

SILK's bonds see steep drop in ratings

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In just one year, the RM2.01-billion 20-year Al-Bai Bithaman Ajil Islamic Debt Securities (BaIDS) issued by Sunway Infrastructure Bhd (SunInfra)'s wholly owned subsidiary, Sistem Lingkar-Lebuh raya Kajang Sdn Bhd (SILK), has turned from a debt paper with an A rating to a B3.

An A rating indicates the issuer's strong ability in the repayment of principal and interests whereas B3 renders the BaIDS as a "non-investment" grade.

Last week, Rating Agency Malaysia Bhd (RAM), after being appointed by SunInfra to conduct an independent rating of the debt issue, put a B3 rating on the BaIDS.

The independent rating by RAM comes ahead of the annual rating review of the BaIDS to be published by Malaysian Rating Corp Bhd (MARC) this month. In September last year, MARC, which has been rating the bonds since they were issued in 2001, reaffirmed the long-term A rating of the BaIDS.

The B rating based on RAM's rating scales denotes "high risk associated with timely payment of interest and principal". The subscript of "3" indicates that the issue ranks at the lower end of its generic rating category under the B class of debt papers.

Interestingly, MARC's A rating last year indicates strong ability of the issuer to re-

pay principal and interests.

The B3 rating by RAM has, nonetheless, alerted investors that the BaIDS has turned to become a "non-investment grade" or "near junk" status. This is amidst the poor traffic flow in SILK's toll concession, the Kajang Traffic Dispersal Ring Road (KTDRR).

The rating result by RAM has raised questions on the ability of SILK to make good the obligations under BaIDS. Besides RAM, SunInfra has also appointed independent traffic consultant as well as merchant banker CIMB to review and assess the future traffic flow for KTDRR as well as the financial position of the group.

"These are some of the measures that might lead to refinancing of the BaIDS," says an official close to SunInfra.

Observers say a restructuring of the BaIDS may not be easy because the traffic flow had been sharply below forecasts and the tenure or repayment of BaIDS is already long (20 years) ending in 2021. Due to a hefty yield of around 10% or more per annum, the BaIDS carries a redemption value of RM2.01 billion despite its issue proceeds, or principal, being RM580 million.

Whatever the refinancing route that SunInfra takes, it seems that the holders of the BaIDS would have to compromise somewhat. Some of the options available would be to defer the repayment schedule of BaIDS, refinance at a lower yield or extend

the tenure of BaIDS. Nevertheless, it all boils down to how the revised traffic forecasts will turn out and whether investors have confidence in the new numbers.

Traffic far below forecasts

This is because SILK's traffic volume has fallen far short of its projected numbers when the bonds were issued.

SILK's 36-year concession on the KTDRR highway ends in 2037. The KTDRR costs RM1.2 billion and encompasses a 37-km expressway that was built to ease traffic congestion in the southern tip of the Klang Valley, covering areas such as Balakong, Bandar Sungai Long, Putrajaya, Semenyih and Kajang. SunInfra, which is the listed holding company of SILK, is 36.2% owned by Sunway Holdings Inc Bhd (SunInc).

Tolling began mid-last year but so far, the traffic flow has been far below forecasts. "For the first five months of 2005, the KTDRR registered a cumulative average daily traffic [ADT] of 56,000 vehicles, and it is highly unlikely that its traffic volume will be able to reach the traffic consultants' ADT forecasts of between 234,000 and 207,000 vehicles for the financial year ending Dec 31, 2005," according to a RAM report dated Aug 29.

The poor traffic flow has hurt the financial performance of SunInfra, whose only business is operating the highway. For the six-month

ended June 30, SunInfra reported a turnover of only RM10.93 million, with a net loss of RM37.72 million or 20.95 sen a share. The turnover, if annualised, was only 23.1% of the forecast turnover of RM94.59 million for the financial year ending Dec 31, 2005, as stated in the listing prospectus of the toll concessionaire.

"The lower-than-expected traffic volumes have undermined SILK's projected toll revenue, resulting in a severe mismatch of its debt obligations vis-à-vis its cash flow-generating capability. SILK's debt servicing ability is further challenged by the weak structure of the BaIDS, which does not allow sufficient time for traffic volume to build up before SILK begins servicing its hefty first redemption of RM150 million in August 2007.

SILK is unlikely to be able to pay the said amount given its projected free cash flow of only RM5.5 million and inadequate cash reserves of RM88 million estimated for the financial year ending Dec 31, 2007," says RAM in the Aug 29 report.

"The BaIDS' lumpy debt-redemption schedule further highlights its inadequate structure. Having said that, RAM does not preclude the possibility of a rating upside for SILK's future debt issues should the management's refinancing plan entails an improvement in its debt-repayment framework and capital structure," RAM adds. //