

## **Southeast Asia Bond Market** Deloitte Restructuring Services

Special report  
October 2019

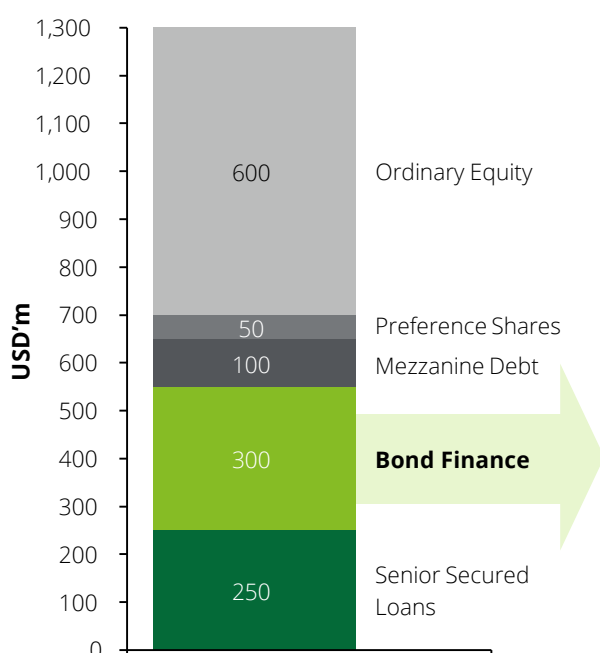
# Introduction

## SEA Bonds

This Special Report analyses trends in the Southeast Asia ("SEA") Bond Market; examining issuances, upcoming maturities, credit quality and historical default trends in non-government / non-bank corporate bonds where the Country of Risk is anchored in SEA. Bonds have become an increasingly popular finance instrument in SEA as investors seek out higher returns. With recent news media in Singapore indicating a deterioration in bond quality and a potentially imminent wave of defaults; we take a closer look at the data.

## A Quick Primer: Bond Finance

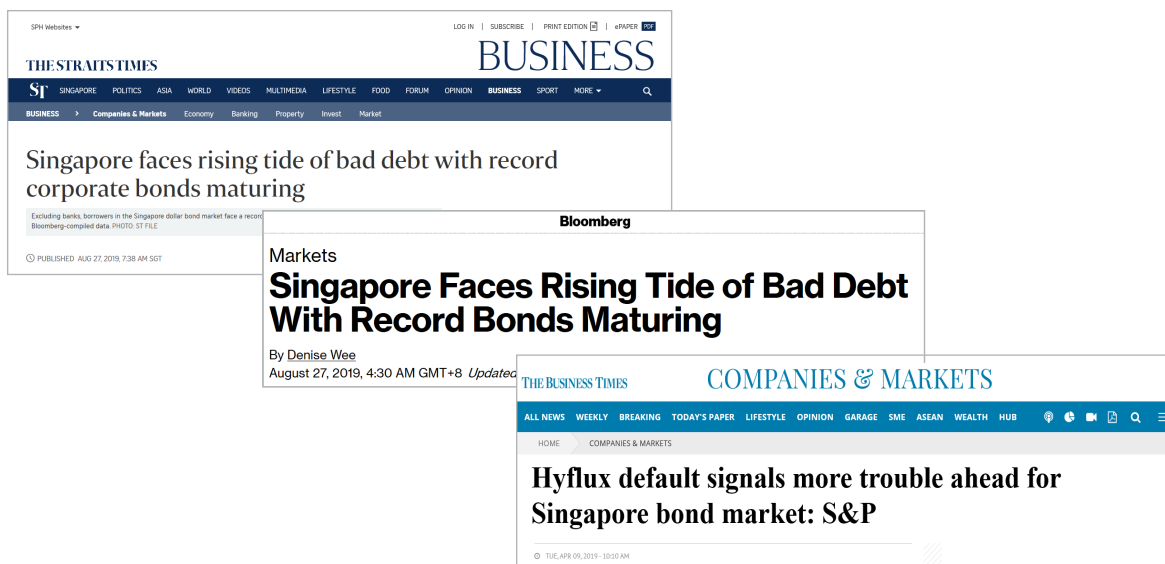
### Illustrative Corporate Finance Capital Stack



### Characteristics of Bonds

- Bonds are a type of tradeable debt security issued by Companies to institutional and retail investors.
- Bonds are fixed income instruments that pay a pre-set interest "Coupon" instalment.
- Typical tenors are 5 years (although some investment grade bonds run to +20 years) with the Principal or "Face Value" repayable at maturity.
- Bonds rank lower, but earn a higher return, than senior secured debt.
- Bonds generally rank higher than preferred and ordinary equity (but with capped value upside).
- An unresolved bond default at a coupon payment or maturity date may trigger corporate insolvency and impact returns for all capital classes.

