NEWS ANALYSIS

O&M equity: Eyes on banks' responses to haircuts

Corporate workouts will not move without lenders' support; banks stand to redeem themselves only if they choose wisely which entity to support

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What is clear now is that highly leveraged offshore and marine entities cannot stay above water even after the terming out of their bank loans. FILE PHOTO

Singapore

NEWS of two financially challenged listed offshore and marine (O&M) entities getting fresh equity injections buoys hopes that those still holding up three years into an industry downturn may make it to the light at the end of the tunnel.

Emas Offshore Limited is in line for US$50 million of new equity from fellow listed O&M company Baker Technology and privately owned buyout firm Point Hope.

Marco Polo Marine is tabling for restructuring under a scheme of arrangement (SA) that will see at least S$60 million injected into its group of companies.

These are the tip of the iceberg of ongoing corporate workouts in the beleaguered O&M sector. At least three others undertaking debt revamp or restructuring - Ezion Holdings, Nam Cheong and Pacific Radiance - are said to have potential investors lined up in the wings.

SEE ALSO: Nam Cheong files for scheme of arrangement, moratorium with High Court

But if the proposed scheme for Marco Polo's creditors is any indication, new equity injections in the offing would not come cheap. Marco Polo is tabling with the SA for its shipyard subsidiary a debt-to-equity swap plus a 95 per cent haircut for some outstanding claims that are mostly trade in nature.

For Marco Polo's SA to take off, it needs to win over creditors representing 75 per cent total debt value. So herein lies the overhang - the success of corporate workout for any debt-ridden O&M entity in Singapore still hinges on creditors accepting steep haircuts. This is in addition to existing shareholders' approval towards what will be massively dilutive new share issuances to bring in fresh equity.

The journey to a sectoral recovery has thus far remained arduous for O&M entities seeking debt revamps. But recent signs point to a possible change in mindset among bank lenders answering for the bulk of outstanding O&M loans, which may help in progressing the upcoming corporate workouts.

To begin with, bank lenders appear to have come around to the fact that this downturn is more structural than cyclical.

DBS Group chief executive Piyush Gupta recently pointed out that O&M assets are attracting rates that "are barely able to cover operating expenses".

This signals that the largest bank lender to Singapore's O&M sector is now aligning its expected asset valuations with the new normal facing industry players.

Mr Gupta further acknowledged that more provisions are required for the bank's loans towards the oil and gas-related players, including listed O&M counters.

Restructuring specialists consider this a positive sign. US law firm Gibson Dunn's Singapore-based partner, Robson Lee, noted that the local banks are taking more proactive steps now in helping distressed companies to reschedule and restructure their loans.

To be fair, Singapore banks have begun refinancing or restructuring their O&M loans in the early months of the sectoral downturn.

But what is clear now is that highly leveraged entities cannot stay above water even after the terming out of their bank loans. This move taken by Pacific Radiance earlier in the downturn has not deterred the OSV-focused player from slipping into negative operating cash flows amid a lower-for-longer oil price and hence vessel day rate environment.

Of late though, Singapore's banks appear to open up to other options seen working out for debt revamps in Norway and the United States.

In this respect, Tidewater's successful corporate workout is looked upon with great interest because it has extended the Nasdaq-listed outfit the necessary runway to continue its operations as the world's leading OSV (offshore support vessel) player.

Tidewater has convinced both its senior lenders and bondholders to support a proposal that has seen US$1.6 billion of its US$2.1 billion liabilities converted to 95 per cent equity in the OSV player.

Interest in Tidewater's success has fed speculation that bank lenders are now weighing the possibility of debt-to-equity swops here.

None of the five named Singapore-listed entities though can match up to Tidewater's clout in the global OSV market. Likewise, as one banker pointed out, they would not be able to cough up hundreds of millions in dollars as Tidewater has done to further pare debts and deleverage in order to start afresh.

In their defence, Singapore O&M players may not lack the resolve in restructuring their balance sheets and business fundamentals.

Nam Cheong has taken a massive impairment charge that resulted in over RM2 billion (S$635 million) of second-quarter loss.

The move is necessary for any OSV-focused player to stay competitive in a market where assets are fetching as low as less than half the rates transacted before the downturn.

Consequently, Nam Cheong has slipped into negative equity but this is what any O&M player needs to go through to stay in business.

Singapore's banks, as largest lenders to the sector, thus face a tough decision. If they are serious about riding this out with their O&M clients, they may need to bend further backwards to accept haircuts in addition to exchanging debt for equity.

It is not reasonable to expect banks to save all O&M entities that still remain standing. But if banks can choose wisely to partake in corporate workouts of those industry players with sustainable value propositions, there is a chance these key lenders stand to redeem themselves in the sector.

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