RAM Ratings

RAM Ratings reaffirms AAA rating of Prasarana's bonds

Published on 14 April 2016

RAM Ratings has reaffirmed the AAA/Stable rating of Prasarana Malaysia Berhad's (the Group) RM5.468 billion Nominal Value Redeemable Guaranteed Serial Fixed-Rate Bonds (2003/2016).

The rating reflects our view that Prasarana derives substantial financial flexibility from the Government of Malaysia (GoM), given its strategic role as the owner and operator of Malaysia's major public transport infrastructure. Prasarana's specific function in running the country's main public transport network as well as the influence exerted by the GoM on its business direction - through the latter's full ownership - qualifies the Group as a dependent entity under RAM's rating criteria for government-linked entities. As such, the credit risk of the Group mirrors that of the GoM. The GoM's support is further underlined by its guarantee in respect of all of Prasarana's debts (including the rated bonds) and the conversion of a RM474.82 million government support loan into equity in 2015.

While Prasarana's top line has been consistently rising in the last 5 years on the back of steady ridership growth, the Group remained in the red in FY Dec 2015, when its operating loss before depreciation, interest and tax (OLBDIT) and pre-tax loss deepened to RM227.36 million and RM1.24 billion, respectively. The Group has been incurring operating losses due to low fares, massive operating costs and unprofitable routes, given its social obligation to provide public transport services. The Group's bottom line has been further weighed down by hefty finance costs, which are expected to increase further following the issuance of a RM3 billion sukuk in February 2016.

Notably, Prasarana's debt level has also been rising in the last 5 years. As at end-December 2015, the Group's debt load had increased to RM18.36 billion (end-December 2014: RM13.91 billion) on additional borrowings to meet its capital expenditure and working-capital requirements. In February 2016, Prasarana issued a RM3 billion sukuk, which is envisaged to elevate its debt level to more than RM20 billion. Given its heavy debt burden, Prasarana's balance sheet is deemed very weak. Despite the conversion of a loan from the GoM into equity, the Group's gearing ratio had more than doubled to 16.54 times as at end-December 2015 (end-December 2014: 7.42 times). With the additional RM3 billion sukuk, the Group's gearing ratio is projected to exceed 18 times. Should its losses persist, the Group's shareholders' funds could fall into negative territory by the end of this year, given that its pre-tax loss summed up to RM1.24 billion in fiscal 2015, against an equity base of RM1.11 billion. Nonetheless, we note that Prasarana is in the midst of an asset revaluation exercise, which may expand its capitalisation. The Group is also working on initiatives to manage its hefty depreciation costs, which amounted to RM509.21 million in FY Dec 2015.

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