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Weekly Credit Brief May 09 - May 15

Europe's largest independent solar panel maker files for insolvency

by Dexter Tan

A number of solar companies have filed for bankruptcy this year as prices for solar cells and modules have dropped significantly. Last week, SolarWorld AG, formerly Europe's largest solar power producer filed for insolvency proceedings in Germany. In a brief company announcement, the photovoltaics manufacturer cited weak financial conditions, low prices and solar market disruptions as reasons for its insolvency filing. Other firms such as US-based Suniva, Sungevity and Beamreach have also fallen victim to lower priced imports from Asia.

SolarWorld Americas has become the largest US crystalline silicon solar manufacturer for 42 years. The US unit of SolarWorld did not file for Chapter 11. Instead, SolarWorld Americas announced that it is maintaining business as usual at its Oregon facility and is positioning itself for a continued competitive position in the US marketplace.

Despite a large US presence and increasing revenues by 40% since 2014, SolarWorld has not recorded a profitable year for three years. Solar panel prices are falling faster than production costs and the company's operating margins have declined to -28.74% in Q4 2016 from 0.21% in Q4 2015. As shown in Figure 1, the credit profile of SolarWorld, tracked by the RMI-CRI 1-year Probability of Default (PD), deteriorated to 946bps on May 10.

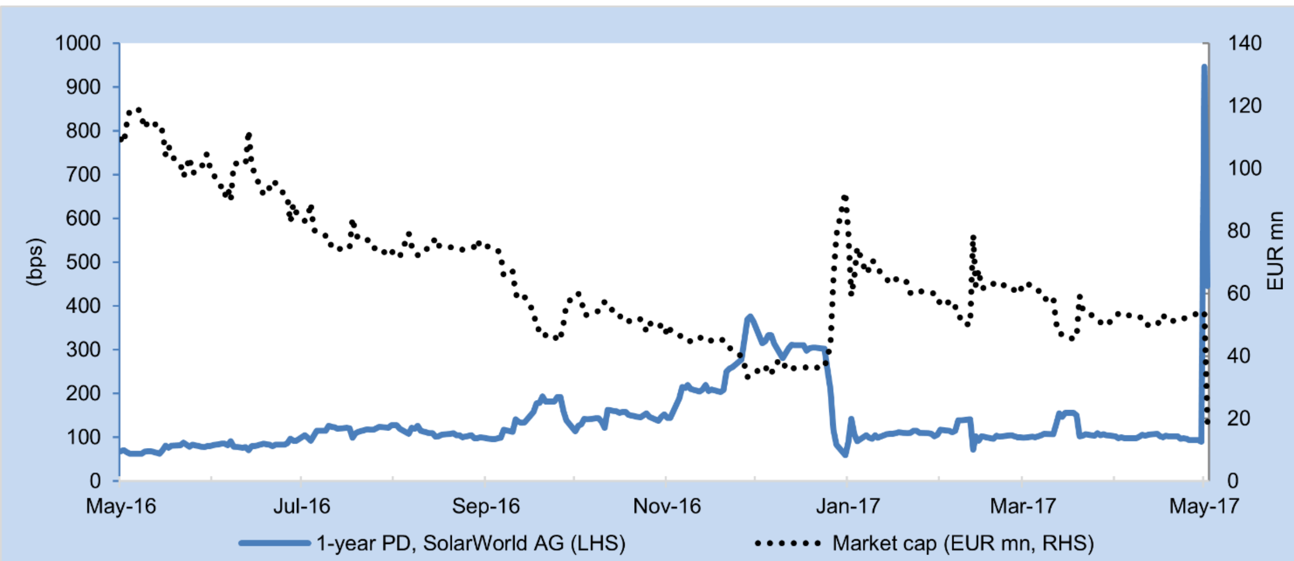

Figure 1: RMI-CRI 1-year PD for SolarWorld AG vs market capitalization. *Source: RMI-CRI, Bloomberg*

SolarWorld may pay EUR 726mn in damages to one of its suppliers. In July 2016, a court case between Hemlock Semiconductor Corp (HSC) and SolarWorld Industries Sachsen GmbH was ruled in Hemlock's favor. The judge found that SolarWorld had breached terms of a long-term contract to purchase polysilicon from HSC and ordered SolarWorld to pay damages approximating EUR 536mn plus EUR 190mn of interest. SolarWorld has appealed against the judgement. In August last year, SolarWorld filed protective letters in various German courts to prevent Hemlock from enforcing claims on the firm in Germany.

After a debt for equity swap in 2014, Qatar Solar became the major shareholder in SolarWorld. The restructuring process resulted in the issuance of two publicly traded bonds, two senior credit facilities and a shareholder loan on its balance sheet. Prior to its insolvency filing, SolarWorld recorded a retained cash flow (or, dividend adjusted operating cash flow) of EUR -55.2mn, EUR 686mn of assets, EUR 109mn in cash and financial liabilities adding to EUR 565mn in FY 2016.

SolarWorld's EUR 121mn of book value equity in FY 2016 reduces to EUR -387mn after factoring in litigation damages. Depending on a recovery in solar cell prices, the financial payment with Hemlock Semiconductor Corp and its Qatari stakeholders, SolarWorld may remain in insolvency for a number of months. However, a lawsuit settlement less than EUR 121mn may create value for shareholders.

