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Weekly Credit Brief Nov 22 - Nov 28

TransAsia Airways announced to be dissolved after failing to recover

by Benjamin Lye

TransAsia Airways (TransAsia), the No.3 air carrier in Taiwan, has long been struggling to regain investors' confidence after being hit by the two plane crashes in Jul 2014 and Feb 2015. On Nov 22, 2016, an announcement to dissolve the company was made as the company could not repay the USD 75mn European convertible bond coming due on Nov 29. TransAsia's share price plunged by 26.9%, from TWD 5.2 on Nov 21 to TWD 3.42 per share on Nov 25. The RMI-CRI 1-year Probability of Default (PD) indicated an 87% spike over the same period and signaled a widening gap with the aggregate PD for Taiwan companies. (Figure 1)

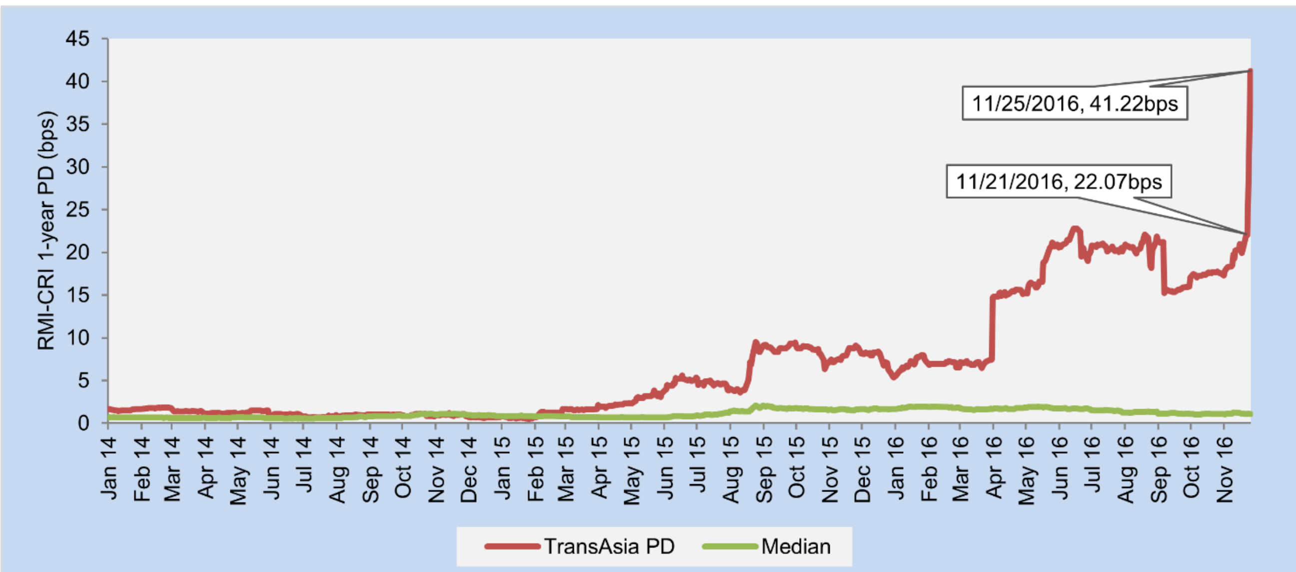

Figure 1: RMI-CRI 1-year PD for TransAsia Airways and aggregate 1-year PD for all Taiwan companies. *Source: RMI-CRI, Bloomberg*

TransAsia halted trading for one day, closed down its operations and announced the decision to wind down the company on 22 November 2016. This prompted a Financial Supervisory Commission and Ministry of Justice investigation of potential insider trading prior to the announcement that could result in a fine to TransAsia of TWD 1.5mn for breaching disclosure rules.

The company pledged to fully compensate affected customers and came to a consensus with the creditors to liquidate its aircrafts to service loans with collateral first, followed by unsecured debts. Taiwan's labor ministry also confirmed that the existing pension fund account in TransAsia is more than enough to pay 1,735 employees' pension.

