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T-Mobile US needs fresh capital inflow to maintain sustainable growth

By Justin Hsiao

T-Mobile US Inc.'s business is booming as its subscribers reached a record high of 50.545mn in Q2 2014. Total liabilities also increased to USD 37,101mn during the same period, which is more than 3 times compared to Q1 2013. Without any injection of fresh capital, T-Mobile would struggle to maintain its aggressive expansion strategy.

Although, the telecom business is growing, T-Mobile's RMI 1-year PD (RMI PD) has been significantly increasing since Q2-2013, as exhibited in Figure1, and it hit 259.2bps on Aug 15, 2014, that is more than 10 times higher than the aggregate PD of the AT&T, Verizon and Sprint i.e. 25.54bps.

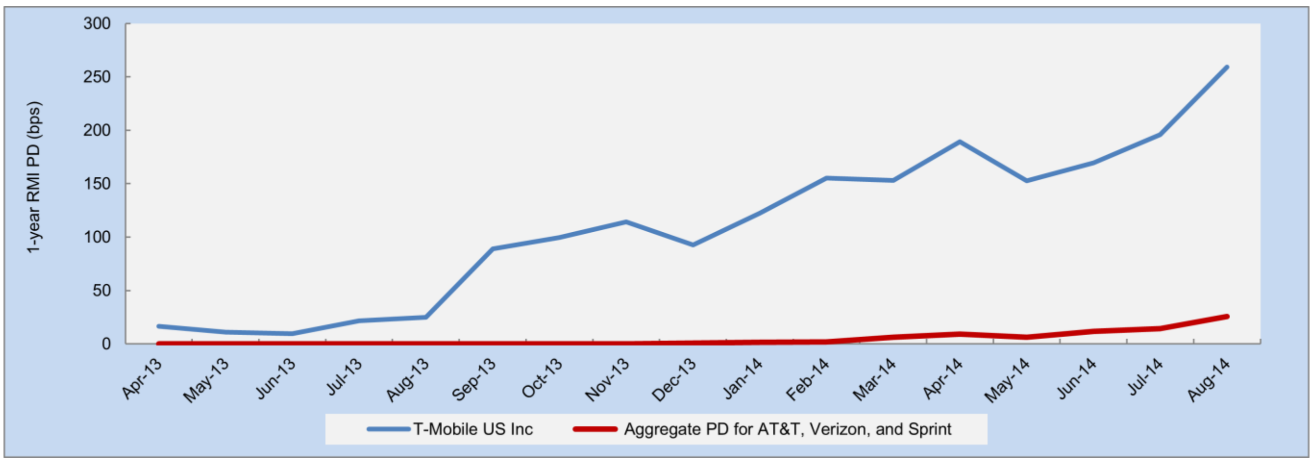

Figure 1: RMI 1-year PD for T-Mobile US and Aggregate PD for AT&T, Verizon, and Sprint. Source: *Risk Management Institute*

T-Mobile's "Uncarrier" Promotion helped its total subscription base to outgrow other players in the market, as shown in Table 1. However, Figure 2 demonstrates that its liabilities increase dramatically despite an increase in subscribers. At the end of 2012, T-Mobile's subscribers jumped from 8,886 to 44,016 thousands within a 6-months period, but at the same time, there was a 4.7 times increment of its liabilities during the stated period, from USD 6,831mn to USD 32,375mn. As a result, the increment of net income still failed to cover the increase in liabilities (USD 391mn compared to USD 1,088mn).

Total Wireless Subscriber Growth Rate					
	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014
AT&T	0.59%	1.46%	0.84%	5.11%	0.53%
Verizon	1.21%	1.02%	1.63%	0.52%	1.26%
Sprint	--	–	0.87%	-0.84%	-0.61%
T-Mobile	29.58%	2.32%	3.65%	5.12%	3.00%

Table 1: Total annual wireless subscriber growth for four main players in the US. Source: *Bloomberg*