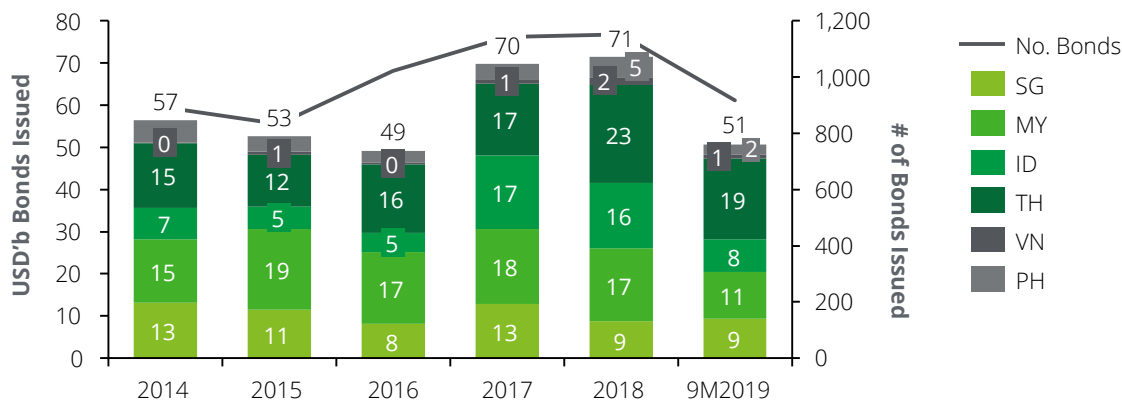
## Illustrative 2019 Singapore News Media Headlines



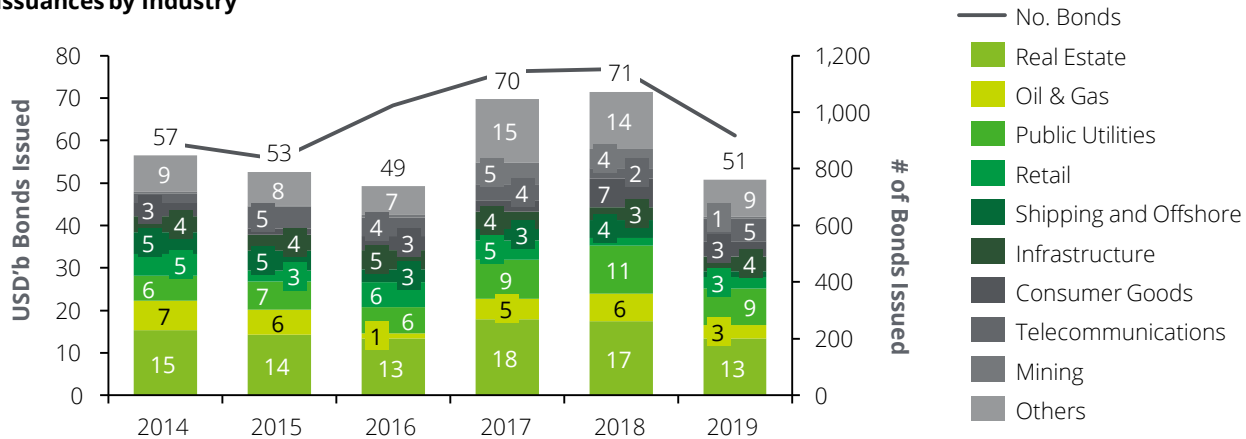
# Issuances

Issuances increased 30% in 2017 peaking at USD71b in 2018. The increase in bond issuances was primarily driven by Indonesian and Thai bond issuers in Oil & Gas, Mining and Public Utilities. The Real Estate sector is consistently the largest bond issuer (by value) in SEA with funds used in capital projects and generally seen as having good safety coverage through real property security and therefore lower risk. 31% of bond capital raisings since 2014 have been USD issuances (increasing FX exposure).

