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GLOBAL INSTITUTE OF  
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# South & Southeast Asia Corporates: Credit Fundamental Analysis

**Summer Learning Program**  
**'NEW TO CREDIT'**

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CreditSights

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# What is Credit Fundamental Analysis

Credit Fundamental Analysis is the method used to evaluate the creditworthiness of a borrower (i.e. ability to repay debt obligations)

## Factors to Analyze

Company (Qualitative)

Company (Quantitative)

Industry

Economy

## Sources of Information

Financial Statements, Annual Reports

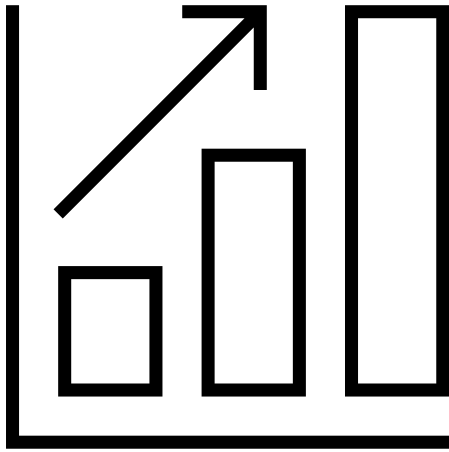
Company Presentations

Industry Reports

Economic Indicators

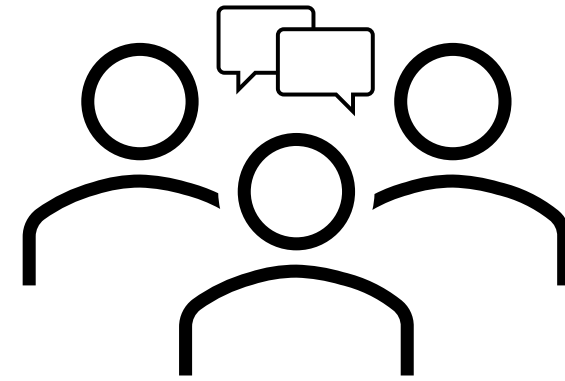
# What is Credit Fundamental Analysis

## Quantitative



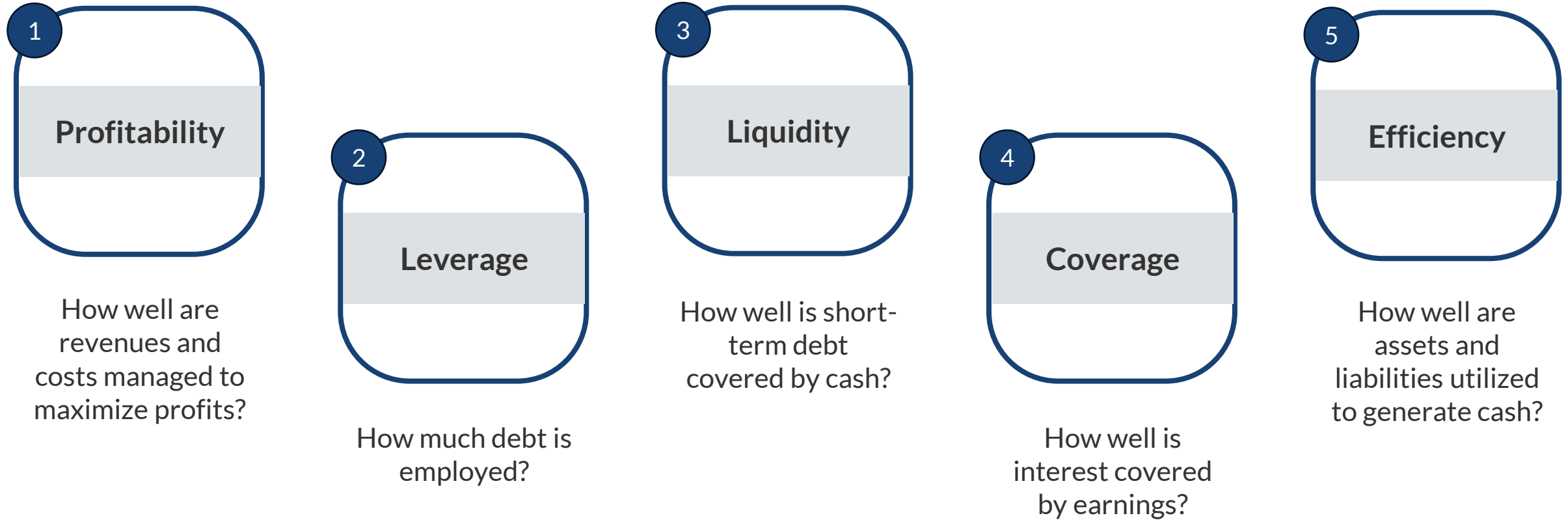
*Numerical, measurable*

## Qualitative



*Non-numerical, more subjective*

# Fundamental Analysis: Quantitative Factors



# Profitability: Revenues vs. Costs

Qualitative Factors:

