

Pacific Radiance Limited: Credit Update

Wednesday, 28 February 2018

Dicey Situation

- PACRA announced that the recently conducted Consent Solicitation Exercise (“CSE”, refer to [OCBC Asia Credit - Pacific Radiance Credit Update \(7 Feb 2018\)](#)) saw both Resolution #1 and Resolution #2 **fail to pass**.
- Although the rejection of Resolution #1 was in line with our recommendation, the failure of Resolution #2 to be passed could mean that **PACRA may be in technical default**. Originally, as part of Resolution #2, PACRA was seeking for a waiver of any Event of Default that may have occurred in connection with its debt restructuring (which includes the CSE), as the attempt at debt restructuring itself may constitute as an event of default. This was one of the reasons why we had recommended that bondholders ACCEPT Resolution #2 in our previous report, stating “to waive events of default arising from the restructuring attempt”.
- The ball remains in PACRA’s court with regards to next steps. That being said, there is uncertainty if PACRA would be able to make the coupon payment on the bonds due 01/03/18. Should PACRA be in technical default on its bonds, it may also result in cross default clauses potentially being triggered on bank borrowings, necessitating a response by PACRA’s bank lenders. Finally, PACRA would have to deliberate if it could still be able to continue an out-of-court restructuring at this point in time, or consider court-driven processes such as a Scheme of Arrangement or Judicial Management. It is too early to say what path PACRA will take, but how these scenarios will play out will be briefly discussed so bondholders will be informed.

Treasury Advisory

Corporate FX & Structured Products

Tel: 6349-1888 / 1881

Interest Rate Derivatives

Tel: 6349-1899

Investments & Structured Products

Tel: 6349-1886

GT Institutional Sales

Tel: 6349-1810

OCBC Credit Research

Nick Wong Liang Mian, CFA

+65 6530-7348

NickWong@ocbc.com

Disclaimer: Please note that this report reflects our interpretation of several legal processes, in the context of potential implications for bondholders. It should not be construed as providing legal opinions. Where legal or other professional advice is required in relation to any particular matter, please seek advice from your own legal or other professional advisors.

A) Consent Solicitation Exercise Outcome

PACRA announced that the recently conducted Consent Solicitation Exercise (“CSE”, refer to [OCBC Asia Credit - Pacific Radiance Credit Update \(7 Feb 2018\)](#)) saw both Resolution #1 and Resolution #2 **fail to pass**. Although the rejection of Resolution #1 was in line with our recommendation, the failure of Resolution #2 to be passed could mean that **PACRA may be in technical default**.

Specifically, referring to Clause 10(e) of the PACRA’18 bond information memorandum (dated 14/08/14), regarding Events of Defaults:

The Issuer or any of its Principal Subsidiaries is (or is, or could be, deemed by law or a court to be) insolvent or unable to pay its debts, (by reason of actual or anticipated

financial difficulty) stops, suspends or threatens to stop or suspend payment of all or any material part of its indebtedness, (by reason of actual or anticipated financial difficulty) enters into any formal agreement or arrangement with a view to the deferral, rescheduling or other readjustment of all or any material part of its indebtedness (or of any part which it will or might otherwise be unable to pay when due), proposes or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors or a moratorium is agreed or declared in respect of or affecting all or any material part of the indebtedness of the Issuer or any of its Principal Subsidiaries;

In our view, **PACRA could potentially have triggered an Event of Default based on the above clause as the recent CSE attempts to restructure the PACRA'18 bonds**, allowing PACRA to redeem the bonds in kind with equity instead (for more details on the CSE refer to [OCBC Asia Credit - Pacific Radiance Credit Update \(7 Feb 2018\)](#)). In fact, in the Notice of Meeting¹ for the CSE, it was explicitly stated that *“The Issuer believes it is well-positioned to benefit from the sector recovery, but its current debt level is unsustainable and the Issuer may not be able to comply with its existing payment obligations without a restructuring in respect of its bank borrowings and the Notes”*.

Due to the above potential event of default, this was one of the reasons why PACRA included a provision to waive any events of default that may arise from debt restructuring as part of Resolution #2. This was also one of the reasons why we had recommended that bondholders ACCEPT Resolution #2 in our previous report, stating *“to waive events of default arising from the restructuring attempt”* as rationale for the acceptance.