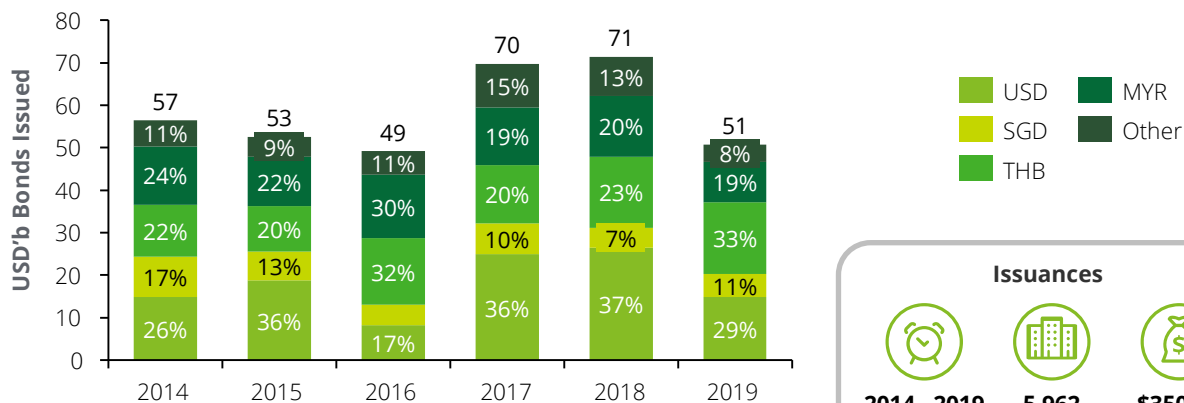
## Issuances by Country of Risk



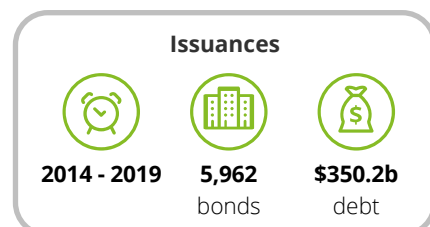
## Issuances by Industry



## Issuances by Currency



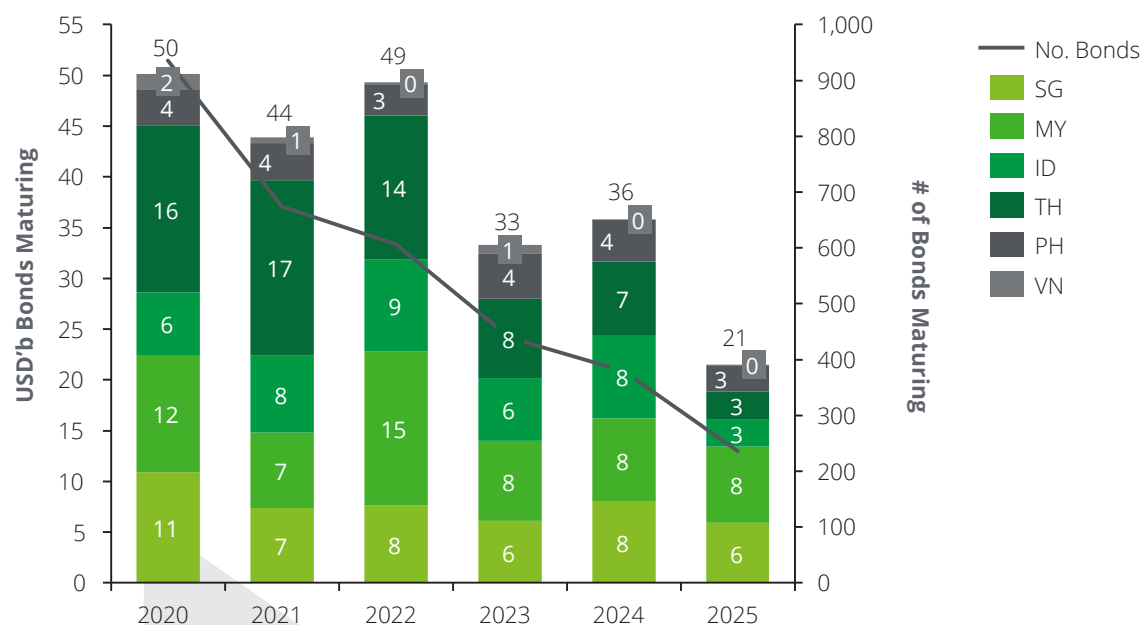
Sources: Bloomberg, Deloitte Analysis



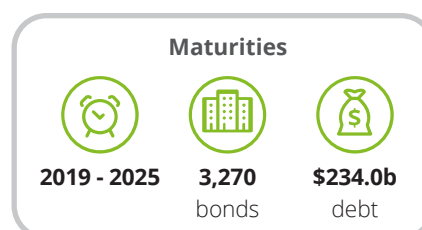
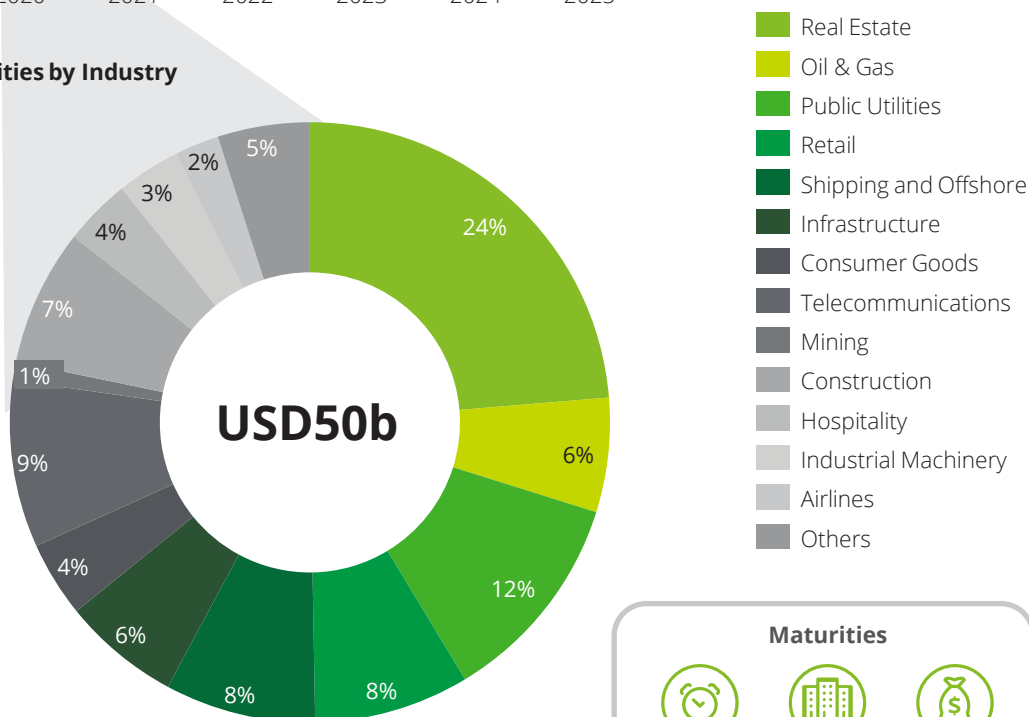
# Maturities

Singapore faces an USD11b wall of debt maturities in 2020 with concentrations evident in the Real Estate and Shipping & Offshore industries which account for 63% of the principal debt. The highest sector concentrations can be seen in Real Estate, Public Utilities, Retail, Shipping and Offshore industries.