Profitability

Leverage

Liquidity

Coverage

Efficiency

## Income Statement

### Revenue

(-) Cost of Goods Sold

### Gross Profit

(-) Selling, General & Administrative Expenses (SG&A)

(-) Other Operating Expenses

### EBITDA

(-) Depreciation & Amortization

### EBIT

(+) Interest Income

(-) Interest Expense

(+) Other Non-Operating Income

(-) Other Non-Operating Expenses

### Profit Before Tax

(-) Income Tax Expense

### Profit After Tax

EBITDA reflects **core operating profitability** without the impact of non-operating, non-cash, and non-recurring items

## Key Profitability Ratios

YoY Growth

QoQ Growth

Gross Profit Margin

EBITDA Margin

EBIT Margin

# Factors Affecting Profitability

Qualitative Factors:

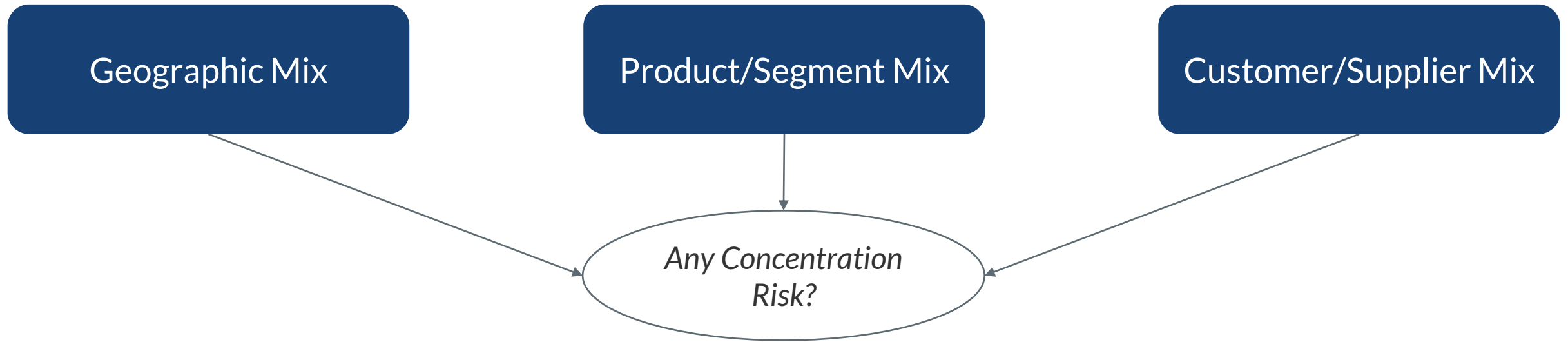
Profitability

Leverage

Liquidity

Coverage

Efficiency



# Factors Affecting Profitability

Qualitative Factors:

Profitability

Leverage

Liquidity

Coverage

Efficiency

Revenue/Cost  
Variability

Pricing Power

FX

Regulation

*Brand equity*

*Competition/  
Market share*

*Market  
structure*

# Profitability: Case Study

Qualitative Factors:

