NUS National University of Singapore | RMI Advancing Risk Management for Singapore and Beyond
Transforming Big Data into Smart Data
Weekly Credit Brief Dec 17 - Dec 23 2013

Stories of the Week

‘Obamacare’ and biotech firms boost healthcare sector.
By Chiranjiv Sawhney

On March 23, 2010, the Patient Protection and Affordable Care Act (later named Obamacare by the media) was signed into US law by President Barack Obama. Early implementation of the same was engulfed in website failures and low sign-up rates and received negative feedback from customers, media and politicians. Notwithstanding all these debates on Obamacare, healthcare companies have emerged winners

S&P 500 Healthcare index has risen 69 percent since the passage of the 2010 Act, outperforming the broader S&P 500 index by 14 percentage points. More than half of this increase has come in 2013, in the run up to the rollout of the healthcare program. It is estimated that there are nearly 50 million men, women and children the United States without insurance. A successful rollout of the program thus aims to bring millions of new customers to the healthcare services firms. It would bring increased revenue to drug firms, insurers and allow hospitals to have fewer bad debts on their books. Even though the US Federal Reserve would begin tapering next year, it vowed to continue keeping interest rates low and signaled a rosy picture for the US economy.

The positives for the healthcare sector are visible in the RMI aggregate PD for 198 US healthcare services stocks. The aggregate RMI PD has fallen from a high of 50bps in May 2012 to just 18bp on November 2013.

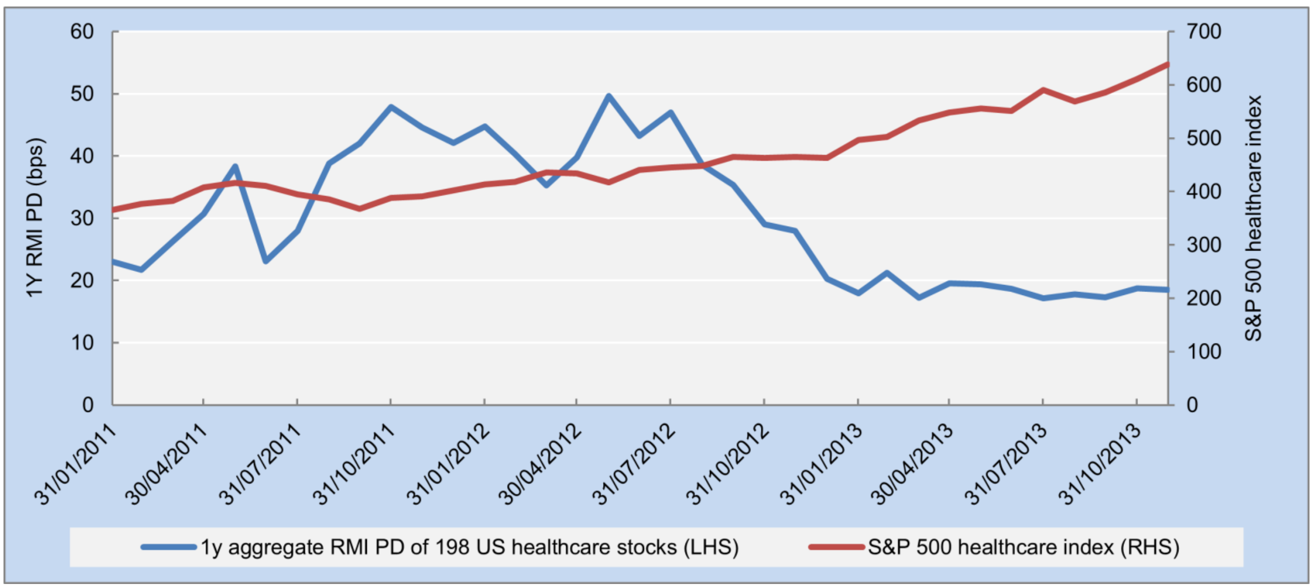

Figure1: 1-year aggregate RMI PD for 198 US healthcare services companies and S&P 500 healthcare index. *Source: Risk Management Institute*

The real stars of the healthcare industry however have been the biotechnology firms. Stocks of biotech firms Celldex Therapeutics, Acadia Pharmaceuticals and Aegerion Pharmaceuticals have returned 247%, 919% and 158% respectively this year. As a result, the level of these firms’ market capitalization to the economy’s median market capitalization (an input into RMI PD model) has increased, contributing to a decrease in RMI PD. The RMI PD for all these firms was under 10bp at the time of writing.