## Maturities by Country of Risk



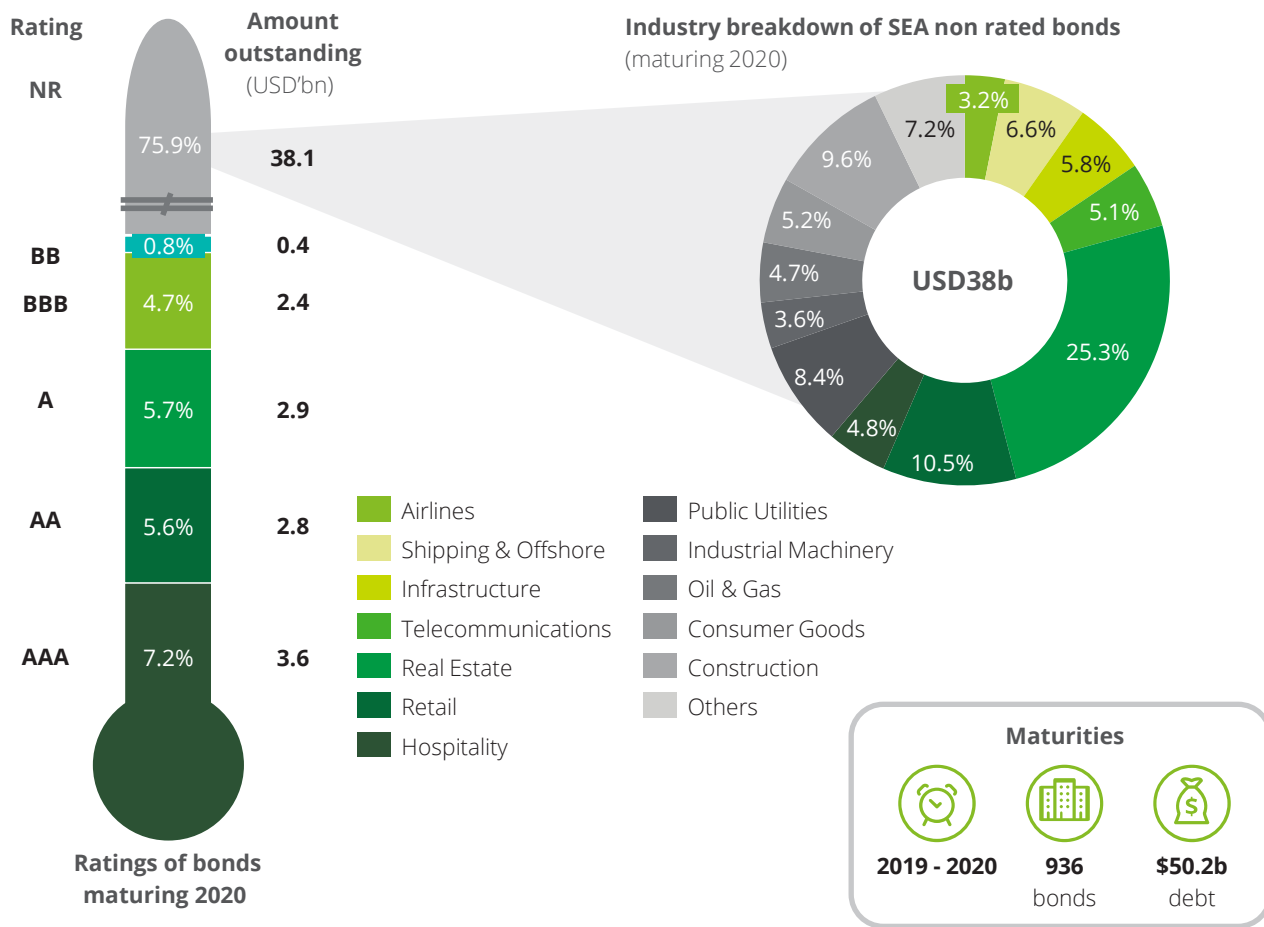
## 2020 Maturities by Industry



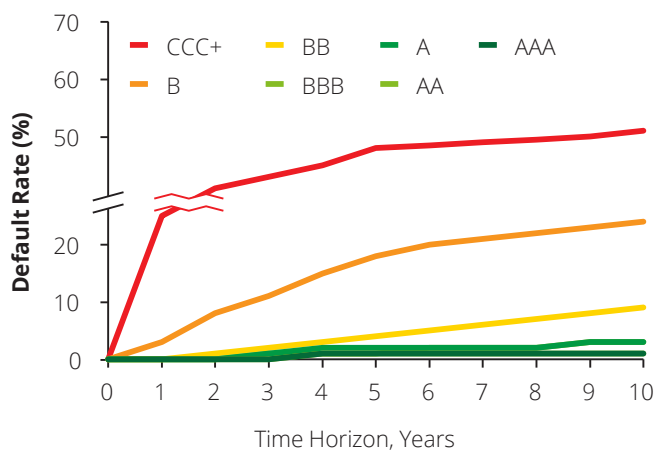
Sources: Bloomberg, Deloitte Analysis

# Risk ratings

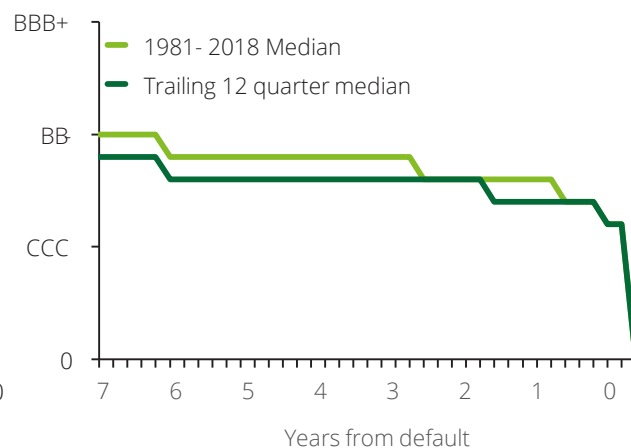
24% of the 2020 maturing SEA Bonds (by value) are considered investment grade quality based on ratings gathered from global (S&P, Fitch and Moodys) and local (Pefindo, MARC, PHIL) rating agencies. 76% of the 2020 SEA Bond maturities are unrated (likely due to the compliance costs) highlighting a potential lack of visibility about the quality of the SEA Bond market. The historical default rate for non-rated Bonds in SEA was 2.01% p.a. 2014 to 2019; which would equate to approximately USD766m of non-rated bond defaults in 2020.



