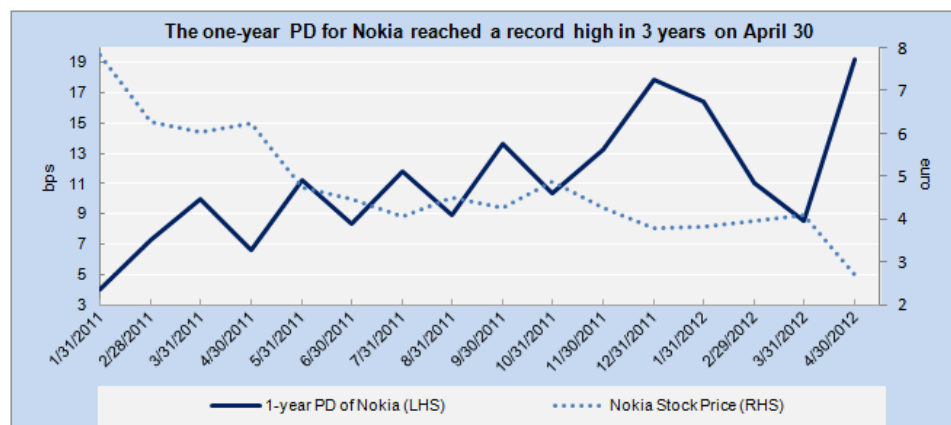


**Stories of the Week**

**Sharp deterioration in the credit outlook for Nokia Oyj**

RMI CRI data reflects a deterioration in the credit outlook for Nokia Oyj, since March 31 2012. This reversed the slight improvement during Q1. The RMI CRI one-year probability of default (PD) for Nokia soared to 19.2bps on April 30, a record high since August 2009 during the global financial crisis. This record high was more than double the one-year PD reached on March 31\*. This increase in the PD reflects a continued deterioration of Nokia's credit outlook during 2011; it also coincided with a downgrade of Nokia's credit rating by Moody's, Fitch, and S & P; Moody's downgraded Nokia to Baa3 from Baa2 on April 16, Fitch and S&P downgraded Nokia to BB+ from BBB- on April 24 and April 27 respectively.



**Deterioration in business performance and outlook:** Nokia has been facing a challenging business outlook, as reflected in its recent financial performance. Competition has intensified in the mobile phone market, its sales in China (Nokia's fourth largest market) has slumped at a staggering 70%, and it has lost the status of being the global leader in mobile phone sales when Samsung's sales of mobile phone units outnumbered that of Nokia's in Q1 2012. In Q1 2012, revenues declined 29.1% YoY, to EUR 7.3bn, while operating margin slumped to -18.2% from 4.2% on a YoY comparison. The Q1 net loss of -EUR 929mn, marked Nokia's fourth consecutive loss-making quarter since Q2 2011.

**Strong liquidity position:** Despite the decline in sales, Nokia was able to maintain a strong liquidity position. According to data from Bloomberg, in Q1 2012, its cash ratio of 0.58 was higher than the median of 0.52 for the global telecommunication equipment industry.

**Revamping business strategies:** In a bid to regain profitability, Nokia has carried out business restructuring to reduce costs and adjusted its products and marketing strategies to obtain a competitive niche. Examples of such strategies include establishing manufacturing facilities in low-cost countries such as Vietnam, expanding its product range into low-cost feature phones, and the introduction of Windows phones last October.

**Credit rating downgrades:** The downgrades of Nokia were mainly triggered by the sharp deterioration in the company's business performance during Q1, and the credit rating agencies' downward expectation for the company's future profit margin and cash flow.

\***The fall in PD during Q1:** A fall in Nokia's one-year PD during Q1, was based on a stabilization in Nokia's share price between August 2011 and March 2012 following a steep decline in H1 2011.

**Sources:**

- [Fitch Downgrades Nokia](#) (WSJ)
- [Moody's downgrades Nokia to Baa3/P-3, outlook negative](#) (Moody's)
- [Nokia Downgraded To 'BB+/B-' On Revised Profitability And Free Operating Cash Flow: Outlook Negative](#) (S&P)
- [China at Heart of Nokia's Troubles](#) (WSJ)
- [Samsung Ends Nokia's 14-Year Run as Biggest Handset Maker](#) (Bloomberg)
- [Nokia Announces Low-Cost Phones With New Browser](#) (PC Magazine)
- [Nokia officially starts the development of its manufacturing facility in Vietnam](#) (Nokia)

**In the News**

**S&P downgrades Spain, calls for EU action**

**Apr 26.** S&P on April 26 downgraded its credit rating on Spain to BBB+ from A with a negative outlook, leaving the country at two notches above the junk territory. According to S&P, the rationale for the downgrade is an expectation that Spain's recession and banking woes could aggravate its public finance problem. At the same time, S&P called for strong eurozone-level measures, which is important for stemming a further deterioration in the Spanish economic outlook. ([Reuters](#))

**Wenzhou opens new center for financing**

**Apr 27.** Wenzhou, a city of China, opened a new center for private lending last Thursday, as part of the Chinese government's financial reform pilot plan unveiled earlier this year. Through a range of activities such as registering private lending and providing credit ratings, the new center aims to control the city's large shadow banking system which is a risk to the stability of China's financial system. ([Chinadaily](#))

**Asian Local-Currency Bonds May Extend Gains This Year, ADB Says**

**Apr 26.** Local-currency bonds issued in East Asian emerging markets, such as China, Indonesia and Thailand, grew rapidly in Q4, according to an Asian Bond Monitor report released by the Asian Development Bank (ADB) on April 26. The total sales of local-currency debt in East Asian emerging markets climbed 4.6% in Q4 from a year earlier, led by corporate debt issuance which saw a 43.6% jump during the same period. The ADB expects the momentum to continue in 2012, due to interest rate-differentials with developed markets, an expected continuation in strong economic growth in the East Asian emerging region, and higher regulatory capital requirements for banks. ([Bloomberg](#))

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