

MARC downgrades Alam Maritim notes



KUALA LUMPUR: Malaysian Rating Corp Bhd (MARC) has downgraded [Alam Maritim Resources Bhd's](#) RM500mil Sukuk Ijarah Medium-Term Notes programme to BBB+IS from AIS.

The outlook is maintained at negative. The rating action affects RM75mil of outstanding sukuk under the rated programme.

In a statement, MARC said its rating action was premised on Alam Maritim's weakening financial performance arising from its inability to meaningfully restore its declining order book amid continued volatility in the oil and gas sector.

It said the uncertain oil price environment had resulted in difficult business conditions for offshore service providers such as Alam Maritim, a major domestic player in offshore support vessels (OSV) services.

As at end-June 2016, Alam Maritim's order book of RM471mil is significantly lower than its historic level of above RM1bil.

"As a result, Alam Maritim's cash flow generation ability has been diminished, leading to low liquidity buffers to meet its remaining financial obligations under the rated programme, of which RM30mil sukuk is due in July 2017 and the final RM45mil in January 2018. Alam Maritim's cash balances stood at RM55.3mil as at end-July 2016," MARC said.

Alam Maritim remains heavily reliant on OSV service contracts, which accounted for 86% of the group's current order book with the remainder from the offshore installation and construction (OIC) segment.

The total outstanding OSV order book significantly decreased by 48.5% to RM384mil as at end-June 2016 from RM746mil in the previous corresponding period.

Since early 2016, Alam Maritim has only secured three new contracts worth RM108mil.

Concomitantly, Alam Maritim's average utilisation rate fell to 57% in the first half of the financial year ending Dec 31, 2016 (1HFY2016) (FY2015: 63%) with rates for existing contracts reduced by between 3% and 10% and, at the same time, reductions for new contracts of up to an estimated 20%.

"MARC has been made to understand that the group's daily term charter rates have been renegotiated to between US\$1.40 and US\$1.80 per brake horsepower (bhp) from between US\$1.80 and US\$2.00 per bhp previously," it said.

For 1HFY16, Alam Maritim reported a loss before tax of RM12.5mil on lower revenue, reduced margins in the subsea segment and an unrealised forex loss of RM4.2mil arising from outstanding receivables which are denominated in US dollars.

For 1HFY16, cash flow from operations (CFO) declined to negative RM15.2mil, raising concern on sufficient internal capital generation to meet its medium- to long-term liabilities should order book replenishment continue to wane.

This notwithstanding, Alam Maritim's low leverage position affords headroom for refinancing.

As at end-1HFY2016, the debt-to-equity (DE) ratio stood at 0.22x, although on an adjusted basis, DE would be 0.46x.

The adjusted DE includes contingent liabilities of approximately RM300mil, which are mainly in the form of corporate guarantees extended to subsidiaries and joint-ventures. Of these,

Alam Maritim's 51%-owned joint-venture with the troubled Swiber Engineering Ltd, which is under judicial review, poses some concern.

The joint-venture company Alam Swiber DLB 1(L) has an RM80mil outstanding loan for which Alam Maritim has given a proportionate guarantee for RM40.8mil.

"MARC views that the risk related to Swiber's judicial management order is limited given that the joint-venture operation is managed by Alam Maritim; however, as the remaining value of the contract is only RM24mil, the joint-venture will need new contracts to meet its obligations.

"In addition, MARC understands Alam Maritim will seek to dispose some of its vessels. It has a sizeable fleet of 44 vessels with an average age of nine years, of which 48% have mid-range to high-end engines. Proceeds from vessel disposals would provide a source of liquidity, although timely execution is deemed challenging in the current environment," MARC said.

"The negative rating outlook reflects the continuing difficult business environment for OSV providers and the potential for further rating downgrade if Alam Maritim is unable to replenish its order book, meet its sinking fund obligations under the rated programme and/or complete vessel disposals to improve its liquidity position in a timely and sufficient manner," it added.

The outlook could revert to stable if Alam Maritim's operating performance improves over the coming quarters and the group demonstrates sufficient cash flow generation to meet its financial obligations.