

## Essential tools for strategic decisions

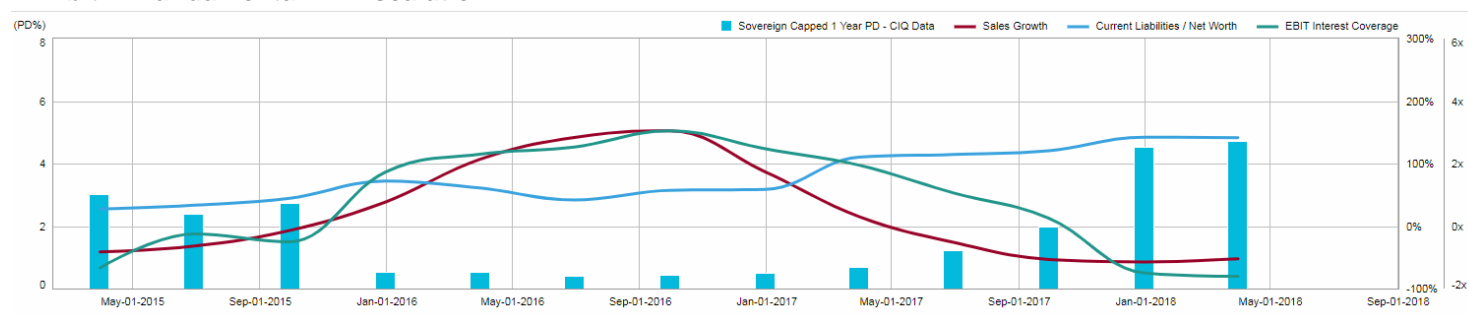
# Credit Analytics Case Study: Hyflux Ltd.

### Summary

Hyflux Ltd. (Hyflux) is a Singaporean water utility company, which announced on 22 May 2018 that it had applied to the Singaporean High Court to begin a court-supervised process of debt and business reorganization.<sup>1</sup> S&P Global Market Intelligence's Fundamental Probability of Default (Fundamental PD) increased nearly nine-fold from 0.5046% (an implied credit score of bb+)<sup>2</sup> to 4.5233% (an implied credit score of b) between fiscal year (FY) 2016 and FY 2017. Since FY 2017, the Q1 2018 Fundamental PD increased by approximately 4% to 4.7275% and the company has not filed any further public accounts since entering court supervision.

Hyflux experienced a period of rapid sales growth expansion over the course of 2016 with sales year-on-year (y-o-y) growing from 38.5% in Q4 2015, to peak at a high of 152.48% in Q3 2016. However, over the course of 2017 sales growth slowed and the company began to struggle to service its debt facilities. From mid-2016 the company's current liabilities/net worth exceeded 100% and would continue to rise until in mid-2018 where it would stand at 141.5%.

### Exhibit 1: Fundamental PD Escalation



Source: S&P Global Market Intelligence as of July 24, 2018. For illustrative purposes only.

### Business Description

Hyflux provides various solutions in water and energy areas worldwide. The company operates through two segments, Municipal and Industrial. The Municipal segment supplies a range of infrastructure solutions, including water, power, and waste-to-energy to municipalities and governments. The Industrial segment supplies infrastructure solutions for water to industrial customers. The company provides seawater desalination, raw water purification, wastewater cleaning, water recycling, water reclamation, and pure water production services to municipal and industrial clients, as well as to home consumers; and filtration and purification products. It also designs, constructs, owns, operates, and sells water treatment, seawater desalination, wastewater treatment, and water recycling plants under service concession arrangements; and sells oxygen-rich water and related products and services. In addition, the company designs, constructs, owns, operates, and sells power plants and waste-to-energy plants; trades in the electricity markets; and sells retail electricity contracts. Hyflux was founded in 1989 and is headquartered in Singapore.

### Fundamental Probability of Default Analysis

The analysis of S&P Global Market Intelligence's one-year Fundamental PD reveals Hyflux had consistent implied credit scores in the bb+/bbb- range over the course of 2016.<sup>3</sup> In the time after FY2016 the Fundamental PD rose consecutively for 5 periods until the company applied for court supervision in May 2018. It is therefore possible to detect the deteriorating credit quality of Hyflux as early as 12 months before the credit event in 2018. Prior to Q2 2017, the company had been

<sup>1</sup> Source: The Business Times, Hyflux seeks court protection to reorganise business, debt, as published on May 23, 2018.

<https://www.businesstimes.com.sg/companies-markets/hyflux-seeks-court-protection-to-reorganise-business-debt>.

