More bond rating downgrades than upgrades likely this year

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Analysts: Property, O&G and infrastructure sectors most vulnerable

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PETALING JAYA: Corporate bonds' rating downgrades could still surpass upgrades this year amid uncertainties in the market.

The sectors which are the most vulnerable, rating agencies said, are property and real estate, upstream oil and gas, and some infrastructure sectors.

RAM Ratings head, data and analytics Julie Ng told *StarBiz* that as the domestic economy and global economies have yet to exhibit tractionable recovery in 2017, downgrades could ultimately still exceed upgrades in 2017.

"Downgrades had trumped upgrades over the last two years. As at end-2016, we have more issuers with a negative outlook to their ratings which signals a higher potential that their ratings could be downgraded in the next 12-18 months than we have issuers on positive outlook.

"But the upside to all this is that the absolute number of issuers with positive outlook is on the rise while the issuers with negative outlook is declining, for the period from 2014 to 2016.

"This signals that credit deterioration has slowed as 2016 came to a close and we believe it will continue to improve in 2017 given the upside potential in the economy. Of course, this assumption bars any significant economic or geopolitical headwinds that could prevail in 2017," Ng noted.

Ng: 'Downgrades had trumped upgrades over the last two years.'

Sectors that could see downgrades in 2017 include property and real estate, trading and services and some projects from the infrastructure sector, she added.

Meanwhile, Malaysian Rating Corp Bhd (MARC) chief economist Nor Zahidi Alias said that going forward, the rating agency did not rule out the possibility that the current trend of downgrades outnumbering upgrades in MARC's universe would continue in view of the still challenging business environment amid global uncertainties.

Nor Zahidi: 'We do not foresee a spike in the rate of default given that very few issuers are rated in the lower rating spectrum.'

Companies that would be vulnerable would be those operating primarily in the upstream oil-and-gas segment, he noted.

A downgrade in any credit rating of a debt instrument would most likely lead to an increase in yield as investors demand more return for the additional risks.

As such, this would lead to higher funding costs for corporations when they decided to seek additional financing through the debt market.

As for corporate bonds default, Ng said: "We recorded one issuer default (ABHC Sukuk Bhd, a funding conduit for Saudi-based Al Bayan Group Holding Company) in December 2016, the first since 2013. While we do not discount the possibility of bond defaults in 2017, we do not think it would likely exceed the default rate (of 0.63%) in 2016."

Zahidi added that there were no defaults recorded among corporate bonds rated by MARC in 2016.

"As for this year, we do not foresee a spike in the rate of default given that very few issuers are rated in the lower rating spectrum.

"Despite rising corporate debt and softening corporate profitability, our analysis on corporate leverage suggests that the overall leverage position remains manageable on an aggregate basis, with our average and median aggregate debt-to-equity ratio standing at 0.4 times and 0.2 times respectively in the third quarter of 2016.

"As such, we opine that there is scant evidence to suggest rising default risk among local corporates," he said.