Profitability

Leverage

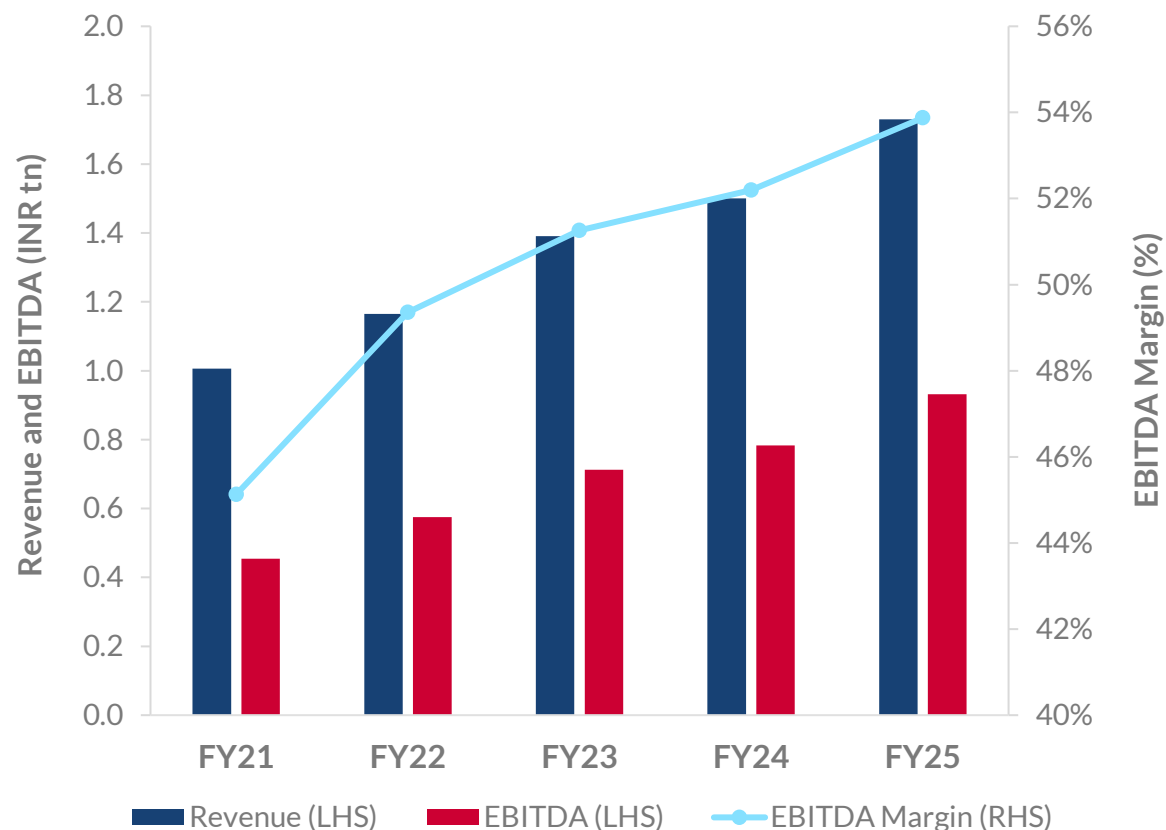
Liquidity

Coverage

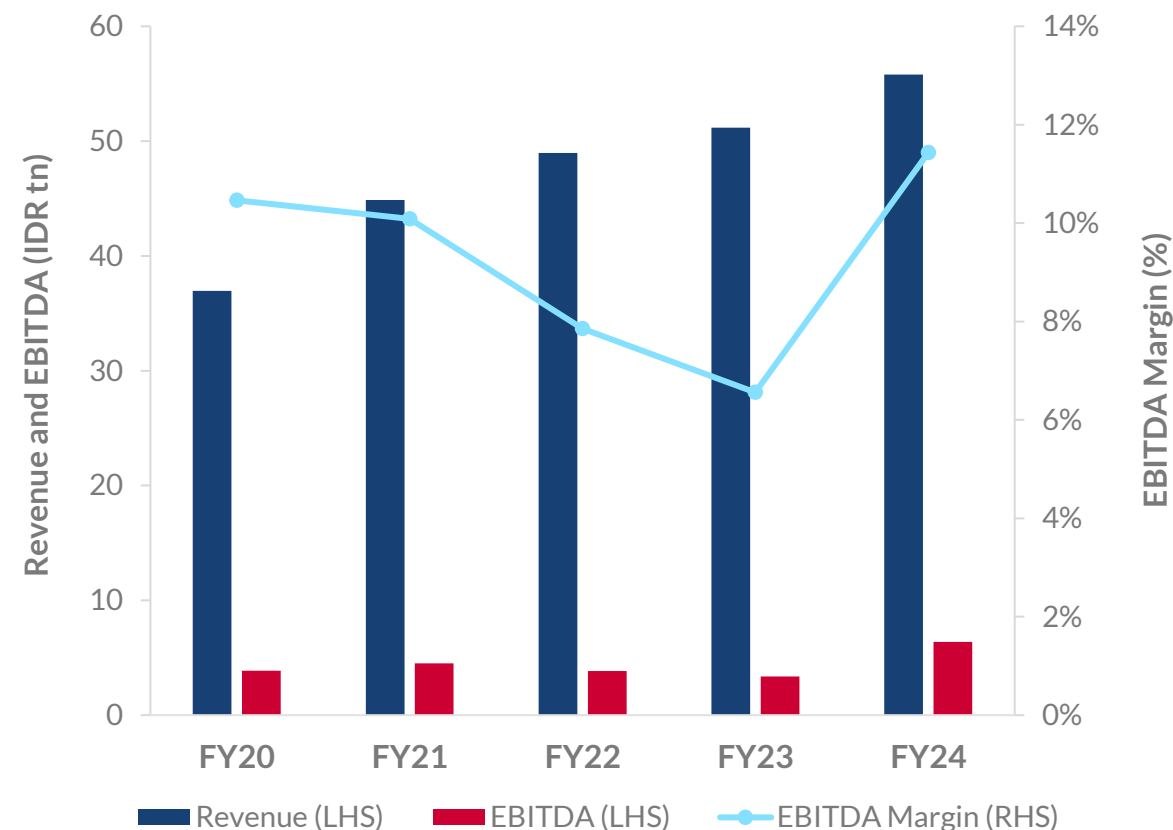
Efficiency



*Telecom, oligopoly in India, defensive stable earnings*



*Poultry, volatile earnings, FX risk*





How many years does it take for EBITDA to pay off debt

Gross Leverage  
(Gross Debt/ EBITDA)

Net Leverage  
(Net Debt/ EBITDA)

# Leverage: Debt Adjustments

Qualitative Factors:

Profitability

**Leverage**

Liquidity

Coverage

Efficiency

**Net Debt**

=

**Gross Debt**

-

**Cash**

=

**Short-term Debt**

+

**Long-term Debt**

## Perps:

- Interest + principal components (**debt-like**)
- No maturity and obligation to repay (**equity-like**)
- Still, we would include perps as debt as there is **incentive to repay interest + principal**

## Include:

Bank Loans

Non-Bank  
Loans

Straight  
Bonds

Other  
Interest-  
Bearing  
Instruments

Perpetual  
Bonds

Finance  
Leases

# Leverage: Varies Across Industries

Qualitative Factors:

