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PETALING JAYA: The ratings downgrades of debt notes issued by players in the Selangor water sector will adversely affect the local corporate bond market as they have shaken investor confidence in the credit risk outlook of the market, according to industry experts.

A fixed-income head with a local banking group, who declined to be named, said the implication to the corporate bond market could be severe with shattered investor confidence that the country had built over the last two decades.

"As indicated by the Malaysian Rating Corp Bhd (MARC) and RAM Rating Services Bhd, cash flows and the ability of the water concessionaires to maintain to repay the bonds due is at risk.

"Without swift action and support from the Government, these bonds could potentially go into default," he cautioned.

He pointed out that there would be no secondary liquidity for the bonds in addition to the marked-to-market losses resulting from the downgrades of the bonds by the rating agencies.

"There will be increasing risk premium for financing in this country, especially infrastructure-related projects that are dependent on the Government's approval to increase the tariff or pricing," he said.

According to Bond Pricing Agency Malaysia, the effects of Wednesday's ratings downgrades had been calculated to a valuation drop of RM457.2mil.

The calculations were based on marking to market the evaluated prices generated by the agency.

Chief executive officer Meor Amri Meor Ayob said the change in the credit profile had caused a downward revision in the valuation of the

Downgrades will hit bond market


Lower debt notes ratings have rattled investor confidence

Outstanding amount of water sector-related bonds

Issuers	Issues	Issued amt (RM mil)	Outstanding amt (RM mil)
Syabas	BBA MTN	3,000	2,600
PNSB	BalDS	1,020	1,020
	A Notes	546.88	382.8
PNHB	RUB	435	435
	RUN	546.88	328.1
RUNH	CP/MTN	200	140
Splash	MMTN	385	360
	MCP	50	
Viable Chip	BalDS	1,407	992
	BalDS A	50	50
	BalDS B	150	150

Note:
BBA- Bai Bithaman Ajil
CP- Commercial Paper
MTN- Medium Term Note
MCP- Murabahah Commercial Paper
MMTN- Murabahah Medium Term Note
BalDS- Bai Bithaman Ajil Islamic Debt Securities
A Notes- Junior Notes A
RUB- Redeemable Unsecured Bonds
RUN- Redeemable Unconvertible Junior Notes

Source: MARC and RAM



bonds.

"Any further changes in the credit profile will impact the future valuation of these bonds. The downgrades have also caused the bond yields to move up between 100 basis points and 400 basis points depending on the various maturity tenures of the affected bonds," he said.

A bond trader said the downgrades would have a dire effect on the market as it showed that inves-

tors could not place any trust or dependence on the various state governments and also the authorities to act in a concerted manner.

"The threat of more downgrades would cause investors to lose confidence in such structures. They would be much more cautious going forward where repayment capabilities which were supported would not carry any weight," he said.

To recap, on Wednesday MARC

downgraded 10 Selangor water-related ratings, with some falling as much as three notches, and warned of further downgrades by year-end.

The issuers affected were Syarikat Bekalan Air Selangor Sdn Bhd (Syabas), Puncak Niaga (M) Sdn Bhd (PNSB), Puncak Niaga Holdings Bhd (PNHB), RUN Holding SPV Bhd, Syarikat Pengeluar Air Selangor Sdn Bhd (Splash) and Viable Chip (M) Sdn Bhd.

MARC said the recent regulatory and operating environment uncertainties had challenged the perception of strong implicit government support and highly-predictable cash flow the water sector had historically enjoyed.

"MARC believes that urgent intervention on the part of the federal and/or state government of Selangor is required to prevent a free fall of the current ratings in the following months," the rating agency said.

It added that further multiple-notch ratings downgrades were likely by end-2010 in the absence of meaningful progress in industry restructuring negotiations.

Separately, RAM Ratings downgraded the debt ratings of Splash, Destinasi Teguh Sdn Bhd and Sungai Harmoni Sdn Bhd to BBB3 from AA2.

The debt ratings remained on rating watch with a negative outlook, it said.