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## Research Update:

# AEG Power Solutions Downgraded To 'CC' On Intended Debt Restructuring; Outlook Negative

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## Research Update:

# AEG Power Solutions Downgraded To 'CC' On Intended Debt Restructuring; Outlook Negative

## Overview

- 3W Power, the parent holding company of Netherlands-based power solutions provider AEG Power Solutions B.V., has announced that it intends to restructure the €100 million unsecured notes due Dec. 1, 2015 and renegotiate an upcoming interest payment.
- We are therefore lowering our long-term corporate credit rating on AEG Power Solutions to 'CC' from 'CCC-'.
- The negative outlook reflects the possibility of us lowering the rating to 'D' (Default) if AEG Power Solutions misses the interest payment, or 'SD' (Selective Default) if the company implements a debt restructuring, because this constitutes an event of default under our criteria.

## Rating Action

On Nov. 6, 2013, Standard & Poor's Ratings Services lowered its long-term corporate credit rating on Netherlands-based power solutions provider AEG Power Solutions B.V. to 'CC' from 'CCC-'. The outlook is negative.

## Rationale

The downgrade reflects our view that AEG Power Solutions faces heightened risk that the company will either miss a payment, or implement a debt restructuring in the near term. Under our criteria, a debt restructuring in distressed conditions constitutes an event of default.

3W Power, the parent holding company of AEG Power Solutions, has called an ad hoc meeting of the holders of its €100 million notes due 2015. In addition, 3W Power has announced that it intends to renegotiate the payment of the coupon due on Dec. 1, 2013, and start discussions about the restructuring of the notes.

Against the backdrop of the liquidity shortage communicated by AEG Power Solutions' management and the possibility that the company will be unable to make its forthcoming interest payment on time, we consider the company to be in financial distress. As such, we treat the intended restructuring of the unsecured notes as a distressed exchange.

We treat an exchange offer as tantamount to default when two conditions are met:

- The offer, in our view, implies the investor will receive less value than

the promise of the original securities; and

- The offer, in our view, is distressed, rather than purely opportunistic.

If AEG Power Solutions finds a way to boost its liquidity so that it is able to make the forthcoming interest payment on time, we would assess the risk of distressed exchange of the notes and review our ratings on the company. Our assessment would in part be based on additional information we expect to receive as the company advances in its attempt to find a resolution.

## Liquidity

We assess AEG Power Solutions' liquidity position as "weak" under our criteria, reflecting the recently announced shortage of liquidity anticipated for the next 12 months, if no remedial action is taken.

## Outlook

The negative outlook reflects the likelihood of us lowering the rating to 'D' (Default) if AEG Power Solutions misses its interest payment due in December 2013, or 'SD' (Selective Default) if the company announces a debt restructuring.

If the noteholders accept the changes that AEG Power Solutions proposes for the terms of the coupon payment and capital structure, we will review the ratings after the transaction has been completed. In this case, the 'SD' or 'D' ratings would no longer be applicable. In this scenario, we would conduct a forward-looking review after the transaction closes and raise the rating as soon as we complete this exercise. The magnitude of the potential rating change would take into account any benefits realized from the restructuring, as well as any other interim developments.

## Related Criteria And Research

- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Sept. 28, 2011
- General Criteria: Rating Implications Of Exchange Offers and Similar Restructurings, Update, May 12, 2009
- Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings, Oct. 1, 2012

## Ratings List

Downgraded

	To	From
AEG Power Solutions B.V. Corporate Credit Rating	CC/Negative/--	CCC-/Negative/--

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