Profitability

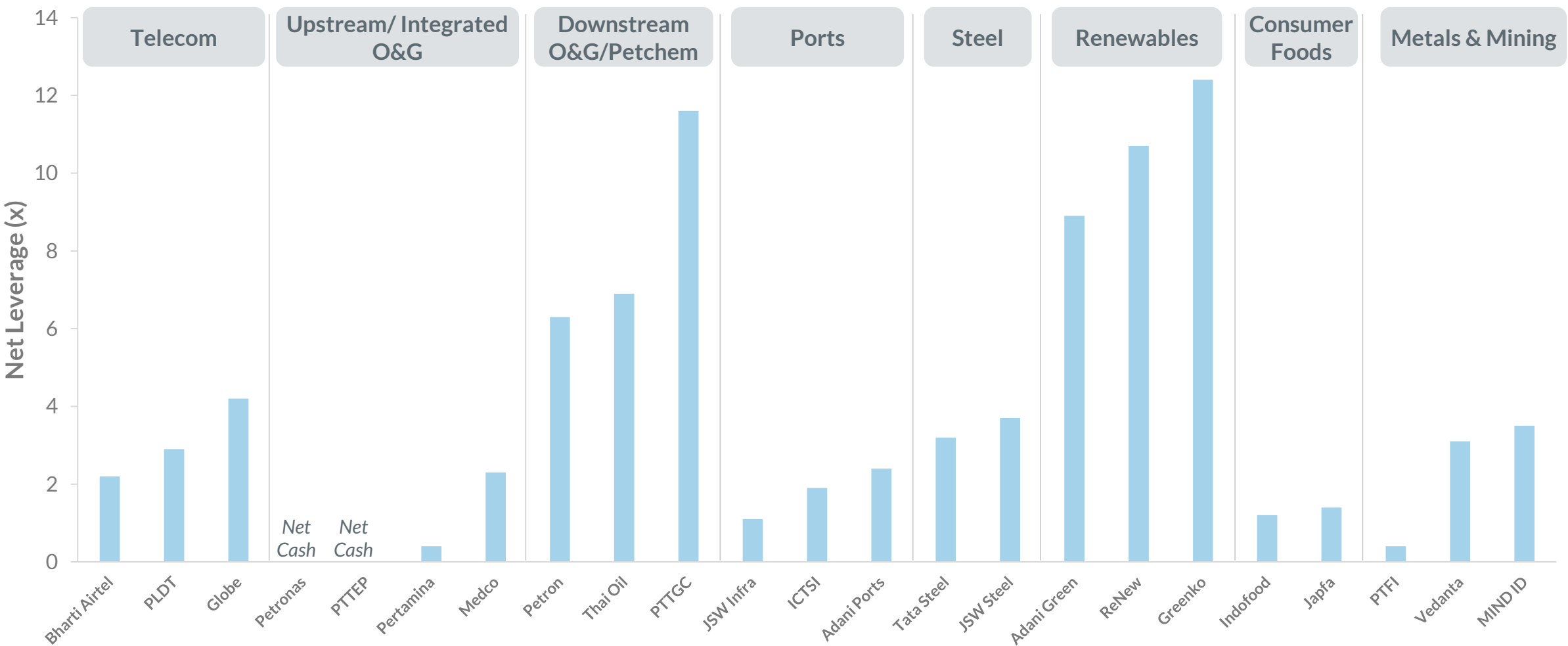
Leverage

Liquidity

Coverage

Efficiency

## S&SEA Corporate Net Leverage



## Can unrestricted cash sufficiently cover short-term debt?

### Unrestricted cash **SHOULD**:

#### Include:

Cash on Hand

Cash in Bank

Unrestricted Bank Deposits

Unpledged Money Market Instruments

#### Exclude:

Margin Money Deposits

Funds Earmarked for Reserve Accounts

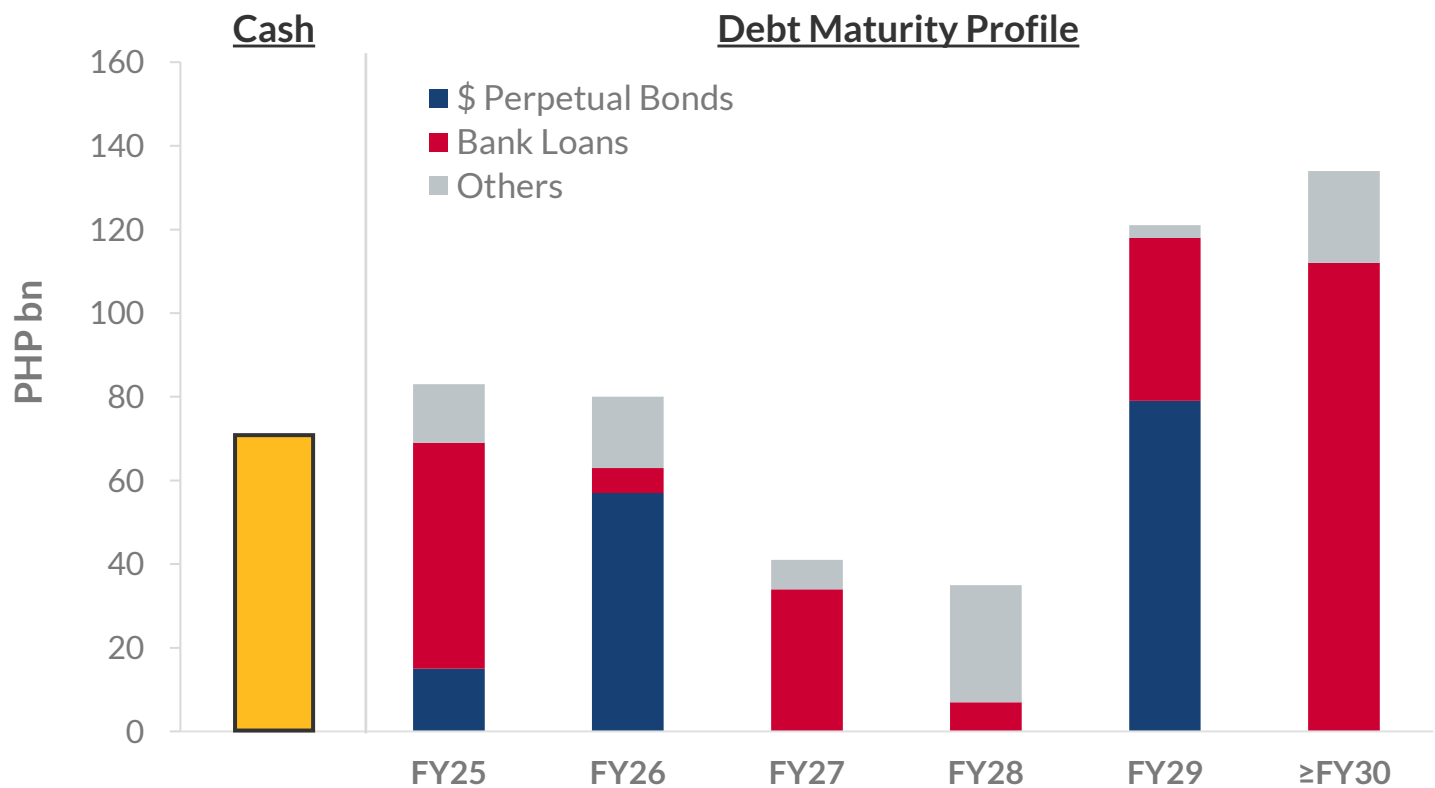
Restricted Bank Deposits

Pledged or non-money market ST  
investments

- 1 Cash/ST debt ratio is **NOT** a one-size-fits-all approach
- 2 Shareholder backing, banking relationships, capital market access, and credit outlook are important things to consider
- 3 Look at debt composition and maturity profile



San Miguel  
Global Power



- 1 Cash is insufficient to cover ST debt
- 2 ST debt mainly comprises bank loans
- 3 Company is backed by San Miguel, a large reputed conglomerate in the Philippines
- 4 Company has consistently paid off its \$ perps in a timely manner
- 5 Credit outlook is improving

*We are comfortable with the company's liquidity position*

How much money is available to pay off debt interest and/or principal in that year?

Interest Coverage  
 $(\text{EBITDA} / \text{Interest})$

Debt Service Coverage  
 $([\text{EBITDA} - \text{Taxes}] / [\text{Principal} + \text{Interest}])$

Fixed Charge Coverage  
 $([\text{EBITDA} - \text{Taxes} - \text{Capex}] / [\text{Principal} + \text{Interest}])$

Gross Interest Expense

=

Reported Interest Expense

+

Capitalized Interest

*Represents interest on debt,  
and appears on the **income**  
statement*

*Represents interest on debt for  
under-development assets, and  
appears on the **balance sheet***

