

Company Name : Alam Maritim Resources Berhad
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MARC Downgrades Alam Maritim's Sukuk Ratings To AIS From A+IS

KUALA LUMPUR (Nov 16): Malaysian Rating Corp Bhd (MARC) has downgraded Alam Maritim Resources Bhd's RM500 million Sukuk Ijarah Medium Term Notes to AIS from A+IS., and has revised its sukuk issuance outlook to stable from negative.

In a statement today, MARC said the rating action affects RM115 million of outstanding sukuk issued under the rated programme.

"The rating downgrade was driven mainly by Alam Maritim's weakened business risk profile arising from a tough operating environment for offshore support vessel (OSV) providers. The group's operating performance has been affected by a decline in contract order book and lower charter rates for its vessels," said MARC.

The stable outlook reflects MARC's expectation that Alam Maritim will sustain its current financial profile and there will be no significant reduction in the order book from the current level.

MARC noted that as at end-June 2015, Alam Maritim's order book stood at RM745.5 million, about 18.6% lower from RM915.8 million as at end-2014, and charter rates have also come under pressure, with rates for existing contracts renegotiated lower by between 3% and 10% and for new contracts by up to 20%.

"These factors notwithstanding, MARC views Alam Maritim's established position in the OSV segment, with a lengthy operating track record and sizeable fleet of 44 vessels to be supportive of the group's ability to weather the prevailing challenging conditions in the oil and gas sector," said the ratings agency.

MARC added that Alam Maritim's current rating and stable outlook also factors in the group's healthier balance sheet, after it pared down its debt to RM244.3 million as at end-June 2015, from RM315.5 million a year ago, mainly through proceeds from a rights

issue amounting to RM166.0 million. Accordingly, the debt-to-equity (DE) ratio reduced to 0.29 times as at end-June 2015, from 0.38 times at at end-2014.

“The group’s vessel fleet accounted for over 10% of total domestic OSVs as at end-2014, making Alam Maritim a key player in the domestic OSV market. The OSV segment accounted for 72% of the group’s order book in the first half of 2015(1H2015), while the subsea and offshore installation and construction (OIC) segment accounted for the remaining 28%,” said MARC.

MARC noted that Alam Maritim is expanding its subsea and OIC business through the acquisition of a new diving support vessel (DSV), to replace an existing leased vessel. The new DSV will allow for overall cost savings and therefore, increase margins. The group will take delivery of the new DSV by end-2015.

“Alam Maritim remains focused on the Malaysian market, with Petronas Carigali Sdn Bhd accounting for 44% of the group’s total outstanding order book value. Nonetheless, no major significant contracts are expected to be awarded by oil majors over the near term and contract renewals have shorter tenures of about six months,” MARC said.

For 1H2015, Alam Maritim’s average utilisation rate fell to 57%, from 70% in 2014, in part due to the idling of three vessels which passed the maximum allowable vessel life for Petronas projects, while another seven vessels were dry docked for maintenance.

The lower utilisation rate contributed to a sharp decline in operating revenue and pre-tax profit to RM153.2 million and RM19.5 million respectively in 1H2015. Earnings contribution from joint ventures and associates fell to RM1.4 million in the same period, from RM19.9 million a year ago.

“In line with weaker profitability, cash flow from operations (CFO) declined to RM22.5 million during 1H2015, from RM78.3 million in the previous corresponding period. MARC expects the group operating performance in 2H2015 to improve, following the expected completion of service work worth RM222.8 million,” said the ratings agency.

Alam Maritim's share of borrowings under its associates and jointly controlled entities (JCE) was lower at about RM270.4 million as at end-June 2015, from RM306.6 million a year ago, mainly due to the absence of new acquisitions since 2013.

"On an adjusted basis, including borrowings under joint ventures and associates, the adjusted DE declined to 0.61 times, from 0.75 times at at end 2014.. However, the adjusted DE is expected to increase, given that the new US\$60 million DSV is largely financed by borrowings through its 51% JCE.

"The group's liquidity position improved to RM212.1 million as at end-2014 from proceeds of the rights issue, and this enabled Alam Maritim to meet the notes repayment of RM75 million under the rated programme in 1H2015.. Cash balances stood at RM121.2 million as at end June 2015, which was sufficient to meet another notes repayment of RM40 million in 3Q2015, the next repayment of RM40.0 million is in July 2016," said MARC.

MARC views that demand for Alam Maritim's services will continue to be supported by the existing production activities of the oil and gas sector.

Alam Maritim shares were down 0.5 sen or 1.05% to 47 sen at noon market close today, with a market capitalisation of RM434.5 million.