S&P Global default rates (over time by rating)



S&P Bond rating default path



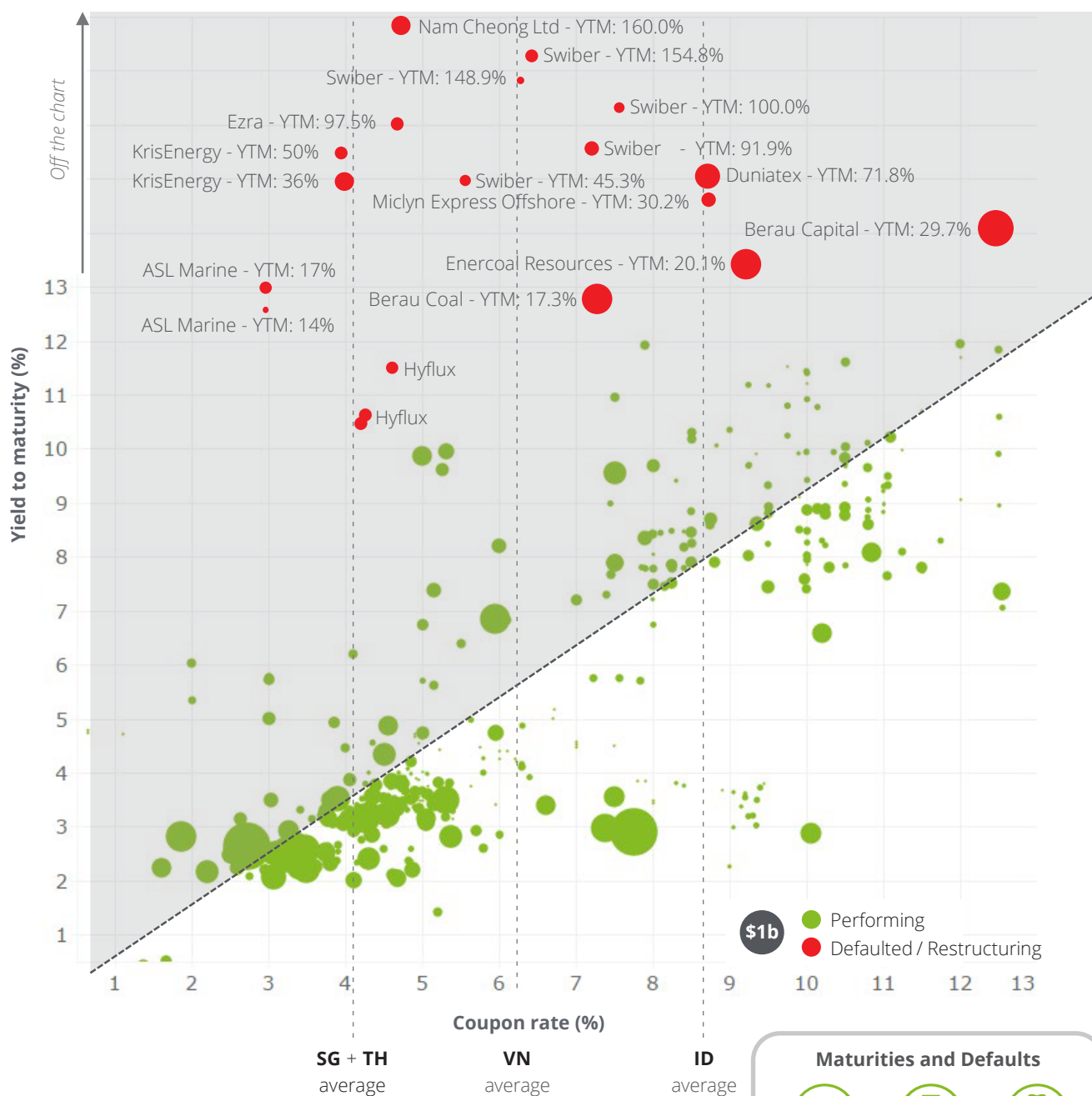
Sources: Bloomberg, Deloitte Analysis, S&P 2018 Annual Global Corporate Default and Rating Transition Study



# Market view

Higher bond yields generally compensate higher levels of risk at issuance. The market also takes a view on elevated risk during the term of a bond when the yield to maturity is higher than the coupon rate (i.e. the bond is priced at a discount); this may be due to company or market factors. Performing bonds are highlighted in green and bonds that have defaulted or which are currently / have been subject to a restructuring are highlighted in red. Higher Yields to Maturity (the vertical axis) are indicative of a higher level of risk.