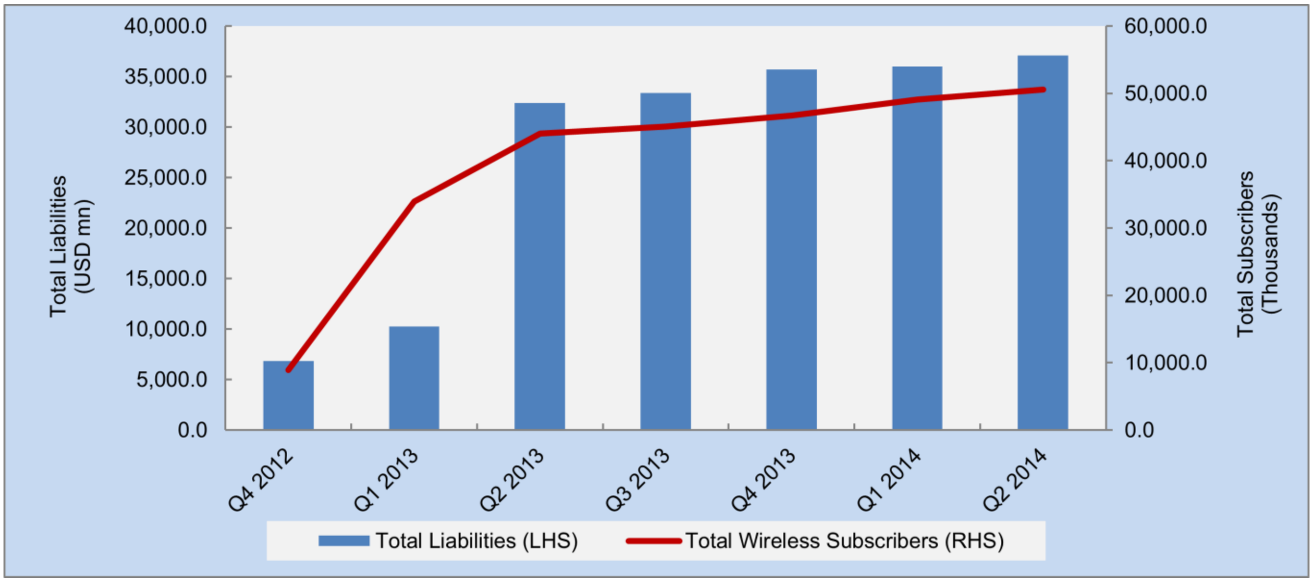

Figure 2: Total wireless subscribers and total liabilities of T-Mobile US Inc. Source: *Bloomberg*

The growth in subscription base also didn't translate to an improvement in the Wireless Average Revenue Per Unit (WARPU). Instead, WARPU as of Q4 2014, it fell to USD44.04, which is USD2.63 lower than a year ago.

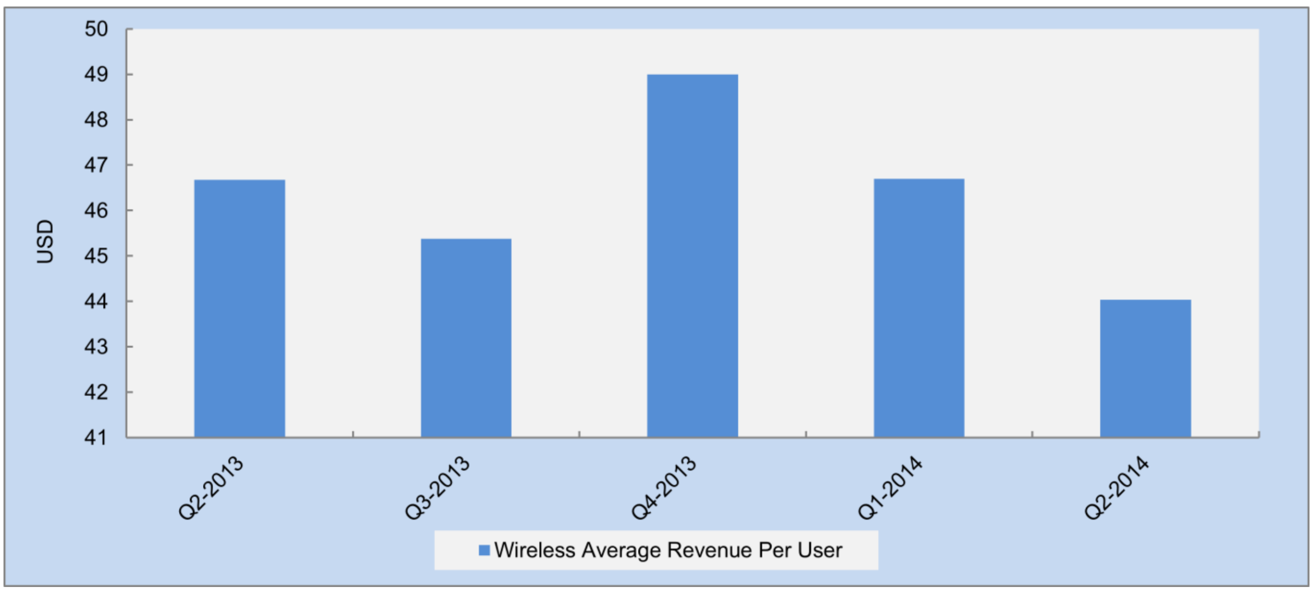

Figure 3: Wireless Average Revenue Per Unit for T-Mobile US Inc. Source: *Risk Management Institute, Bloomberg*

Unlike the bigger players, T-Mobile's low-frequency spectrum and fixed-line infrastructure are hampering its ability to compete in the long term. AT&T and Verizon, right now, own 73% of the coveted low-frequency airwaves, while Sprint and T-Mobile own only 10%. T-Mobile US may thus need fresh capital to join the bidding war for the upcoming 2015 spectrum auction to improve its telecom network coverage of airwaves.