Ever since the two fatal accidents, TransAsia failed to restore confidence. It was haunted by an 'unhealthy' (below 70%) load factor level - airlines' capacity utilization mark - and had 39% fewer passengers YoY in Q2 2015 (figure 2). Both indicators experienced a mild downward trend after the first crisis and the passengers only started to avoid taking TransAsia after the second incident at the end of 2015. Excess supply and lower demand squeezed TransAsia, which struggled to cover operating cost and faced a cash crisis. Political factors also hurt TransAsia as mainland visitor numbers fell by more than 25% in the 5 months following President Tsai Ing-wen's inauguration; her Democratic Progressive Party angered Beijing for advocating Taiwanese independence. Nevertheless, the company saw a rebound in both load factors and number of passengers in 2016, reflecting some reacceptance of TransAsia.

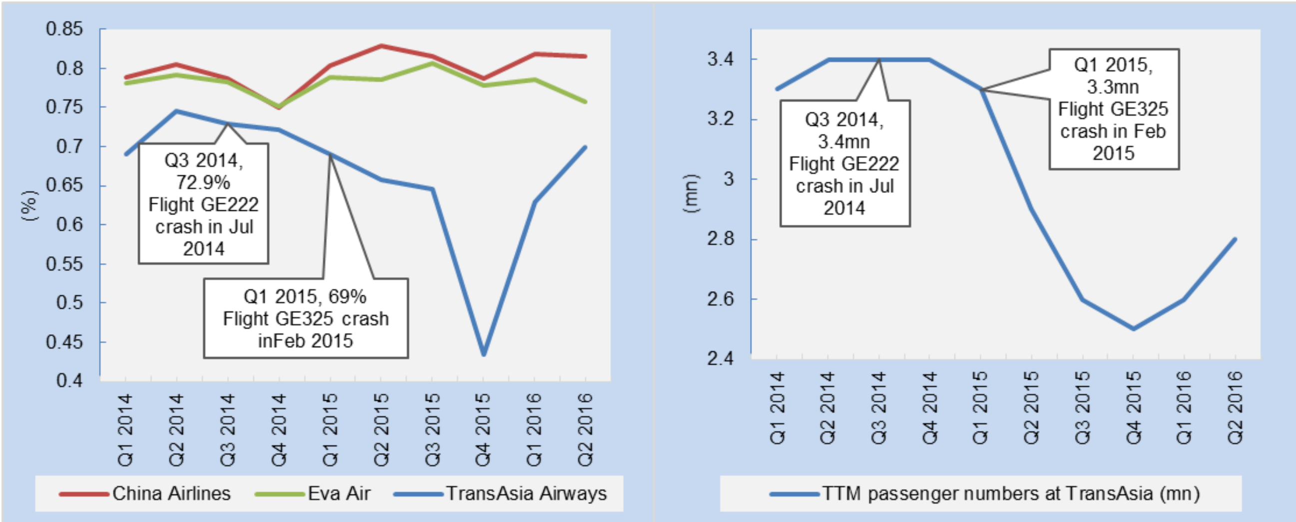

Figure 2: Load factor for Taiwan airlines (in %) (left panel); passenger numbers for TransAsia Airways (right panel); *TTM: Trailing 12 months.
Source: Bloomberg

(TWD mn)	FY 2014	FY 2015	Q3 2016 TTM
Net Income (Losses) (reported)	209.14	-1,441.37	-2,395.32
Return on Assets (%)(reported)	0.82	-5.8	-10.49
Free Cash Flow (GAAP)	-4,506.30	-4,184.46	-4,312.25
D/E Ratio (x) (reported)	1.53	1.85	2.22

Table 1: Financial metrics for TransAsia Airways; *TTM: Trailing 12 months.
Source: Bloomberg, Company filing

Unfortunately, TransAsia experienced serious deterioration in terms of net loss and free cash flow despite a rebound due to stubbornly high operating costs. TransAsia reported a cumulative TWD 3.37bn in losses since 2015 and was heavily indebted with a TWD 14.4bn outstanding on-balance sheet debt in Q3 2016. With these, the credit position was severely threatened causing failure to meet its debt obligation.

All in all, failing to restore previous performance in the wake of fatal accidents contributed to TransAsia's inability to meet its debt obligations leading to its decision to dissolve the company, subject to shareholders approval on January 11, 2017. CEO Vincent Lin joined a debt settlement meeting with the creditor banks of TransAsia and reached an agreement to liquidate aircrafts to service debt obligation for the latter party. "The company still has more asset than liability", said the CEO. He also vowed to shoulder their last responsibilities related to passenger refunds, employee layoffs, debt clearance and shareholder interests as well as unsettled payments for the two crashes.

