December Article

Abengoa - the biggest Spanish bankruptcy ever?

First things first: What's Abengoa…and how does a leading renewable energies player, listed both in the Madrid Stock Exchange and in the NASDAQ, suddenly files for creditors' protection?

Abengoa is a Seville-based renewables specialist with several operations within the US. The company acts both as an operator and constructor in the renewables energy sector. Besides that, the company invests in the research of sustainable technology, which it implements both in Spain and globally. These technologies include concentrated solar power, second-generation biofuels, and desalination.

It's true that the sharp drop in oil demand from China and OPEC's (or just Saudi Arabia's) stubbornness to keep current output is putting pressure in energy prices and the energy sector. Therefore and especially for those producers that are asset heavy and CAPEX intensive, the need to keep funding their activity is a common requirement. Abengoa serves as no exception due to its exposure to the price of oil and its high leverage ratio of 709.8%.

In fact, others were caught in this capital squeeze. In 2011, the private equity group lead by Mr. Henry Kravis, KKR & Co., bought in a USD 7.2bn deal, the American shale-oil driller Samson Resources, which is now being a victim of its' own success. They also filed for bankruptcy protection last September.

However, Abengoa's health was already a subject of vigorous debate both among investors and credit rating agencies. After the credit-rating agency Standard & Poor's surprisingly upgraded Abengoa's bonds from B to B+ with a stable outlook, citing EUR 3.0 bn of liquidity last July another vow of confidence came from some leading European banks. The company announced a EUR 650 mm capital increase in September, which included a commitment from HSBC, Santander and Crédit Agricole to underwrite 70% of the planned capital to be raised. At the same time, Moody's said it was putting the company on review for a potential downgrade and was not the only one; the credit insurance on the heavily indebted company was implying a higher than 40% probability that Abengoa would default within a year, but apparently, "Christmas" could come earlier than expected.

Another worth mentioning problem for Abengoa US-listed Yieldco's* investors, is how exposed they might be to the troubled Spanish mother, which manages the day-to-day running of the assets bought. According to some investors, there's the existence of cross-default clauses on Abengoa Yield's project finance debt, which is particularly worrying. Besides, the Spanish insolvency law, has a two-year "look-back" period, which could theoretically examine all the numerous assets sold to the Yieldco, including the Spanish solar plants whose sale was backed by a bridge loan until the end of 2015 from the American hedge fund Elliot Management.

But not everything is bad news. According to Abengoa's investors last Friday, December 4th, the company presented to its creditors a viability plan where it asks for liquidity, more precisely, EUR 450 mm until March 2016 to be added to its current consolidated gross debt of EUR 8.9 bn (with an average cost of 7%). Additionally, the company have also admitted that is currently reducing staff in the headquarters and transferring equipment to adapt itself to the efficiency objectives and meet the necessary competitiveness in the current situation. Regarding its operations in the US, Abengoa has indicated that its Yieldco is operating normally but does not exclude the possibility of discontinuing projects for the meantime as well, until the situation is clearer and more stable.

Not only this specific case brings big implications for Abengoa's creditors, but also to the European high-yield bond market in general. The Spanish company should not be dismissed as a one-off and analysts at UBS at the end of July warned of possible contagion in the commodity sector, putting these companies' defaults as a threat to other sectors and higher-

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*Yieldcos allow companies to sell off operating assets into a publicly traded entity, originating stable dividend stock, which should be dependent on the balance sheet of the parent company