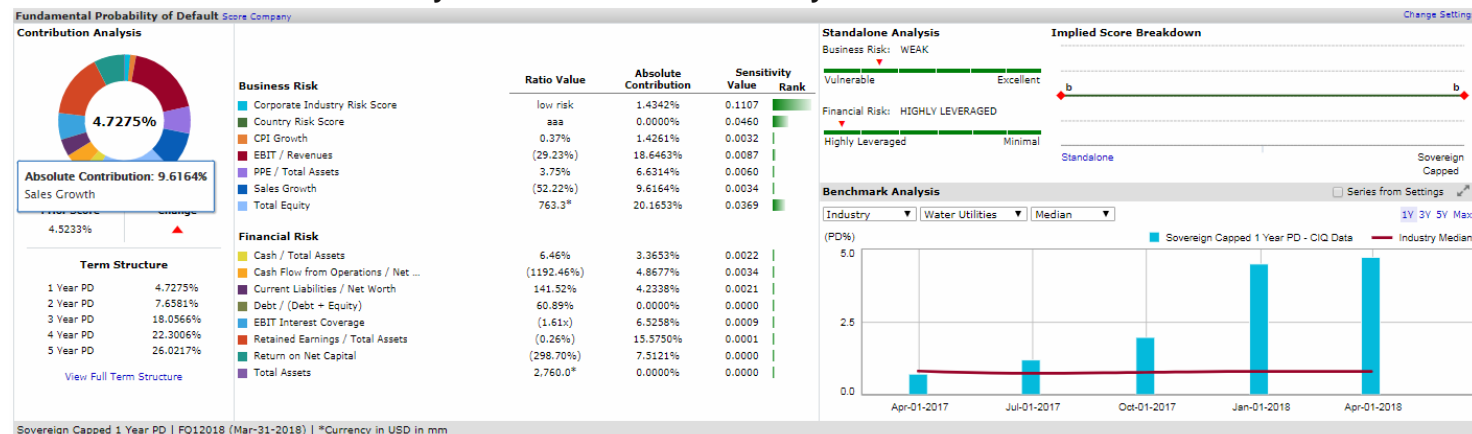
<sup>2</sup> S&P Global Ratings does not contribute to or participate in the creation of credit scores generated by S&P Global Market Intelligence. Lowercase nomenclature is used to differentiate S&P Global Market Intelligence PD scores from the credit ratings used by S&P Global Ratings.

<sup>3</sup> S&P Capital IQ platform as of October 29, 2018.

below the global water utility industry median one-year PD consistently since 2010 with a single exception in 2015. The escalation of company PD levels in 2017 therefore show a significant increase in company risk levels on an absolute basis but also when compared to that of its global peers.

Fundamental PDs produced over the course of 2017 and into H1 2018 highlights several areas of financial risk elements which were driving risk levels continually higher. As of Q1 2018, the company had a financial risk assessment from PD Fundamentals as highly leveraged. Over the course of 2016, sales growth became negative and moved from a high point of 152.5% y-o-y sales growth in Q3 2016 to a low of -53.48% y-o-y sales growth in Q3 2017. This contraction in sales revenues led to a situation where the company was under increasingly constrained liquidity. Over the same period, the company's current liabilities/net worth rose from 57.2% in Q3 2016 up to 141.52% as of Q1 2018, demonstrating the increasingly fragile state the company was in with respect to its liabilities. EBIT Interest Coverage fell from 3.05x in Q3 2016 down to -1.61x as of Q1 2018 while EBITDA margins fell into negative territory over the course of 2017 and stood at -24% as of Q1 2018. The combination of these factors – declining sales revenues, increasing leverage and erosion of profit margins, prompted the company to enter into court supervised debt restructuring conversations.

## Exhibit 2: Fundamental Probability of Default Contribution Analysis



Source: S&P Global Market Intelligence as of June 28, 2018. For illustrative purposes only.

## Exhibit 3: Key Developments

Date	Type	Headline
Oct-18-2018	Follow-on Equity Offering	Hyflux Ltd has filed a Follow-on Equity Offering in the amount of SGD 400 million.
Sep-24-2018	Index Constituent Drop	Hyflux Ltd(SGX:600) dropped from S&P Global BMI Index
Aug-03-2018	Seeking Financing/Partner	Hyflux Seeks Financing
Aug-02-2018	M&A Rumors and Discussion	SembCorp, Keppel And YTL Power Reportedly Pursuing Tuaspring Plant
Jul-06-2018	Seeking to Sell/Divest	Hyflux Seeks To Sell Tuaspring
May-23-2018	Executive/Board Change - Other	Hyflux Ltd Announces Cessation of Wong Lup Wai as Group Executive Vice President and Group Chief Operating Officer
May-09-2018	Announcement of Earnings	Hyflux Ltd Announces Unaudited Consolidated Earnings Results for the First Quarter Ended March 31, 2018
May-09-2018	Earnings Release Date	Hyflux Ltd to Report Q1, 2018 Results on May 09, 2018

Source: S&P Global Market Intelligence as of October 29, 2018. For illustrative purposes only.

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