RAM Ratings reaffirms rating of Perdana Petroleum's sukuk

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Kuala Lumpur : RAM Ratings has reaffirmed the AAA(fg)/Stable rating of the RM635 million 5-year tranche of Perdana Petroleum Berhad's (Perdana Petroleum or the Group) RM650 million Sukuk Murabahah Programme (2016/2028). The reaffirmation reflects an irrevocable and unconditional financial guarantee extended by Danajamin Nasional Berhad (rated AAA/Stable/P1), which enhances the credit profile of the five-year tranche beyond the Group's stand-alone credit strength.

Perdana Petroleum's performance continues to be impacted by an oversupply in the offshore support vessels (OSVs) segment. "The Group's revenue – which has been on a downtrend – slid a further 23% in FY Dec 2017 on the back of reduced daily charter rates and vessel utilisation," said Kevin Lim, RAM's Head of Consumer and Industrial Ratings. Notably, the Group's vessel utilisation rate fell to 52% in FY Dec 2017 from 58% a year earlier. Given the below-breakeven rate, Perdana Petroleum recorded a third consecutive annual pre-tax loss. The Group's weak showing was exacerbated by hefty impairment expenses and unrealised forex losses. Notwithstanding expectations of a gradual improvement in utilisation rates, Perdana Petroleum is envisaged to remain in a loss-making position in the near term.

Perdana Petroleum's large pre-tax loss of RM183.44 million in FY Dec 2017 (FY Dec 2016: RM35.95 million pre-tax loss) pushed its gearing ratio up to 1.74 times as at end-December 2017 in spite of a lighter debt load (end-December 2016: 1.23 times). Similarly, the Group's lacklustre performance kept its funds from operations (FFO) debt cover weak at 0.08 times despite reduced borrowings. Going forward, the Group's gearing is anticipated to come in at around 2 times while its FFO debt cover could average around 0.1 times, barring substantial impairments and/or forex losses.

We note the marked increase in Perdana Petroleum's short-term debts subsequent to non-current debt being classified as current liabilities due to technical breaches of certain covenants. "While we do not expect these short-term borrowings to become immediately due and payable, the Group's liquidity profile is still deemed very tight," adds Lim. Perdana Petroleum has to rely on cash advances from its parent, Dayang Enterprise Holdings Berhad (Dayang), to fund its working capital requirements and debt repayments.

Independent of the guarantee from Danajamin, Perdana Petroleum's stand-alone credit strength reflects synergies with and support from Dayang. We anticipate support from its parent to be forthcoming if required, so long as the Group remains a subsidiary of Dayang. Perdana Petroleum also has substantial presence in the domestic accommodation work barge and mid-sized anchor handling tug supply vessel segments. Notably, more than half of the Group's vessels are suited to Dayang's hook-up and commissioning and maintenance activities. Additionally, domestic providers of marine support services are protected to a certain extent from foreign competition by Malaysia's cabotage law.

These factors are moderated by weak industry fundamentals, the Group's strained financial profile and its exposure to contract renewal and customer concentration risks. The OSV sector remains characterised by the oversupply of vessels and the sector downturn has pushed many players such as Perdana Petroleum into losses. The Group's financial profile is also made weak by a geared balance sheet, poor cashflow protection metrics and tight liquidity position.

Reference: https://www.ram.com.my/pressrelease/?prviewid=4598