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Israel's Delek gets credit ratings chop, scrambles for liquidity to cover maturities

Pressure is building on Delek Group to find ways to cover loan repayments that are looming in the months ahead, after the Israeli gas-focussed conglomerate's credit rating was downgraded due to the growing likelihood of a default.

Maalot S&P Global Ratings this week lowered Delek Group's rating to 'ilBBB-' from 'ilA' and said it would keep the company on "CreditWatch with negative implications".

The new rating is still investment grade, but "the company's liquidity and its ability to meet its short-term obligations have deteriorated," the agency said in a research update, adding further downgrades "by several notches" cannot be ruled out without an improvement in circumstances.

A slump in Delek Drilling stock triggered by the oil price crash and the onslaught of the coronavirus pandemic has already forced the group to sell shares in its oil and gas arm that it had used as collateral for loans, sending it scrambling for bridging loans to get it through a looming crisis that risks bankruptcy.

Citibank in March took steps to call in a USD 57 million loan after the yields on Delek Drilling bonds began to fall, prompting alarm among other creditors that had accepted Delek's energy assets as collateral.

According to Maalot S&P Global, Delek is facing principal and interest payments of NIS 488 million (USD 135 million) in the next six months, and total payments of NIS 2.5 billion (USD 692 million) in the next year. "We estimate that the company does not currently possess sufficient certain sources to repay its maturities in the upcoming year and even in the next six months," the agency said.

It said Delek currently has a cash balance of NIS 216 million (USD 59.8 million), which includes the NIS 164 million (USD 45 million) earned from its 20% holding in Israeli desalination company IDE Holdings and a NIS 185 million (USD 51 million) estimated dividend from subsidiary Ithaca Energy. The agency does not expect Delek Group to receive a dividend from Delek Drilling in 2020.

The company is "making progress" on the sale of its subsidiary Delek Israel, taking a loan on royalties from the Karish and Tanin gas fields and "on securitization of super royalties from the Leviathan gas field," the agency said. But challenging energy market conditions "increase the execution risk of the company's plans, and therefore its credit risk, in the short term."

Given current market conditions, "we estimate the company's financial flexibility to sell assets and its access to the capital market to be limited." While the company could be removed from CreditWatch if certain actions are achieved, weak liquidity and high leverage make positive rating action unlikely in the short term.

Worst case scenario

The agency has gone so far as to draw up a hypothetical default for Delek, which is sees as being possible in 2022 when the company's portfolio and cash on hand will equal its remaining debt due to a sharp decrease in the market value of Delek Drilling and Cohen Development, its field management subsidiary.

If liquidated, market value would crash 40% and creditors would recuperate only 30-50% of their capital. Delek Group has no activity of its own and its entire value would be based on the shares it holds. Creditors would therefore attempt to sell Delek's subsidiaries holdings, the agency said.

Citing data from Israeli business newspaper The Calculist, The Times of Israel reported yesterday that a third of Delek Group shares are owned by the public, the value of which has fallen by 66% since the start of the year to NIS 3.5 billion (USD 968 million).

Delek owes its investors more than NIS 6 billion (USD 1.66 billion) and the banks around NIS 2.6 billion (USD 719 million), according to the report, which described Delek as "teetering on the brink of collapse". - GL

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