B) Consequences

- i) **Acceleration:** In the event that PACRA triggered Clause 10(e) as mentioned above (this is a legal interpretation), the trustee of the bonds, if so requested by 25% of bondholders (by notional amount), can give notice to PACRA that the bonds are immediately repayable (an acceleration event). Given that PACRA is seeking debt restructuring due to financial stress, it is unlikely that PACRA would have the funds to make payment even if the bonds are made immediately payable.
- ii) **Coupon Payment:** It is uncertain if PACRA would be able to make payment on the bond coupons due 01/03/18. PACRA had deemed it necessary for bondholders to pass Resolution #2 in order to access the escrow accounts holding the SGD4.3mn intended for coupon payment. As the Resolution failed to pass, though in our opinion the funds in escrow remain for the benefit of bondholders, it is not clear how the funds can ultimately be accessed. In particular, should PACRA seek a court-sanctioned debt moratorium, there may be restrictions on debt service.
- iii) **Cross Default:** In the event that PACRA is in technical default, it may also result in cross default clauses potentially being triggered on bank borrowings, necessitating a response by PACRA's bank lenders. Specifically, PACRA's bank lenders may be obliged to take the actions necessary to protect their own interest, which includes potential debt acceleration or court action.
- iv) **Compression in Timeline:** The failure to pass both Resolutions in the CSE would likely force the hand of PACRA's management. To a certain extent, Resolution #2 was to buy time for management to negotiate and firm up the terms with other stakeholders, be it existing shareholders, new investors or

¹ [Pacific Radiance – Notice of Meeting \(02/02/18\)](#)

bank lenders. PACRA would now instead have to make certain decisions with regards to its restructuring.

C) What Next?

The ball remains in PACRA's court with regards to next steps. PACRA would have to deliberate if it could still be able to continue an out-of-court restructuring at this point in time, or consider court-driven processes such as a Scheme of Arrangement or Judicial Management. It is too early to say what path PACRA will take, but how these scenarios will play out will be briefly discussed so bondholders will be informed.

I) Out-of-court Restructuring

If PACRA were to attempt to continue with its restructuring out-of-court, it would have to re-attempt some version of Resolution #2, specifically for waiver on technical default resulting from debt restructuring via the CSE. Timing could be tight though, as PACRA could be operating under the constraints of whatever grace period that the cross default clauses or other binding conditions may have.

That being said, if PACRA were successful, it would still be back to status quo with PACRA still needing to hold a subsequent CSE to manage the bond maturity before end August 2018. There is also no clarity as to PACRA's ability to provide more definite terms with regards to the other parts of its restructuring before the maturity comes due.

II) Court-driven Restructuring

There are two options for PACRA with regards to court-driven restructuring. The first would be a Scheme of Arrangement ("SoA"). SoA is a court-driven restructuring process, whereby the court would make certain judgments as part of the process. Judicial Management ("JM") is another court-driven restructuring process. One of the key differences between the two is that for JM, a third-party administrator, the judicial manager, would be managing the company on behalf of stakeholders. Comparatively for SoA, the incumbent management / board of directors remain in control of the company.

SoA and JM can be contrasted against some of the other restructurings seen in the SGD corporate bond space, such as those done by AusGroup Ltd ("AUSG") and ASL Marine Holdings Ltd ("ASL")². For AUSG and ASL, their bonds were restructured out-of-court, via consent solicitation exercises between bondholders and the issuers. For consent solicitation, the quorum required and percentage vote needed varies according to the trust deeds that dictate the bonds. For SoA, the requirements are more stringent, with the Requisite Majority being 75% in value of each creditor class, or 75% in value across all creditors in aggregate (allowing for cram down on the dissenting classes of creditors, providing that the court deems the cram down equitable³). In the case of examples of SoA, Nam Cheong Limited⁴ would be the most recent example. Examples of JM would be Swissco Holdings and Swiber Holdings.

The biggest consideration of the court-driven process would be an automatic moratorium that applies upon court application. Should creditors take unilateral action on PACRA, the moratorium would buy PACRA some time to plan out its restructuring path.

Between SoA and JM, in our opinion the SoA route would be more likely (assuming that PACRA decides on a court-driven restructuring) as the incumbent management / board of directors would remain in control of the company. This is because the incumbent

² [OCBC Asia Credit - ASL Marine Update \(030117\)](#)

³ [OCBC Asia Credit - Changes to Singapore Restructuring 140317](#)

⁴ [OCBC Asia Credit - Nam Cheong Credit Update \(021017\)](#)

management is also part of the founding Pang family (which is also the majority shareholder). This would be similar to the Nam Cheong Limited situation, in which the founding Tiong family was also the majority shareholder. As PACRA already has some restructuring plan in mind, the SoA route would allow the chance to bring at least part of the plan to fruition.