Credit News

OCBC to raise USD 2.7bn to boost capital after Wing Hang deal

Aug 17. Singapore's second-largest bank, OCBC is raising USD 2.7bn via rights issue to strengthen its capital position after the recent acquisition of Hong Kong's Wing Hang Bank Ltd. In a statement issued on Aug 15, the bank said it will sell 440mn new shares at SGD 7.65 each, at a 25% discount to its price that day. OCBC had acquired Wing Hang Bank in a USD 4.95bn transaction and investors had expressed concerns that the deal would significantly reduce OCBC's Tier 1 capital from 14.7% to 11.2%. (Reuters)

Standard Bank writes off USD 80mn for Qingdao metal financing exposure

Aug 15. South Africa's Standard Bank has written off USD 80mn from its exposure to an aluminum financing fraud in Qingdao, China. Last month, the bank initiated legal procedures to secure its position for USD 210mn of aluminium held at various locations in China. The government is investigating the fraud, which also involves other banks including HSBC, ABN Amro and Standard Chartered. (SCMP)

Weibo narrows loss as new users boost advertising revenue

Aug 15. Weibo's Q2 loss narrowed from USD 35.1mn a year earlier to USD 15.4mn, helped by its strategic alliances with smartphone manufacturers. During Q2 2014, revenue at Weibo more than doubled to USD 77.3mn, which topped its forecast in May of USD 76mn. The number of daily active users increased 32% in the period from a year earlier after the company invested heavily in marketing and product development efforts to attract users. The company expects revenue to reach USD 79mn to USD 82mn in Q3. (Bloomberg)

Rosneft calls for state aid

Aug 14. Russia's largest oil company, Rosneft is calling for USD 42bn of government aid to survive Western sanctions against the company. The CEO of Rosneft has asked the Kremlin to authorize a payment from the National Wellbeing fund to buy Rosneft bonds as the US has stopped providing loans of a maturity over 90 days to Rosneft. The CEO of Rosneft has been asking for government aid to the energy industry, which is the backbone of Russia's economy, in order to reduce oil companies' reliance on foreign capital and equipment. (WSJ)

Wall Street faces pushback on CMBS deals as supply booms (Bloomberg)

Eurozone banks set to borrow EUR 250bn in cheap money from ECB (FT)

Regulatory Updates

China's top banks are raising capital and 'bad banks' are being created to absorb soured loans

Aug 17. China's four largest state-owned banks are on track to raise USD 73bn via debt and equity issuances this month to shore up their reserves. In order to restructure the balance sheets of the banks, asset-management companies or so-called bad-banks are also being set up to buy up the pile of nonperforming loans from bank's books. Additionally, banks are expected to raise additional capital through the issuance of preferred-share sales. (WSJ)

Fed and FDIC living wills 'wholly misunderstood' by US banks

Aug 14. The US Federal Deposit Insurance Corporation (FDIC) and the Federal Reserve criticized the resolution plans of 11 US banks after finding a number of key weaknesses in their capital plans that could "not facilitate an orderly resolution under the US Bankruptcy Code." The weaknesses prove that banks have wholly misunderstood what is expected from them, even if they might have consulted with one another through their compliance officers, heads of operations and legal teams. The confusion between lenders may have resulted from their understanding over the method regulators used to evaluate banks' plans for living wills. It is unclear whether the banks should show what they have done so far, what changes they have made based on last week's feedback and why and how that addresses regulators' resolvability concern or whether the principles–based approach is being taken. (Risk.net)

German corporations face stricter supervision of their reporting obligations on Emir enforcement

Aug 13. As part of the European Market Infrastructure Regulation (EMIR) that came in force in Feb 2014, German corporations are set to face stricter supervision of their reporting obligations relating to their derivatives transactions. The new law covers all financial counterparties, as well as any non-financial corporates with more than EUR 100mn notional in outstanding over-the-counter derivatives. External auditors will be responsible for additional oversight on behalf of the regulator and corporations will have to pay for the new mandated checks. Apart from Germany, Ireland and the Netherlands are said to be considering a similar system. (Risk.net)

US banks push to delay rule on investments

Aug 12. Banks in the US are pressing regulators to allow delay in requiring them to sell their investments in private-equity and venture-capital funds as dictated by the Volcker Rule, an important provision of the 2010 Dodd-Frank law. Bank officials, trade groups and lawmakers are seeking a reprieve of up to seven years to liquidate their investments, otherwise they may be forced to sell their interests by mid-2015. However, the banks have warned that their holdings are illiquid and that they won't be able to sell their stakes at reasonable prices if they must do so by next year's deadline. (WSJ)

Fed orders banks to break open black boxes (Risk.Net)

ECB says banks bending stress-test rules will get red light (Bloomberg)

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