Sources:
Obamacarefacts (Obamacarefacts)

Dirty linen: Aussino tables insolvency proceedings, resulting a spike in RMI PD

By James Weston

On 18 December, Singapore-listed Aussino Group Ltd (Aussino), a premium bed linen retailer with outlets across the globe, said it could request judicial management or begin winding-up procedures in the near future. Trading of Aussino shares was suspended by SGX on December 23 until completion of the delisting. A delisting notification was tendered to the company by the Singapore Exchange (SGX) on November 21. This caused the company's RMI probability of default (RMI PD) to increase dramatically in November, due to a large decline in the company's market capitalization, a key input for RMI's PD model. Aussino is unable to offer shareholders a cash exit due to continued poor financial performance, and has not received any exit offers from third parties, leaving insolvency proceedings as the only option.

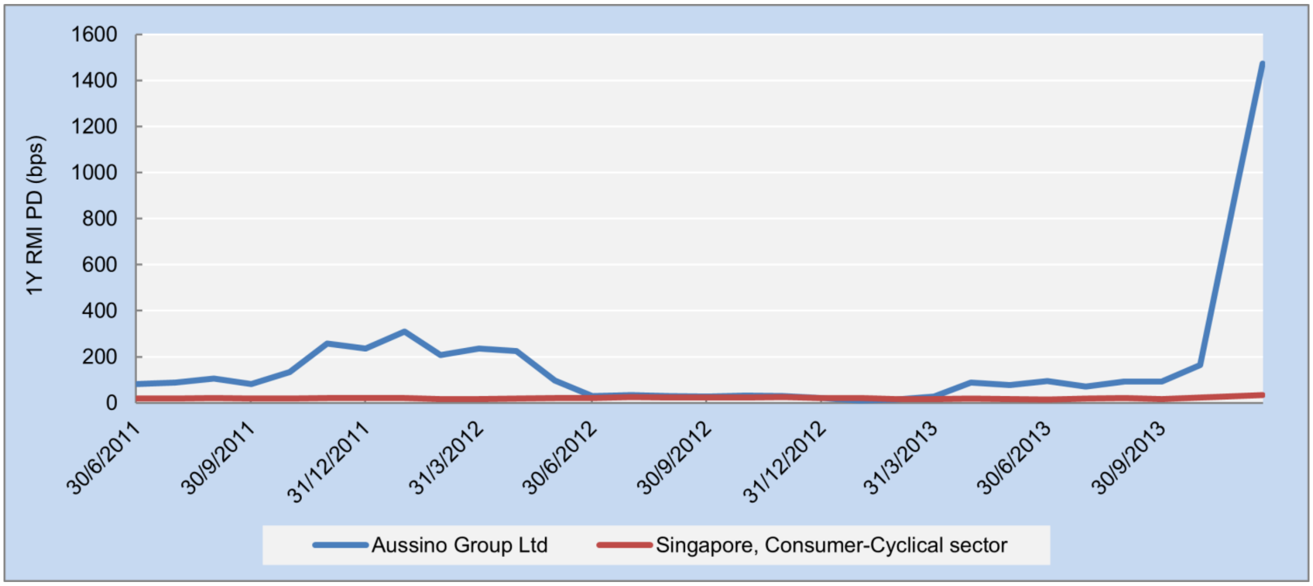

Figure 2: 1-year RMI PD for Aussino Group Ltd and 1-year aggregate RMI PD for the Singapore Consumer-Cyclical sector.
Source: Risk Management Institute

The company continued to post losses over the last two years, with the company increasingly negative cash-flow in recent quarters (See Figure 2). The company has made moves to sell properties it owns in China with total book value of SGD 4.6mn to help offset large outstanding payables. Aussino's distance to default (DTD) is currently negative, reflecting a market belief that the company's asset will be insufficient to cover its liabilities, meaning shareholders are unlikely to recover any value from their investments and creditors could face potential losses. DTD is a volatility adjusted leverage measure and a key input into RMIs PD model. A reverse takeover by Max Myanmar Group, which would have seen Aussino diversify into the retail energy business in Myanmar and could have been the company's white knight, was rejected by SGX in April on concerns surrounding the owner of Max Myanmar, who is on the US Sanction list.