## Yield Vs coupon rate



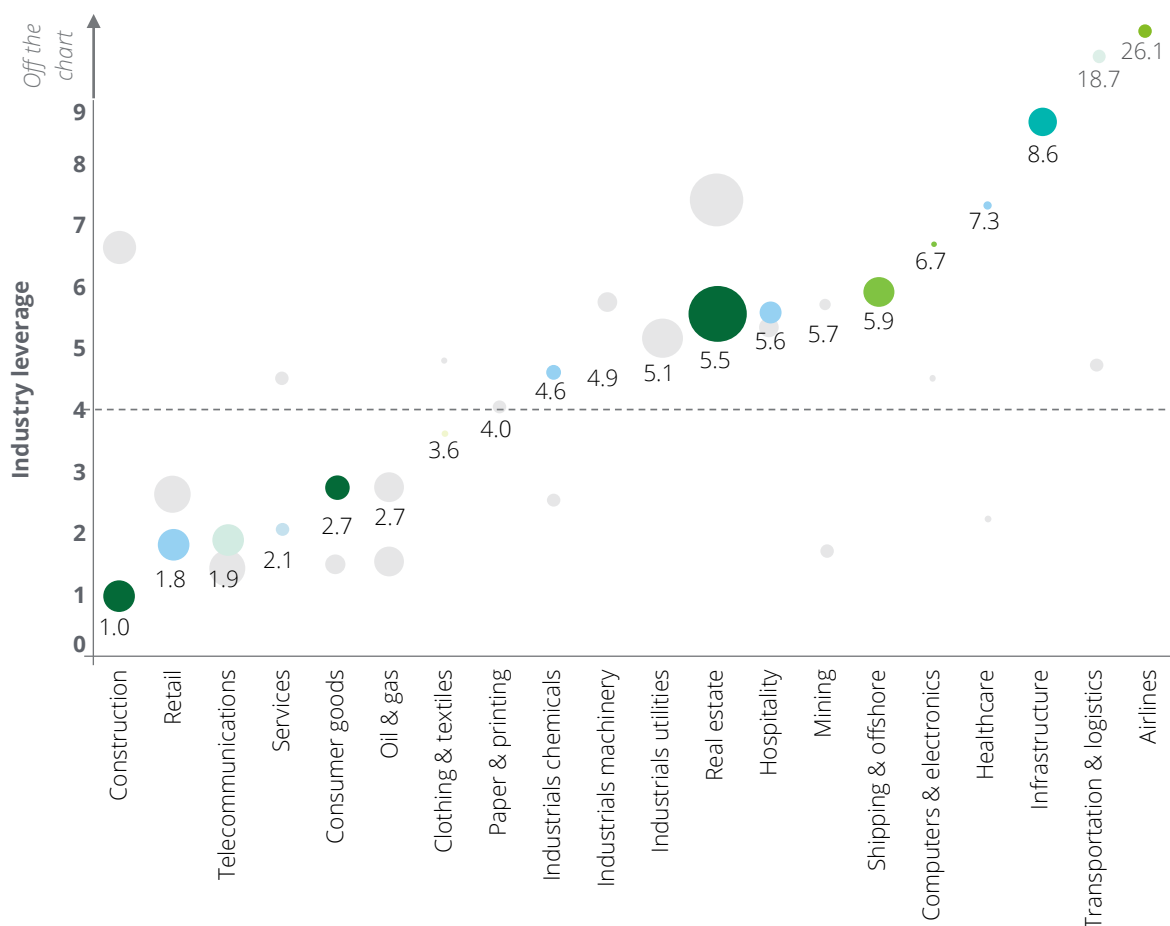
Sources: Bloomberg, Deloitte Analysis

# Maturing bonds

## Refinancing Risk

More than half of the SEA bond issuers demonstrate leverage greater than 4x (at an aggregate industry level) indicating a heightened risk of refinancing risk at maturity. In this analysis Leverage means the number of years of total industry EBITDA required to repay total industry debt. An analysis of historical bond defaults and restructurings is set out on the following page.

## Industry leverage (2020 bond maturities)



Sources: Bloomberg, Capital IQ, Deloitte Analysis

Note: Leverage is a generally accepted credit quality metric but will be less relevant to certain industries. Illustratively, Real Property or Infrastructure earnings may be inconsistent between periods and event driven such that debt to assets or debt to equity may be a better indicator of credit quality.

**\$10b**

Bond Debt (Face Value)



Industry Leverage Benchmark  
(All SEA listed companies)

