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OHL Slams Moody's for 'Out of Proportion' Third Ratings Cut (1)

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By Katie Linsell

(Bloomberg) -- Obrascon Huarte Lain SA's chief executive officer said the company's third downgrade this year at Moody's Investors Service was "totally out of proportion."

"This is totally unprecedented and we believe in total disconnect with the company's current and expected fundamentals," CEO Tomas Garcia Madrid said in a call with analysts and investors. Moody's on Wednesday lowered the Spanish builder to Caa1, seven levels below investment grade.

Garcia Madrid said OHL is making progress in easing debts built up through international expansion, including selling more than 1.4 billion euros (\$1.5 billion) of assets. The company, which generates about 80 percent of group profit in Mexico, is being squeezed by lower earnings at its construction business and by declines in the peso.

The call wasn't reassuring for bondholders "with some clarifications even adding to our concerns," Maxime Kogge, a Spread Research credit analyst, wrote in a note. He cited the company's "extremely weak" expectations for fourth-quarter earnings at the construction arm and a potential liquidity squeeze because of looming debt maturities.

Moody's highlighted OHL's construction profit "slump" as a prime reason for its rating downgrade. It also noted the builder's negative free cash flow and rising levels of recourse debt, which is where creditors can make claims directly on the company in case of default.

Matthias Heck, a senior analyst at Moody's, reiterated these concerns in an e-mailed response to questions about OHL's conference call.

Bonds Drop

The builder's 207 million euros of securities due in March 2020 dropped four cents on the euro to 86 cents, the lowest since Aug. 31, according to data compiled by Bloomberg. That pushed the yield to 12.9 percent. Shares of the builder fell as much as 11 percent to 2.51 euros in Madrid trading.

OHL's new rating at Moody's is four steps lower than its grade at Fitch Ratings. Moody's cut OHL to B3 in August following a cut to B2 in March.

Garcia Madrid said Moody's financial analysis failed to consider dividends from OHL Concesiones SA, an infrastructure unit, which will probably total about 250 million euros this year. Moody's also ignored 479 million euros of "unrestricted available cash and cash equivalents" when assessing debt levels, the CEO said on the call.

The ratings downgrades "are totally out of proportion," he said. The builder has met all financial obligations and pre-funded future commitments, Garcia Madrid said.

OHL's net recourse debt was 973 million euros at the end of September, an increase of 137 million euros from June, according to its latest earnings report. The company has forecast a decline to 600 million euros at year-end.

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