Comparatively, in the case of JM, it would take some time for the appointed judicial manager to get up to speed with regards to PACRA's situation and move forward with a restructuring plan. That being said, the JM route could be possible if the board of PACRA decides that restructuring via SoA is not feasible due to circumstances (such as in the event that relations between creditors and PACRA's existing management had broken to the point that negotiations are not practical).

One major concern is that a court-driven restructuring may have adverse impacts on the outstanding lease contracts which PACRA has with the lessees of its vessels. Furthermore, restructuring in court could potentially impede PACRA from participating in further tendering of its vessels. As such, the decision to enter into court-driven restructuring would be something which management would likely have to consider carefully.

We note as well that PACRA's balance sheet is bank loan heavy, with PACRA last disclosing USD444mn in bank loans (likely secured) versus USD75mn in unsecured bonds (the SGD100mn PACRA'18s). In the event that PACRA enters into a liquidation scenario, recoveries for bondholders would likely be negatively affected by the secured debt heavy nature of PACRA's overall borrowings. To be clear, a liquidation scenario is not our current base case.

D) Conclusion

In summary, the failure of Resolution #2 to pass has several consequences. PACRA's management is now under pressure due to the short time frame to make certain decisions about how they intend to continue with PACRA's restructuring. Potential outcomes could be to seek court protection via a debt moratorium, which would provide PACRA with more time to flesh out their restructuring plan, though such a decision does come with its own set of negative ramifications. We will continue to monitor the situation carefully.

Pacific Radiance Ltd

Table 1: Summary Financials

Year End 31st Dec	FY2015	FY2016	9M2017
Income Statement (USD'mn)			
Revenue	121.8	69.4	48.7
EBITDA	26.7	-21.7	-1.9
EBIT	0.4	-52.8	-24.8
Gross interest expense	12.1	16.6	14.2
Profit Before Tax	5.3	-118.2	-35.0
Net profit	3.7	-118.8	-36.0
Balance Sheet (USD'mn)			
Cash and bank deposits	43.1	50.6	36.8
Total assets	916.6	904.3	880.2
Gross debt	399.4	514.6	526.6
Net debt	356.3	464.0	489.8
Shareholders' equity	416.0	289.0	250.8
Total capitalization	815.4	803.6	777.4
Net capitalization	772.3	753.0	740.6
Cash Flow (USD'mn)			
Funds from operations (FFO)	30.1	-87.7	-13.1
* CFO	24.4	-44.0	-24.4
Capex	161.6	126.3	2.0
Acquisitions	3.4	0.0	2.0
Disposals	7.6	57.1	11.9
Dividend	17.9	6.5	0.0
Free Cash Flow (FCF)	-137.2	-170.3	-26.3
* FCF adjusted	-151.0	-119.7	-16.4
Key Ratios			
EBITDA margin (%)	21.9	-31.2	-3.9
Net margin (%)	3.1	-171.2	-73.8
Gross debt to EBITDA (x)	14.9	-23.7	-209.6
Net debt to EBITDA (x)	13.3	-21.4	-195.0
Gross Debt to Equity (x)	0.96	1.78	2.10
Net Debt to Equity (x)	0.86	1.61	1.95
Gross debt/total capitalisation (%)	49.0	64.0	67.7
Net debt/net capitalisation (%)	46.1	61.6	66.1
Cash/current borrowings (x)	0.5	1.0	0.3
EBITDA/Total Interest (x)	2.2	-1.3	-0.1

Source: Company, OCBC estimates

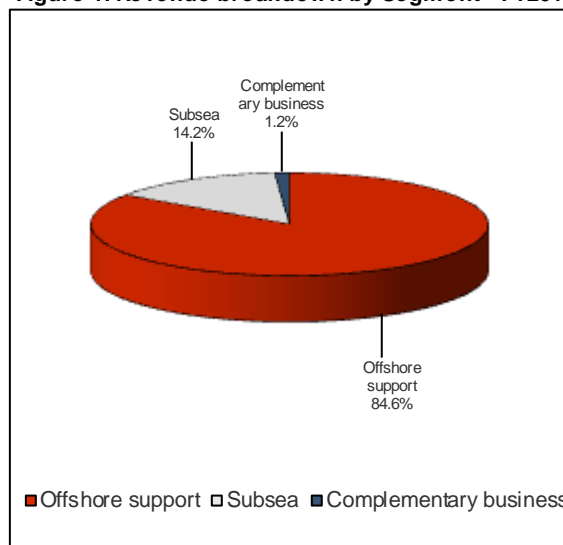
*FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense

Figure 3: Debt Maturity Profile

Amounts in (USD'mn)	As at 31/09/2017	% of debt
Amount repayable in one year or less, or on demand		
Secured	59.0	11.2%
Unsecured	73.7	14.0%
	132.7	25.2%
Amount repayable after a year		
Secured	393.9	74.8%
Unsecured	0.0	0.0%
	393.9	74.8%
Total	526.6	100.0%