### Maturities



**2019 - 2020**



**936**  
bonds

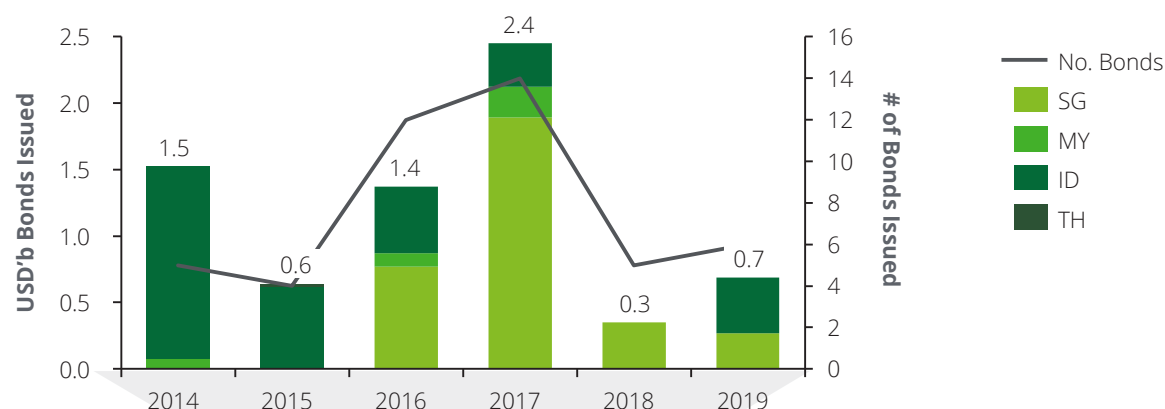


**\$50.2b**  
debt

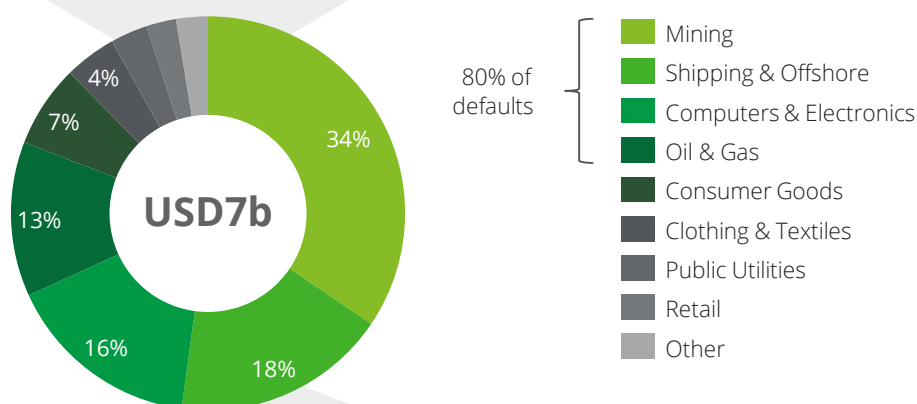
# Historical defaults

Indonesia experienced a high level of defaults in 2014 and 2015 driven by declining commodity prices and adverse currency movements. Singaporean issuers have seen a spike in defaults in 2016 and 2017 driven by headwinds in the Oil & Gas, Shipping and Utilities industries. Mining, Shipping & Offshore, Electronics and Oil & Gas accounted for 80% of the defaults and restructurings by value in the review period.

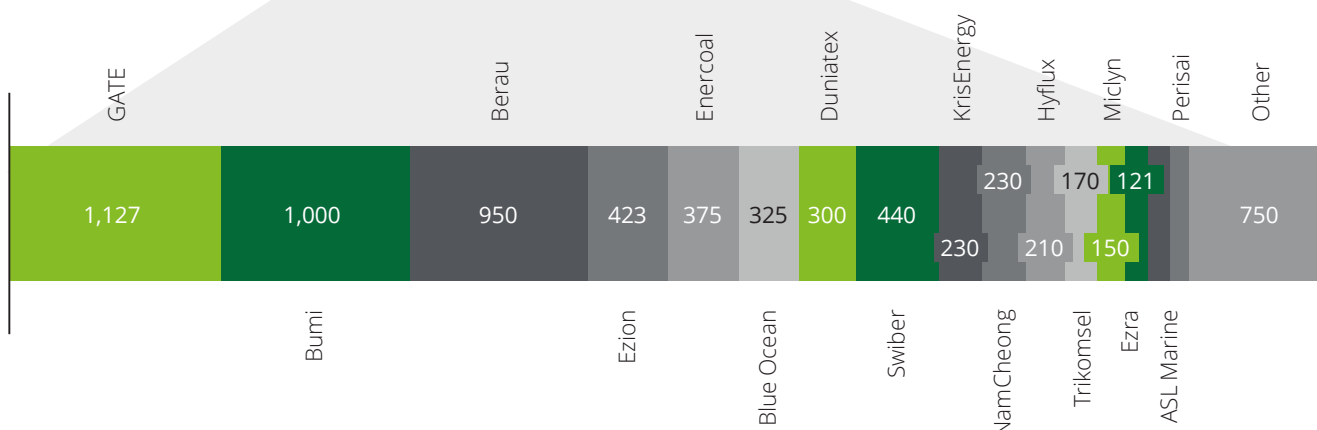
## Bond Defaults & Restructurings by Country of Risk