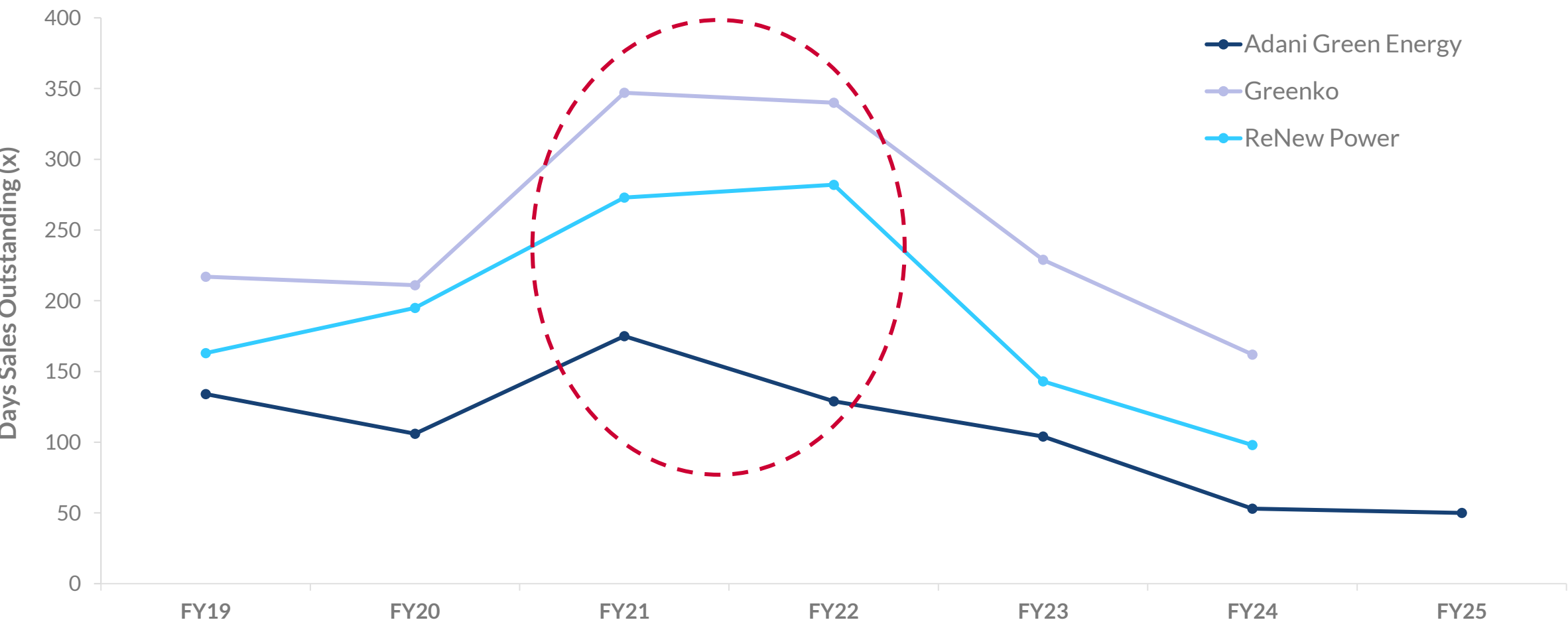
*(check notes to accounts)*



## How efficient are assets and liabilities utilized to generate cash

$$\begin{aligned} \text{Cash Conversion Cycle (CCC)} &= \text{Days Sales Outstanding (DSO)} + \text{Days Inventory Outstanding (DIO)} - \text{Days Payable Outstanding (DPO)} \\ &= \left( \frac{\text{Trade Receivables}}{\text{LTM Revenue}} \right) * 365 + \left( \frac{\text{Inventory}}{\text{LTM COGS}} \right) * 365 - \left( \frac{\text{Trade Payables}}{\text{LTM COGS}} \right) * 365 \end{aligned}$$

## Indian Renewables: A Tale of Regulatory Payment Delays



# Free Cash Flow

Qualitative Factors:

Profitability

Leverage

Liquidity

Coverage

Efficiency

Free Cash Flow  
(FCF)

=

Operating Cash Flow  
(OCF)

-

Capex

Represents cash generated after deducting all cash payments to support operations and expand or maintain capital assets

# Quantitative Factors: Big Picture

Qualitative Factors:

Profitability

Leverage

Liquidity

Coverage

Efficiency

## Income Statement

### Revenue

(-) Cost of Goods Sold

### Gross Profit

(-) Selling, General & Administrative Expenses (SG&A)

