RAM assigns AAA to Perdana Petroleum's RM650m Sukuk

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KUALA LUMPUR: RAM Rating Services has assigned a preliminary rating of AAA(fg)/Stable to Perdana Petroleum Bhd proposed RM650mil Sukuk Murabahah.

The ratings agency said on Wednesday the oil and gas-related services company's tranche was for five years.

"The rating is premised on an irrevocable and unconditional financial guarantee extended by Danajamin Nasional Bhd (rated AAA/Stable/P1), which enhances the credit profile of the five-year tranche beyond the group's stand-alone credit strength," it said.

RAM Ratings said subsequent issuances under the 12-year Sukuk programme (2016-2028) would hinge on guarantees provided by guarantors.

As such, the guarantor may vary for different tranches of this debt facility throughout its tenure.

RAM Ratings would only assign ratings to the Sukuk upon the official appointment of a guarantor or guarantors for a particular issuance under the debt facility.

In the case of a bank guarantee from a consortium of financial institutions, the weakest-link approach will apply to the assigned rating.

The ratings agency said independent of the guarantee, Perdana Petroleum's stand-alone credit strength reflects its synergies with its parent, Dayang Enterprise Holdings Bhd, coupled with time-charter contracts providing steady contributions.

RAM's head of consumer and industrial ratings Kevin Lim said: "Dayang's acquisition of the group is a strategic long-term move for the former in view of its intention to own a larger fleet to execute various hook-up and commissioning (HUC) and maintenance jobs, given its order book of RM3.98bil running up to mid-2018."

Accordingly, Dayang has pledged to take up four more vessels on a call-out basis from next year (four vessels on time charters currently), essentially chartering half of Perdana Petroleum's vessel fleet and contributing about 40% of its top line moving forward.

Time-charter contracts, spanning about two to five years, accounted for about 65% of the Group's revenue in 9M FY Dec 2015.

Perdana Petroleum's other strengths include its large presence in the domestic accommodation work barges (AWB) segment and the 10,000 brake horsepower sub-segment of the anchor handling tug supply (AHTS) market.

Additionally, domestic providers of marine support services such as the group are protected from foreign competition by Malaysia's cabotage law.

"That said, given the current lacklustre environment of the oil and gas (O&G) sector amid Petronas Nasional Bhd's initiative to review its business model and cut costs, we do not discount possible delays in the implementation of awarded contracts.

"Furthermore, a continued slowdown in work orders, which will potentially negatively affect the awarding of new contracts, is also expected.

The abovementioned strengths are moderated by Perdana Petroleum's geared balance sheet and modest cashflow protection metrics.

Historically, the group's adjusted gearing ratio has hovered about 1.10-1.30 times.

With debt levels envisaged to swell to over RM1bil (as at end-September 2015: RM750.11mil) to finance two potential vessel purchases, Perdana Petroleum's gearing ratio could rise to an average of about 1.40 times.

However, idling vessels on the back of a lower utilisation rate of 66% (utilisation rate in FY Dec 2014: 92%) had weighed on the Group, causing it to incur pre-tax losses for the nine months ended September 2015.

Perdana Petroleum's annualised adjusted funds from operations (FFO) debt cover consequently fell to 0.11 times, from an average of 0.20-0.30 times over the past three years.

"Over the next three years, Perdana Petroleum's FFO debt cover is expected to trend around 0.10 times," adds Lim.

Other moderating factors include pressured rates due to an oversupply of offshore support vessels (OSV), exposure of earnings to volatile daily charter rates (DCR), and operational integration risk.

The oversupply of OSVs had resulted from orders for a large number of vessels, mainly AHTS, having been placed before the onset of the global financial crisis of 2008/2009. This coupled with low oil prices has caused DCR to fall around 25%-30% over the past year.

The group's earnings have accordingly been affected, as seen in the deterioration of its 9M FY Dec 2015 results. In addition, as with any merger or acquisition, we opine that Perdana Petroleum could face some integration risk.

Perdana Petroleum is an OSV provider for the O&G industry, owning a fleet of 17 vessels that includes eight AHTS vessels, seven AWB and two work boats.

Dayang, a leader in HUC and maintenance, became the group's largest shareholder, with a 97.5% stake, after triggering a mandatory general offer in May 2015.

Reference:

http://www.thestar.com.my/business/business-news/2016/02/17/ram-assigns-aaa-to-perdana-petroleum-rm650m-sukuk/