## Bond Defaults & Restructurings by Industry (entire period)



## Bond Defaults & Restructurings by Company (entire period)



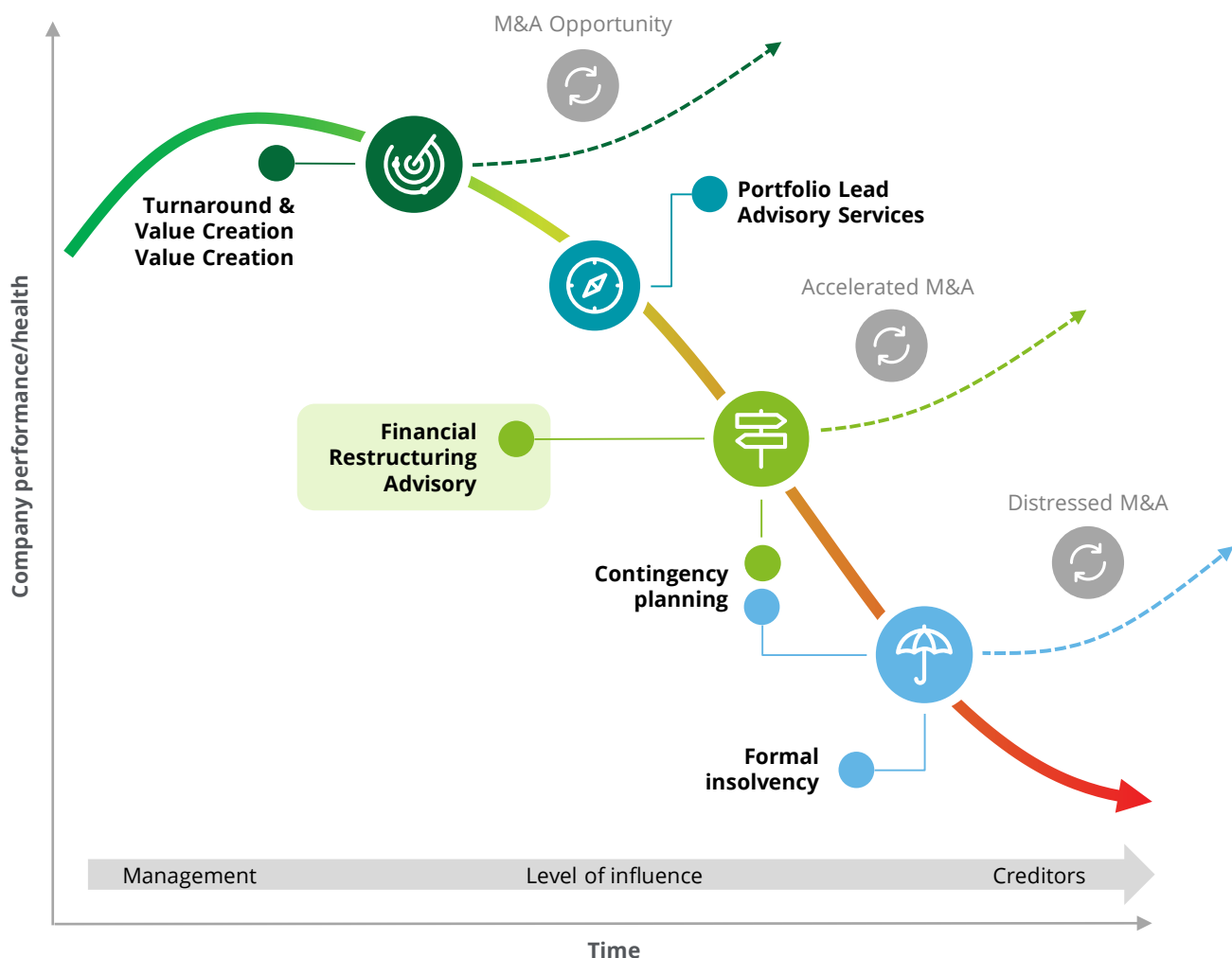
Source: Deloitte research and analysis



# Deloitte Restructuring Services

We work with clients to improve outcomes across the stress spectrum ranging from companies seeking to turnaround short term underperformance to those in deep financial distress requiring crisis management. We are actively helping businesses in Southeast Asia to turnaround, transform and grow their businesses; how can we help you?

## Deloitte Restructuring Services



- **Turnaround & Value Creation Services** for underperforming companies using M&A, restructuring and private equity techniques to deliver performance improvement and generate cash ...fast
- **Portfolio Lead Advisory Services** deleveraging and loan portfolio sale transactions acting sell-side / buy-side and providing strategic advisory to maximize value from non-core assets
- **Financial Restructuring Advisory** business reviews and options assessment to establish a foundation to assist stakeholders to negotiate corporate refinancing, rescheduling, restructuring and M&A strategies
- **Contingency Planning** before and during complex restructurings, supporting with options analysis and “plan B” scenarios to drive a consensual deal or provide a vital bridge into insolvency
- **Formal Insolvency** where a consensual restructuring is not possible; we can provide assistance to debtors and creditors through formal corporate (Court supervised) insolvency and / or bankruptcy processes

# Basis of preparation

**Source Data** Bloomberg; extracted on 1 October 2019; listed and non-listed Bonds where the Country of Risk is in SEA.

**Sample** We have analysed 5,962 bond issuances with a combined face value of USD350.2b.

**Country of Risk** is determined with reference to the location of incorporation, operations, the issuer's parent company, sources of revenue, or cash flows generated by the issuer.

**Industry Classification** 20 key industries with classifications based on the BICS classification level 2 obtained from Bloomberg.

**Period** Historical issuances and defaults for the period January 2014 to September 2019 and Bond Maturities from September 2019 to December 2025.

**Coupon Rate** The yield paid by a fixed-income security at regular intervals. Coupons are usually paid annually or semi-annually.

**Yield to Maturity** The total return expected on a Bond each year if the Bond is held until maturity. Yield to maturity is a function of the Face Value, Price and time to maturity (n) of a Bond.

**Leverage** A measure earnings (EBITDA) versus debt. The number of years of earnings required to repay debt.

**Bond Credit Rating** Issuer credit ratings are based on a rating agency's analysis of the capacity and willingness of the obligor to meet its financial obligations; the nature and provisions of the financial obligation; and the protection afforded by, and relative position of, the financial obligation in the event of a bankruptcy, reorganization, or other arrangement under the laws of bankruptcy and other laws affecting creditors' rights. For the purposes of the analysis in this report, credit ratings have been standardized across international (S&P, Fitch, Moody's) and local (PEFINDO, MARC, Phil) credit rating agencies as follows:

	S&P	Fitch	Moody's	PEFINDO	MARC	Phil
<b>AAA</b>	AAA	AAA	Aaa	idAAA	AAA	PRS Aaa
<b>AA</b>	AA	AA	Aa	idAA	AA/MARC-1	PRS Aa
<b>A</b>	A	A	A	idA	A/MARC-2	PRS A
<b>BBB</b>	BBB	BBB	Baa	idBBB	BBB/MARC-3	PRS Baa
<b>BB</b>	BB	BB	Ba	idBB	BB/MARC-4	PRS Ba
<b>B</b>	B	B	B	idB	B	PRS B
<b>CCC</b>	CCC	CCC	Caa	idCCC	C	PRS Caa
<b>CC</b>	CC	CC	Ca	-	-	PRS Ca
<b>C</b>	C	C	-	-	-	-
<b>D</b>	D	D	C	idD	-	PRS C
<b>NR</b>	NR	NR	NR	-	-	-

Bonds with a rating of at least BBB are considered to be investment grade.

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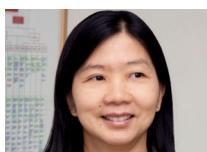
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