RAM
RATINGS

Media Release

Temporary suspension to The Westin Kuala Lumpur's operations in itself does not impact ratings of NVSB's MTNs

The temporary suspension of The Westin Kuala Lumpur's (TWKL) operations for two months will not, in itself, affect the ratings of the various classes of Medium-Term Notes (MTNs) issued by Notable Vision Sdn Bhd (NVSB or the Issuer). Secured by TWKL, NVSB currently has outstanding RM95 mil Class A Senior MTNs (rated AAA/stable), RM95 mil Class B Junior MTNs (rated B_2/stable) and RM287.48 mil Class C Junior MTNs (rated C_3/stable) under its existing RM750 mil MTN Programme (2014/2034). While the temporary suspension underscores the negative impact of the Covid-19 pandemic on the hotel industry, the Issuer has robust liquidity to service near-term coupon and expenses. Support from Frasers Hospitality Trust's (FHT) sponsor, in the form of guaranteed lease payment, further mitigates liquidity risk.

FHT (the owner of TWKL) had, on 8 May 2020, announced its decision to temporarily suspend TWKL's operations for two months, starting 1 May 2020. This measure has been taken to preserve cashflow and minimise operational losses in view of the weak outlook on the Kuala Lumpur's hospitality sector and global tourism in the near term, arising from the Malaysian government's imposition of travel restrictions on foreigners and a Movement Control Order (MCO) to curb the spread of Covid-19. NVSB intends to resume operations in stages from July 2020, subject to the outlook on the hospitality sector and the financial viability of reopening TWKL at the said time.

Nevertheless, RAM has no immediate concerns over the Issuer's ability to meet near-term debt obligations under the transaction. Additionally, refinancing risk is not a factor at this juncture, given the expected maturity of the MTNs in 2024. As at 30 April 2020, cash and permitted investment balances in the Issuer's Revenue Account stood at RM8.99 mil, which is more than sufficient to meet the Class A Senior MTNs' semi-annual coupon payment of RM2.30 mil, due in July 2020. Coupon payments on the Class B and Class C Junior MTNs are structured at variable rates and are required to be made only to the extent where there is excess cash available after meeting senior expenses and Class A Senior MTNs' coupon payments. As such, they are not anticipated to give rise to default risk.

RAM Rating Services Berhad
(763588-T)
Level 8, Mercu 2
KL Eco City
No. 3, Jalan Bangsar
59200 Kuala Lumpur
Malaysia
T +603 3385 2488
F +603 3385 2582
E ramratings@ram.com.my
www.ram.com.my

Despite the MCO and TWKL's temporary suspension, NVSB will have its coupon payments covered by monthly lease payments payable by the master lessee, JBB Hotels Sdn Bhd (JBB Hotels), as provided in a 20-year master lease agreement. Under the contract, NVSB receives minimum lease payments of RM14.8 mil per annum from JBB Hotels, which are guaranteed by the latter's holding company, Fraser Property Limited – the sponsor of FHT. JBB Hotels has also provided a security deposit equivalent to eight months' lease payments in the form of a bank guarantee for the benefit of NVSB. The transaction further features a cash reserve of nine months' coupon payments for the Class A Senior MTNs, to cater for temporary coupon shortfalls.

Overall, RAM views that it is premature to conclude if the economic stress induced by the Covid-19 pandemic will cause merely a temporary dip in demand for lodging or whether it will permanently impair TWKL's cashflow and value. Economic recovery remains uncertain, despite the government's decision to restart the economy under a Conditional MCO effective 4 May 2020. RAM will closely monitor developments and reassess if necessary. We will conduct the annual rating review for this transaction by 3Q this year.

Analytical contact
Teoh Tze Yit
(603) 3385 2531
tyteoh@ram.com.my

Media contact
Padthma Subbiah
(603) 3385 2577
padthma@ram.com.my

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(763588-T)

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KL Eco City
No. 3, Jalan Bangsar
59200 Kuala Lumpur
Malaysia

T +603 3385 2488
F +603 3385 2582
E ramratings@ram.com.my
www.ram.com.my