

Poser over Perdana Petroleum's short-term debt



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L Friday, Perdana Petroleum Bhd's shares slid to a record low of 20.5 sen before closing at 21.5 sen. The stock has shed more than 60% of its value since mid-January, making it one of the worst-hit oil and gas counters.

Much of the negative sentiment, it seems, stems from Perdana's ballooning current liabilities. As at Dec 31, 2017, its current liabilities had tripled to RM620.75 million from RM202.83 million a year ago. In stark contrast, its short-term debt as at end-September last year was only RM168.89 million.

As at Dec 31, Perdana had cash and cash equivalents of RM77 million and other receivables, prepayments and deposits of RM8.95 million. Like it or not, the numbers raise concern over Perdana's ability to undertake such a large debt obligation.

This, in turn, has weighed down its parent, Dayang Enterprise Holdings Bhd, which holds a 60.48% stake in it.

As at Dec 31, 2017, Dayang's short-term borrowings had escalated to RM920.67 million from RM348.26 million in the previous corresponding period. Its cash and cash equivalents amounted to RM220.60 million while deposits and prepayments totalled RM43.95 million.

While short-term debt commitments are generally due in a year, an executive familiar with Perdana says this should not be a cause for concern. "It is merely an accounting treatment. It is important to note that there has been so far no default in payment, but a breach in covenants."

The executive adds that the accounts thus far are unaudited and the audited accounts will only be ready later in the month.

Kenanga Research analyst Sean Lim Ooi Leong, who covers Dayang, comments that it is common practice in the oil and gas industry to move long-term debt commitments to short-term borrowings.

"As long as it (Perdana) can sort it out with the banks, it's not alarming," he says.

While the two do not seem too concerned about Perdana's whopping debt that is due soon, the company's share price plunge may indicate that market perception is more cautious.

What happened in Perdana accounts

In the explanatory notes accompanying Perdana's financial results, the company stated that RM518.8 million of the short-term debt commitments are sukuk or Islamic debt papers.

It adds that it had not met certain covenants of three term loans and the sukuk bond with a total carrying amount of RM601.6 million as at Dec 31, 2017, and as a result, the non-current portions of these term loans and sukuk bond of RM473.1 million had been reclassified as current liabilities.

In Perdana's FY2016 annual report, it is stated that the company was to repay the sukuk in five tranches — the first payment of RM90 million was in April last year, with similar quantum payments to be made over the next three years and a final payment of RM275 million in end-April 2021.

The profit premium (coupon rate) ranges from 4.3% in the first year to 4.9% in the fifth year.

Perdana paid the first instalment last year and should have little difficulty in settling the RM90 million due later this month, says the executive familiar with the company. “The money is in place,” he says.

While Perdana may have enough cash, it is still reeling from the effects of lower oil prices. The offshore service provider suffered a net loss of RM181.95 million on revenue of RM147.79 million in FY2017, marking a third straight year of losses.

Dayang has fared badly too. It suffered a net loss of RM143.93 million from RM695.48 million in sales in FY2017.

Perdana and Dayang have been making almost identical announcements to Bursa Malaysia in their financial statements and annual reports.

Danajamin a guarantor

Interestingly, according to Perdana’s annual report, Danajamin Nasional Bhd has guaranteed its sukuk of RM635 million and UOB has agreed to indemnify and counter-guarantee the Danajamin facility for RM317.5 million and one profit payment thereof to guarantee the company’s payment obligations to the holders of the sukuk.

Danajamin has issued a Kafalah policy (a guarantee), which is secured by a charge over Perdana’s offshore vessels, among others.

As at Dec 31, 2017, Perdana had RM1.43 billion in total assets, a chunk of which — RM1.25 billion — was non-current assets.

According to the executive familiar with Perdana, the company’s vessels are worth in excess of RM900 million while the sukuk is only RM473.1 million.

While the vessels may be worth RM900 million on paper, will they be able to fetch that price given the oversupply in the market amid such challenging times?

In the notes accompanying its financials, Perdana says the offshore support vessel (OSV) market last year was sluggish with its fleet utilisation at 52%, down from 58% in 2016, while vessel charter rates were generally 25% lower than in 2016.

However, things may get better going forward. Perdana says the current year will be buoyed by a RM41.8 million contract for four OSVs secured in January from parent Dayang. “Also, with the price of crude oil hovering above US\$60 per barrel now, the board is more optimistic that sentiments should improve going forward.”

But while the sentiment may be picking up, the question remains as to whether Perdana and Dayang will be able to pull through the current rough patch.

PERDANA PETROLEUM BERHAD (372113-A)

Reference: <http://www.theedgemarkets.com/article/poser-over-perdana-petroleums-shortterm-debt>