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What Can We Learn From Singapore-Listed Swiber?

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SINGAPORE (S&P Global Ratings) Aug. 31, 2016--Ramifications from the oil price slump hit Singapore's shores when Swiber Holdings Ltd., a Singapore-listed marine engineering company, defaulted on a coupon payment early August. According to an S&P Global Ratings executive comment published today, titled " Sifting For Signs Of The Next Swiber," two reasons for Swiber's failure stand out: (1) the protracted oil price slump and its impact on earnings; and (2) the company's high leverage.

"Swiber's financial ratios and liquidity profile based on end 2015 data are typical of companies that we rate at 'B-' or possibly lower," said Elena Okorochenko, S&P Global Ratings' head of Asia-Pacific (ex Japan). "Between 1981 and 2015, companies rated in the 'B' category were 20x more likely to default within a year than 'BBB'-rated companies."

Issuers rated 'B-' or lower are deemed most vulnerable and have greater default risk than higher-rated issuers.

"So if we were to rate Swiber--and we weren't--our credit rating would indicate a relatively high chance of default," Ms. Okorochenko said.

Swiber's collapse was sudden, and some discussions in the media have centered on whether market participants could have seen what was coming. So what were the signs?

First, major oil companies slashed capital expenditure in response to the downturn, and companies, such as Swiber, that provide support services to them got affected. The oil and gas sector globally started displaying prominent default risk in mid 2015. By June 2016, the sector had 59 issuers in the vulnerable category, accounting for 24% of all issuers in the category.

Second, Swiber's financial ratios had appeared weak in the past quarters, with its high debt of about US$1 billion as of Dec. 31, 2015, and EBITDA of about US$150 million on a rolling 12-month basis, based on S&P Global Market Intelligence data. Even in 2013 when Swiber's EBITDA peaked at US$160 million, its leverage was around 4.3x.

Third, the company's liquidity had been fragile on its short-duration debt. Although Swiber had refinanced in the past, with US$3.0 billion in debt repaid and US$3.1 billion raised over 2013-2015, these numbers show significant refinancing risk and some inability or unwillingness to reduce debt.

Swiber wasn't the first to default in Singapore's bond market--and it may not be the last. Swiber had opted to sell bonds in the market without a credit rating from any established rating agency. Investors therefore had no independent benchmark to compare the credit risk with their own risk assessment when deciding on investing in the debentures.

"As credit conditions are deteriorating in the Singapore bond market, investors could have benefitted from rigorous credit assessment and monitoring that an independent third party provided," Ms. Okorochenko said.

The role and significance of credit ratings in a bond market framework vary over time and different markets. Regulators often include ratings in the early stages of bond market development to improve transparency and build a credit culture.

The events at Swiber could come under detailed regulatory scrutiny. Meanwhile, the possibility of further credit stress and defaults in the sector remains.

"With lenders' discomfort about extending credit to oil and oil-related companies, refinancing risk is likely to grow. We hope that investors will have sufficient tools and benchmarks to spot the next Swiber," Ms. Okorochenko said.

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