According to a MIT study on the future of solar energy, the industry needs to overcome several obstacles including the cost, availability and materials to support large-scale integrations into existing electric systems. Without government support to overcome these hurdles, it is likely that solar energy will continue to supply only a small percentage of world electricity needs.

Credit News

New Delhi under pressure for bolder action on bad loan malaise

May 15. The bad debt problem from India's state owned banks has forced the government to give the central bank powers to force action by lenders on distressed loans. The bad loan problem has affected the Indian economy, which sees falling investment for three out of four quarters in 2016. Indian banks have also grew their loan books by just 5.1% in the recent financial years, slowest in the past 63 years. However, bankers' fear of being suspected of corruption if they restructure a bad loan has been slowing the restructuring process, said Mr Rashesh Shah, Chairman of the financial group Edelweiss. Instead of forcing defaults, comprehensive fixes such as large-scale recapitalizations and increased private investment in state lenders are regarded by some as measures that are more effective. (FT)

Oman cut to junk by S&P as crude oil decline imperils finances

May 13. S&P cut Oman's sovereign debt long-term rating to BB+, one level below investment grade, from BBB- and changed the outlook to negative. S&P stated that a drop in crude could hamper exports from the largest Arab oil producer outside OPEC and jeopardize its finances. Also, the negative outlook reflects the potential for the country's income level to weaken and for its fiscal and external positions to deteriorate. As a matter of fact, the slump in oil prices since 2014 has put pressure on the finances of the nation, forcing it to tap international debt markets to plug budget shortfalls. Earlier this year, Oman raised USD 5bn through a three-part sale of dollar bonds. S&P further estimates that the country's net external asset position has fallen to 30% of current account in 2017. (Bloomberg)

Noble Group's bonds fall on fears over debts

May 13. Bonds issued by commodity trader Noble Group have fallen, synchronizing with a sharp decline in its share price, amid growing concerns about the company's ability to manage its debt load and secure liquidity from banks. The plunging price of Noble's bonds and equity comes after it posted the Q1 loss of USD 130mn and revealed it had yet to extend a key credit facility. Over the next year, Noble must repay a USD 379mn bond in March followed by an USD 1.14bn unsecured term loan three months later. Although Noble has sought to revive its fortunes by replacing its chief executive, selling unwanted businesses, and raising cash from shareholders to reduce debts and provide more working capital, the firm has continued to struggle. (FT)

Loonie, bank bonds drop as Moody's downgrades Canada lenders

May 11. Concerns over Canada's soaring household debt and uncontrolled housing prices following the poor performance of local mortgage lender Home Capital Group Inc. have led Moody's to downgrade the bond ratings of six of the country's banks by one level and changed their outlook to negative. This caused the yield of the Royal Bank of Canada's USD bond to rise and a fall in an index of Canadian bank shares. It also put pressure on the already weakening Canadian dollar amid concerns over US trade protectionism and lower oil prices. Despite the downgrade, which Moody's attributed to unknown risks posed by household balance sheets and hence bank portfolios, experts believed that this is not going to affect bond prices much. They cited the continuously strong capital and liquidity of the Canadian banks and also the fact that bank bonds dominate Canada's bond market. (Bloomberg)

Asia-Pacific non-financial corporate rating trend stabilizing: Moody's

May 11. The rating outlook given to Asia Pacific non-financial corporates in Moody's portfolio is stabilizing with the share of ratings with negative implications falling to 26% in March, down from 29% in December last year. This is the first time the number of positive rating actions outpaced negative actions since the second quarter of 2015. The stabilizing trend reflects modest but stable global growth, on-target China economic growth, the bottoming of most commodity prices, and the continued access to market liquidity for Asian corporates. However, the metals and mining issuers remained the most pressured. By region, China has the most positive rating actions (9 out of 22) followed by Indonesian corporates at 5. One Singapore-based company was on the list, IBC Capital, which had its outlook downgraded to negative from stable in February. (Today)

Co-op bank close to bolstering balance sheet (FT)

Billions are sinking into a Balkan black hole (Bloomberg)

Regulatory Updates

Banks overconfident about capital strength, accountancy body says

May 15. The Institute of Chartered Accountants in England and Wales (ICAEW) has warned that banks and investors have been putting too much confidence in regulatory ratios to determine a bank's strength leading to banks underestimating risks and overestimating the capital they hold. ICAEW has launched a new framework for auditors on how to assess banks' reporting processes including governance standards and internal controls. The new framework strives to encourage stronger auditing across the sectors after high profile reporting errors by banks such as Royal Bank of Scotland. The Basel Committee on Banking Supervision has also been working to improve and standardize rules on how the ratios are being determined. (FT)

More powers for MAS to tackle failing institutions

May 9. In ensuring financial system stability, enhancements to the Monetary Authority of Singapore's (MAS) resolution regime, which involved the restructuring of failing financial institutions, have been introduced in Parliament yesterday. If passed, MAS will be further empowered to resolve the position of distressed financial institutions systematically by requiring these institutions to prepare and maintain their recovery plans and submit information for resolution planning. A framework to recognize all or part of any resolution action taken by foreign authorities on financial institutions in Singapore will also be introduced. (Straits Times)

UK regulator signs fintech co-operation deal with Hong Kong equivalent (CNBC)

US soften Basel stance in push for deal on capital rules (Straits Times)

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