Despite the misfortune, the former head of Taiwan Civil Aeronautics Administration recently told the media that his team was interested in taking over TransAsia and helping the firm get through this difficult time, a silver lining that brought hope to the ailing Taiwanese airline.

Credit News

Singapore economy stays in slow lane, with more bumps ahead

Nov 25. The Ministry of Trade and Industry (MTI) said that although a technical recession is unlikely, the opposition to globalization may hurt Singapore's international trade. The ministry recently narrowed its growth forecast for 2016 from 1-2% to 1-1.5%. MIT also expects the economy to expand between 1-3% in 2017. While key regional economies will remain resilient, the United States is likely to grow at a faster pace. However, risks like rising corporate debt in China and uncertainties over the timing and nature of Britain's exit from the European Union could weigh on prospects. (Straits Times)

Consumer credit sees fastest growth in 10 years

Nov 24. According to the British Bankers' Association (BBA), borrowing on credit cards and loans grew at its fastest rate in almost a decade in October. Consumer credit rose by 7% YoY, the fastest annual growth since 2006. The borrowing spree was driven by an increase in personal loans and overdrafts. Lenders have also been competing to top the best-buy tables for personal loans and credit cards. According to official figures, there was a surprise retail sales boom in October and some of the spending was done on credit. (The Guardian)

Avaya weighing bankruptcy filing, sale of call-center software unit

Nov 23. Avaya Inc., a telecommunications company, is considering to file for Chapter 11 bankruptcy protection and is nearing a deal to sell its call-center software unit in an attempt to cut back on debt following years of losses. According to sources familiar with the matter, Avaya Inc. would file for Chapter 11 upon the completion of the deal to sell its call-center software business. In addition, the proceeds of the sale of its unit would be used to repay some of its senior debt while a swap of debt for ownership in the reorganized company would proceed for other creditors following its emergence from bankruptcy. Based on regulatory filings, Avaya's debt stood at around USD 6bn as of June 30. (WSJ)

Venezuela's PdVSA misses USD 404mn payments on bonds

Nov 22. Venezuelan state oil company Petróleos de Venezuela SA (PdVSA) had missed USD 404mn in coupon payments on three of its bonds. The struggling oil company failed to make payments on bonds maturing in 2021, 2024 and 2035. According to analysts, PdVSA has a 30-day grace period to make bond payments to avoid default. Analysts at JP Morgan asserted their belief that the oil company will make payments, citing Venezuela's reported USD 10.9bn international reserves and PdVSA's attempt at reducing its cash drain by extending the term of some bonds using a debt swap. (WSJ)

Vinci plunges after hoax report on financial irregularities

Nov 22. A false release claiming that French builder Vinci SA had fired its finance chief following accounting irregularities triggered Vinci SA's stock plunge. The company has since denied the report and according to spokesperson Paul-Alexis Bouquet, the company is a "victim of a hoax". Furthermore, he said that although the company's website hadn't been hacked, technically speaking, fake statements had been released in the company's name. (Bloomberg)

Brazilian miner MMX Mineracao files for bankruptcy (Reuters)

Japan's CPI falls again, extending longest streak since 2011 (Bloomberg)

US Fed moves closer to raising interest rates (FT)

Regulatory Updates

Fears mount of multiple bank failures if Renzi loses referendum

Nov 28. Eight of Italy's troubled banks risk failing if prime minister Matteo Renzi loses a constitutional referendum next weekend. Mr Renzi had championed a market solution to solve debt problem of Italy's banks and avoid a vote-losing "resolution" under new EU rules. Italy's banks have EUR 360bn of problem loans versus EUR 225bn of equity on their books after regulators failed to fix a bloated financial system. In the event of a "No" vote, bankers fear prolonged uncertainty, in which Italian banks have already lost half of its market value on concerns of their non-performing loans. (FT)

Brussels considers Chapter 11-style bankruptcy regime

Nov 23. Brussels is considering Chapter 11-style bankruptcy rules to make the most of its entrepreneurial potential. The European Commission plans to offer struggling businesses more breathing space from creditors. The commission acted amid evidence of a weak entrepreneurial culture in European countries. According to an EU survey, half of Europeans would not start a business because of fear of failure. Under the proposals, a business would be able to resist winding-up orders from creditors while negotiating a voluntary debt restructuring. The protection would initially last four months but courts could extend it up to a year. (FT)

Indian central bank takes steps to curb rising bank liquidity (Bloomberg)

China central bank warns against capital outflows disguised as investment (Straits Times)

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