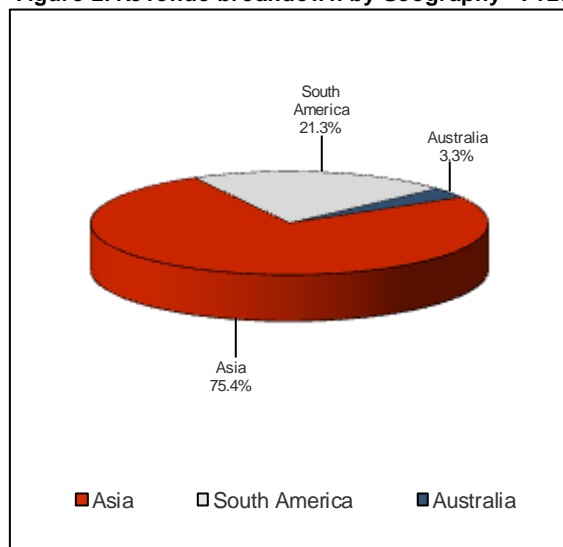
Source: Company

Figure 1: Revenue breakdown by Segment - FY2016



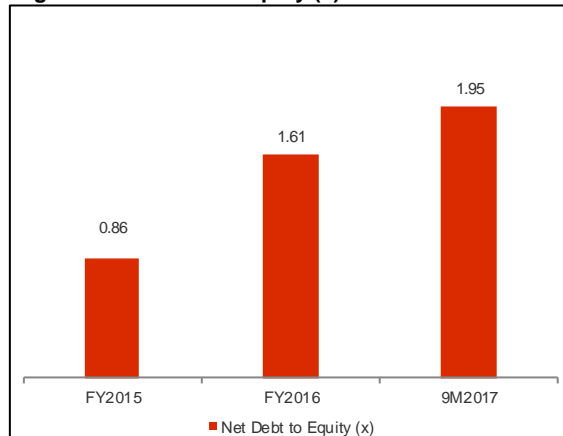
Source: Company

Figure 2: Revenue breakdown by Geography - FY2016



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

This publication is solely for information purposes only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our prior written consent. This publication should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities/instruments mentioned herein. Any forecast on the economy, stock market, bond market and economic trends of the markets provided is not necessarily indicative of the future or likely performance of the securities/instruments. Whilst the information contained herein has been compiled from sources believed to be reliable and we have taken all reasonable care to ensure that the information contained in this publication is not untrue or misleading at the time of publication, we cannot guarantee and we make no representation as to its accuracy or completeness, and you should not act on it without first independently verifying its contents. The securities/instruments mentioned in this publication may not be suitable for investment by all investors. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. This publication may cover a wide range of topics and is not intended to be a comprehensive study or to provide any recommendation or advice on personal investing or financial planning. Accordingly, they should not be relied on or treated as a substitute for specific advice concerning individual situations. Please seek advice from a financial adviser regarding the suitability of any investment product taking into account your specific investment objectives, financial situation or particular needs before you make a commitment to purchase the investment product. OCBC Bank, its related companies, their respective directors and/or employees (collectively “Related Persons”) may or might have in the future interests in the investment products or the issuers mentioned herein. Such interests include effecting transactions in such investment products, and providing broking, investment banking and other financial services to such issuers. OCBC Bank and its Related Persons may also be related to, and receive fees from, providers of such investment products.

This report is intended for your sole use and information. By accepting this report, you agree that you shall not share, communicate, distribute, deliver a copy of or otherwise disclose in any way all or any part of this report or any information contained herein (such report, part thereof and information, “Relevant Materials”) to any person or entity (including, without limitation, any overseas office, affiliate, parent entity, subsidiary entity or related entity) (any such person or entity, a “Relevant Entity”) in breach of any law, rule, regulation, guidance or similar. In particular, you agree not to share, communicate, distribute, deliver or otherwise disclose any Relevant Materials to any Relevant Entity that is subject to the Markets in Financial Instruments Directive (2014/65/EU) (“MiFID”) and the EU’s Markets in Financial Instruments Regulation (600/2014) (“MiFIR”) (together referred to as “MiFID II”), or any part thereof, as implemented in any jurisdiction. No member of the OCBC Group shall be liable or responsible for the compliance by you or any Relevant Entity with any law, rule, regulation, guidance or similar (including, without limitation, MiFID II, as implemented in any jurisdiction).

Co.Reg.no.:193200032W