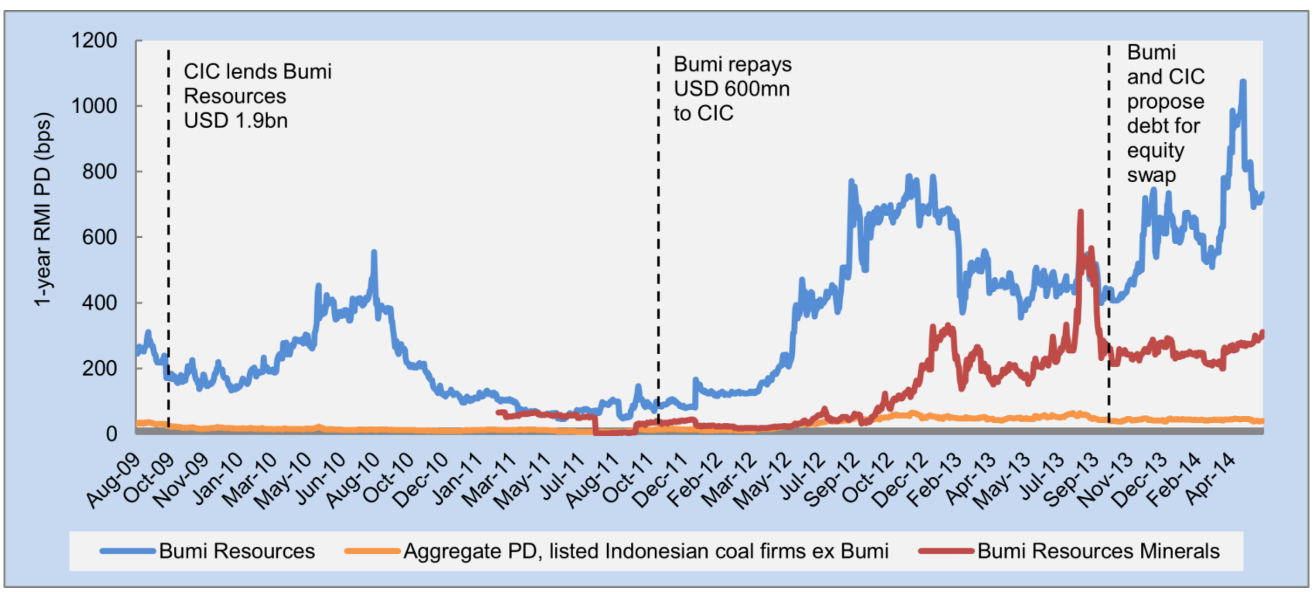

Figure 1: 1-year RMI PD for Indonesia listed coal companies including Bumi Resources. *Source: Risk Management Institute*

The miner has frequently flirted with the risk of default and its network of complex borrowings would suggest creditors may not expect to recover much if the CIC deal collapses. Among Bumi's other liabilities are a debt of USD 450mn across two more Credit Suisse-arranged facilities, a 5-year USD 135mn amortising loan managed by Axis Bank and also listed USD 929.6mn of remaining liabilities to CIC and USD 599m with China Development Bank Corp. The company plans to raise some US$561 million in right offer in June from shareholders to repay debt.

However, the external operating environment remains unfavorable to Bumi as the prices of Indonesian coal have been declining close to 2009 lows. For example, Indonesian 4200 kcal coal reference price has fallen from USD 63.3 per tonne in March 2011 to USD 40.6 per tonne in May 2014. Credit rating agency, S&P expects lower profit of USD15 to USD18 per ton of coal over the next 12 months and that could hit on Bumi's bottom line and may wipe out its ability to service debt at current rates. Bumi has been struggling with its restructuring and hit by downgrades from rating agencies. The company posted a net loss of USD 609mn in 2013 and a loss of USD 666.2mn in 2012.

Credit News

India ratings assigns AAA rating to Mahindra

May 29. India Ratings & Research, the Indian arm of Fitch Ratings, has upgraded Mahindra & Mahindra Ltd to AAA, the highest level of credit worthiness. M&M is the country's largest farm tractor and sports utility vehicles (SUV) manufacturer. The rating agency has pointed out that the company's resilience to economic cycles over the past 18 years, its strong market position, meaningful diversification activities, effective product development strategies, and conservative financial policies led to this credit rating upgrade. (Marketwatch)

Singapore Post credit rating 'not affected' by Alibaba deal

May 29. Standard & Poor's kept Singapore Post's (SingPost) "AAA" credit rating after Alibaba announced it would purchase a 10.35% stake in the company for SGD 312.5mn. Both companies have also inked a Memorandum of Understanding, making it possible to launch a joint venture with respect to international e-commerce logistics. The formation of the partnership indicates that SingPost is determined to further strengthen its market position in the area of logistics and express delivery. It also enables the company to use some of its proceeds gained to finance its capital expenditure and acquisitions. (Channel NewsAsia)

Argentina will repay Paris Club debt 13 years after default

May 29. Argentina has entered into an agreement with the Paris Club nations, allowing it to cover USD 9.7bn arrears totaling USD 9.7bn within five years, with the first installment of at least USD1.15bn due in May 2015. The credit-positive deal has not only tightened Argentine sovereign bond yield over the US Treasuries by 7bsp to 843bps, but would also enable the country to regain access to international capital markets, which have been largely cut off since its default on USD95bn in 2001. (Bloomberg)

Bank of America resubmits smaller capital plan

May 27. Bank of America submitted a revised stress test capital plan to the Federal Reserve on May 27. In April, the bank suspended its capital action plan after uncovered a USD 4bn incorrect adjustment related to the treatment of certain structured notes on its balance sheet. Although banks are supposed to remove unrealised gains and losses on certain debt securities from regulatory capital ratios, bank of America stripped out realised gains and losses on structured notes it assumed. The bank previously received permission from regulators to buy back up to USD 4bn of its own shares and expand its quarterly dividend from 1 cent. to 5 cents The Fed will respond to the new capital plan in 75 days. (WSJ)

Bad loans in Slovenian banks rise to EUR 6bn (Reuters)

Bond surge worldwide drives index yield to one-year low (Bloomberg)

Bond bankers have 144 reasons to fret over underwriting frenzy (Bloomberg)

Alcatel offers USD 1.4bn convertible bonds to repay debt (Bloomberg)

Regulatory Updates

SEC urged to tackle foreign payment disclosure in oil and gas

Jun 01. Oil companies are asking the US Securities and Exchange Commission (SEC) to finalize and implement new rules this year about how companies disclose payments to foreign governments. The firms are requesting regulators in various jurisdictions to co-ordinate their reporting formats so that companies may avoid disclosing the same information in various forms in multiple countries. The UK is projecting to implement foreign payment disclosure rules in October this year, while the EU has set a June 2015 deadline. The SEC said that it would address the issue until March 2015. (Financial Times)

ECB and BoE plan to revive EU securitization, boost investment

May 30. In an attempt to increase the flow of credit to smaller businesses, the European Central Bank and Bank of England set out proposals to resurrect European Union's asset-backed securities market. In the proposal, the two authorities state that involvement in this market by the authorities may be desirable to support revitalization in a robust form. It also said they may warrant more generous treatment by regulators than at present. (Reuters)

European banking authority releases 2014 bank stress-test scenarios (WSJ)

China to cut reserve requirement ratio for some banks (Bloomberg)

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