(-) Other Operating Expenses

### EBITDA

(-) Interest Expense

*Profitability*

*Coverage*

## Cash Flow Statement

### EBITDA

(+) Changes in Working Capital

(+) Changes in Other Assets and Liabilities

(-) Cash Taxes Paid

(-) Cash Interest Paid

(+) Cash Interest Received

### Operating Cash Flow

(-) Capex

### Free Cash Flow

(+/-) Other Cash Flows

Change in Cash

*Efficiency*

## Balance Sheet

Trade Receivables

Inventory

Other Assets

Cash

### Total Assets

Trade Payables

Short-term Debt

Long-term Debt

Other Liabilities

### Total Liabilities

Total Equity

*Leverage*

*Liquidity*

# Fundamental Analysis: Qualitative Factors in Focus

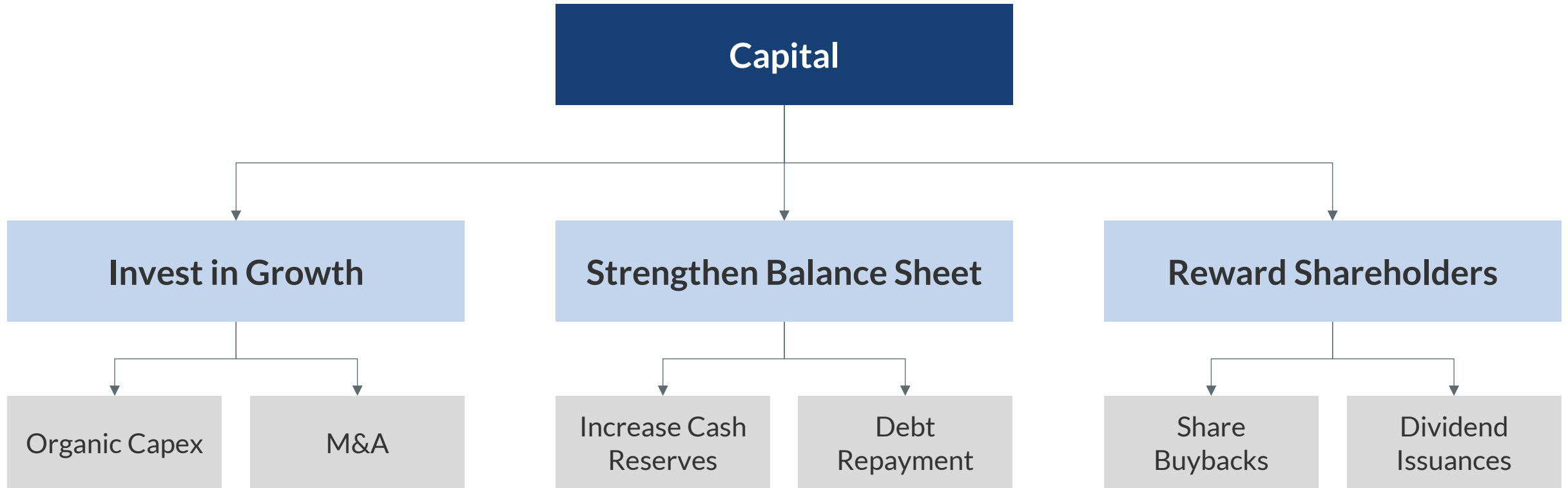
## Quantitative

- Financial analysis

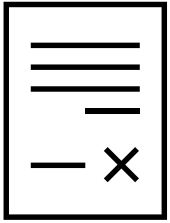
## Qualitative

- Capital allocation
- Management quality
- ESG factors
- Macro factors
- Industry dynamics

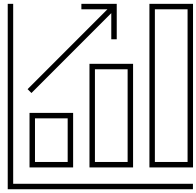
# Capital Allocation: Creditors Prefer Prudence



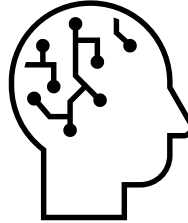
# Management Quality



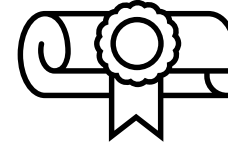
Track  
Record



Firm  
Performance



Strategic  
Direction



Credentials  
and Years of  
Experience

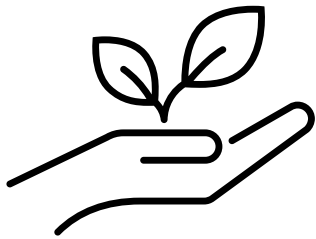


Corporate  
Governance  
Practices

# ESG Factors: Holistic View

## E

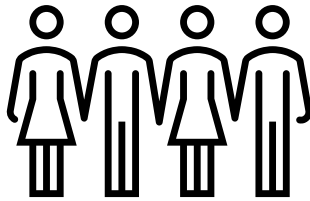
### nvironmental



Environmentally  
damaging business?  
If so, any transition plans?

## S

### ocial



Any track record of social  
issues? E.g. human rights,  
labor practices etc.

## G

### overnance



How well is the company  
directed and controlled?  
Any scandals/fraud?



# ESG Factors: Case Studies



The Adani Group has lost almost US\$55 billion in a stock market rout since **US prosecutors accused its founder and other officials of fraud.**



Freeport Indonesia has been criticised for **multiple human rights violations against the indigenous Amungme and Kamoro tribes.**



The NYSE plans to delist Azure Power, an Indian renewable-power firm controlled by Canadian pension funds, that's **embroiled in a corruption investigation.**

# Macro Factors: Economy, Regulatory, Political etc.

## Moody's revises Thailand's outlook to negative amid heightened economic and fiscal risks

[ ] WEDNESDAY, APRIL 30, 2025



## Funds Sell Indonesian Bonds on Fiscal Fears, Free Lunch Pledge

- Since election, net foreign bond outflows stand at \$1 billion
- EM hedge funds expressed concerns over fiscal outlook: Goldman



Prabowo Subianto, center, delivers his victory speech at his residence in Jakarta on March 20. Photographer: Bay Ismoyo/AFP/Getty Images

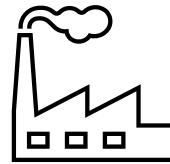
# Putting It All Together

## Credit Fundamental Analysis

Method used to evaluate the creditworthiness of a borrower



Company



Industry



Economy

### Quantitative

Numerical, Measurable  
(i.e. financial analysis):

- Profitability
- Leverage
- Liquidity
- Coverage
- Efficiency

### Qualitative

Non-numerical, more  
subjective

- Capital allocation
- Management quality
- ESG factors
- Macro factors

### CreditSights Approach

Fundamental Analysis + Relative Value Analysis  
=  
Final Recommendation for Investors



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