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Credit FAQ:

How Does The Call Of IPIC's Guarantee On 1MDB's Bond Affect Our Ratings On Malaysia And 1MDB's Debt?

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On April 29, 2016, Abu Dhabi-based International Petroleum Investment Co. (IPIC; AA/Stable/A-1+) announced that it had made a coupon payment under a guarantee it provides on bonds issued by a subsidiary of 1Malaysia Development Berhad (1MDB). In this Credit FAQ, we address investors' questions in relation to the situation that led to the IPIC guarantee being called.

Frequently Asked Questions

On what do you base the ratings on the bonds issued by subsidiaries of 1MDB?

1MDB is a company incorporated in Malaysia, wholly-owned by the government of Malaysia (foreign currency: A-/Stable/A-2; local currency A/Stable/A-1). S&P Global Ratings does not rate 1MDB or any of the issuing subsidiaries, but we rate two bonds (see table).

Bond Issuances By Subsidiaries Of 1Malaysia Development Berhad			
Issuer	1MDB Energy Ltd.	1MDB Global Investments Ltd.	1MDB Energy (Langat) Limited*
Amount (bil. \$)	1.75	3	1.75
Coupon (%)	5.99	4.40	5.75
Maturity	May 11, 2022	March 19, 2023	April 18, 2022
Guarantor	Joint and several guarantee by IPIC and 1MDB	Letter of support by government of Malaysia	IPIC
Rating	AA	A-	NR

*Source: Information published by IPIC.

Our rating on the 1MDB Energy Ltd. bond is based on what we view as an unconditional and irrevocable guarantee provided by IPIC, while our rating on the 1MDB Global Investments Ltd. bond is based on the letter of support by the government of Malaysia (see "1MDB Global Investments' US\$3 Billion Notes Rated 'A-', published April 12, 2013, on RatingsDirect).

On April 18, 2016, IPIC announced that 1MDB and the Ministry of Finance of Malaysia had not fulfilled their obligations under an agreement with IPIC, and consequently this agreement was terminated. Does this affect the IPIC guarantee on the 1MDB Energy Ltd. bond?

No. While we do not have the details, we understand that under this agreement, IPIC, 1MDB and the government of Malaysia entered into certain obligations to each other, including IPIC's obligation to make certain interest payments on the two notes that it guarantees. It is our understanding that this was a separate agreement entered into in 2015, independent from the original bond documents. We therefore consider that this did not have any impact on the validity of the original IPIC guarantees to the benefit of the noteholders.

We understand that a U.S.\$50.3 million coupon payment on the 1MDB Energy (Langat) Limited notes was not made on the original due date of April 18, 2016, and that consequently IPIC made the payment under the terms of its guarantee.

IPIC stated that 1MDB and the government of Malaysia were "in default" on their agreement. Does S&P Global Ratings consider this a sovereign default?

No. Our sovereign ratings refer to the sovereign's ability and willingness to service financial obligations to nonofficial creditors. Consequently, we do not consider a contractual dispute and termination of a bilateral agreement between governments or their entities as sovereign default.

Could the nonpayment of the coupon on the 1MDB Energy (Langat) Limited bond on the original due date trigger cross-default clauses in debt issued by 1MDB or its other subsidiaries?

We understand that the nonpayment on the original due date does not trigger cross-default clauses in the two rated bonds. S&P Global Ratings does not have information on clauses in other debt issued by 1MDB or its subsidiaries.

How does the reported contractual dispute and nonpayment of a coupon on the original due date affect the rating on Malaysia?

Malaysia's government has recently made clear its intentions to support the 1MDB borrowings that carry an explicit sovereign guarantee, and the rated 1MDB Global Investments Ltd. bonds that benefit from a letter of support.

We do not expect 1MDB to represent a large contingent liability to the government (for more information on how we assess Malaysia's contingent liabilities see "Contingent Liabilities And Sovereign Risk In Emerging Markets: A Mounting Menace?" published May 4, 2016). A parliamentary committee reported in April 2016 that the company's debt amounted to approximately Malaysian ringgit (MYR)50 billion (around 4% GDP). It also assessed total assets at a little above that amount. Over the past year or so, the company has shown its ability to sell some of these assets to raise funds to pay down debt. We think that the government is reluctant to extend its support for debt beyond the level that it has explicitly guaranteed or extended in the letter of support (a total of MYR17.6 billion or 1.4% of GDP). We do not consider these amounts to be material to the government's balance-sheet.

In our view, possible implications of the 1MDB dispute for Malaysia's political stability could be of more relevance. Prime Minister Najib Razak is closely linked to the company and strong pressures have mounted on him to step down. Although Mr. Najib appears to have consolidated power for now, a disorderly change in the government cannot be ruled out and policy consistency could also be negatively affected (see "Politics May Shape Sovereign Rating Trends In Some Southeast Asia Nations," May 9, 2016).

Only a rating committee may determine a rating action and this report does not constitute a rating action.

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