Aussino Group Ltd	Q1 FY14	Q4 FY13	Q3 FY13	Q2 FY13	Q1 FY13	FY 2013	FY 2012
Net Revenues	5,463	7,077	8,811	9,367	8,935	34,190	46,541
Cost of Sales	3,066	4,188	4,981	5,213	5,319	19,701	28,620
Admin & Other Expeses	3,310	6,567	5,080	4,840	4,154	20,641	29,368
EBITDA	**(913)**	**(3,678)**	**(1,250)**	**(686)**	**(538)**	**(6,152)**	**(11,447)**
Depreciation Expense	254	805	304	309	293	1,711	1,339
Financial Expense/(Income)	1	94	3	11	7	148	245
Income Tax Expense/(Benefit)		(71)		100		29	(141)
Net Income	(1,168)	(4,506)	(1,557)	(1,106)	(838)	(8,040)	(12,890)
Working Capital Needs	(2,730)	(1,210)	(5,224)	(3,984)	(1,333)	(1,210)	(2,882)
CFO	(1,003)	(2,056)	510	(1,611)	2,025	(1,132)	(3,468)
CL	15,844	19,747	22,764	23,518	19,429	19,747	23,036
Cash / Near Cash	1,095	1,057	1,761	1,925	1,149	1,057	3,958

TA	17,129	22,820	28,550	30,844	29,004		22,820	33,918

Aussino Group Ltd	Q1 FY14	Q4 FY13	Q3 FY13	Q2 FY13	Q1 FY13	2	FY 2013	FY 2012
RMI DTD (Dec 19: -0.52)	**1.12**	**1.07**	**2.06**	**2.04**	**1.11**		**1.07**	**5.37**
Net Debt	14,749	18,690	21,003	21,593	18,280		18,690	19,078
Cash / TA (RMI Adjusted)	6.39%	4.63%	6.17%	6.24%	3.96%		4.63%	11.67%
Cash / CL	0.07x	0.05x	0.08x	0.08x	0.06x		0.05x	0.17x

Figure 3: Pro-forma financials for Aussino. Figures are in SGD '000, except for RMI DTD and where otherwise indicated. Aussino's financial year ends June 30th. *Source: Company financial reports, Risk Management Institute*

In the News

European union stripped of AAA credit rating at S&P

Dec 20. European union lost its AAA credit rating from the rating agency S&P late last week. S&P cut the rating by one notch to AA+ with a stable outlook. The rating agency cited deteriorating credit worthiness of the 28 member nations of the European bloc. Last month, Netherlands, a member nation had its rating cut from AAA by S&P. (Bloomberg)

Fed Seen Tapering QE in $10 Billion Steps in Next Seven Meetings

Dec 20. The Fed Open Market Committee said in its statement that it will slow buying "in further measured steps at future meetings" if the economy improves as expected. Fed chief Ben Bernanke said in the post meeting press conference that the Fed may taper about USD10bn per gathering. As per a survey of economists by Bloomberg, the Fed is likely to reduce its bond purchases in USD10bn increments over the next seven Fed meetings. (Bloomberg)

Spanish defaults surge as banks forced to come clean: mortgages

Dec 18. Foreclosures are on the rise in troubled eurozone nation Spain, where persistently high unemployment and a sluggish economic recovery is hurting the ability of borrowers to meet mortgage repayments. About 150,000 families have suffered foreclosures since 2008, while another 350,000 families may be foreclosed in the next two years as new central bank regulations force lenders to book more troubled mortgages. With house prices falling an average of 40% since 2007, and the proportion of total defaulted loans reaching a new peak last month, Spanish banks are expected to have to set aside money to cover losses and suffer a reduction in profits. (Bloomberg)

Ukraine, Russia sign economic deal despite protests

Dec 17. Amid a backdrop of continuous protests in Kiev, Ukrainian President Viktor Yanukovych met Russian President Vladmir Putin in Moscow to sign an economic deal. As per the deal, Russia will buy USD15bn of Ukrainian debt by investing in its national welfare fund. Russia will also give gas to Ukraine at a discounted price of USD268.50 per 1000 cubic meters from an earlier price of USD400 for the same volume. (CNN)

EU agrees deposit guarantee scheme deal (FT)

Italy steps up supervision of lenders (FT)

S&P upgrades Mexico credit rating, hails energy bill (Reuters)

Indonesian bank stocks fall after c.bank raises capital requirements (Reuters**)**

Indonesian Rupiah Hits 2008 Low, Bonds Drop as Fed Cuts Stimulus (Bloomberg)

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