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Transforming Big Data into Smart Data
Weekly Credit Brief Sep 03 - Sep 09 2013

Story of the Week

RMI PD for Nokia declines to a three and a half year low

Software giant Microsoft agreed last week to purchase all of Nokia's Devices & Services business, license Nokia's patents, and license and use Nokia's mapping service. The acquisition of Nokia's mobile businesses will cost Microsoft EUR 5.44bn in cash. The deal lifted Nokia's market capitalization to EUR 14.86bn on the day of the announcement from EUR 11.10bn a day before, while yields on its 10 year bonds fell to 5.06% from 6.30%. Reflecting a lower default risk for the mobile phone manufacturer, the RMI 1-year probability of default (RMI PD) for Nokia fell to a 3.5 year low of 7.1bps on September 09, from a high of close to 90bp just last year.

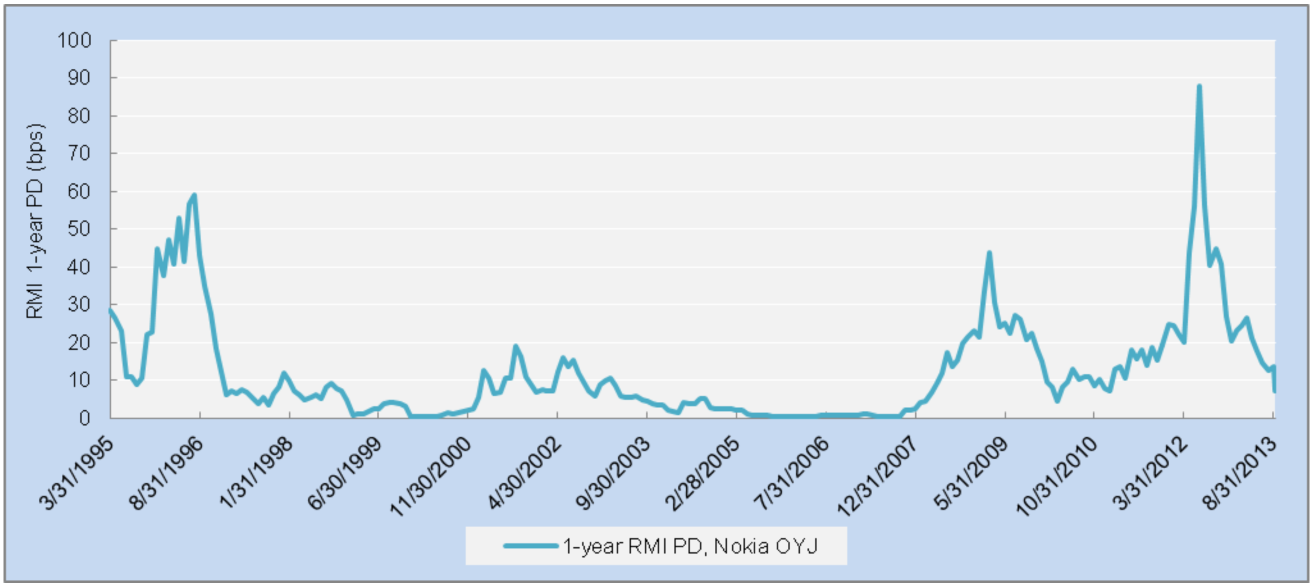

Figure 1 shows the RMI PD for Nokia between 1995 and 2013. The company's PD rose to an all-time high of 88bps in June 2012 on concerns over falling market share and a severe decline in mobile phone unit sales that resulted in Nokia suffering losses. The company reported a record net loss of EUR 1.41bn during Q2 2012. Nokia's earnings gradually improved to EUR -969mn and EUR 202mn in Q3 2012 and Q4 2012 respectively. The company launched the Nokia Lumia 920 and Nokia Lumia 820, the first devices in Nokia's Windows Phone 8 range in the second half of 2012. At the same time, the RMI PD for Nokia dropped to 20.37bps as the credit profile for the company improved.

Microsoft's acquisition of Nokia is expected to increase its profit and share in mobile phone devices through increased synergies and unified branding and marketing. The US Company will finance the purchase through its overseas cash resources. (The company recorded USD 69.3bn of cash in foreign subsidiaries as of June 30) The operations that are planned to be transferred to Microsoft could generate some EUR 14.9bn (which is more than what Microsoft paid for the company), or almost 50% of Nokia's net sales for the full year 2012. Additionally, the software giant would benefit from Nokia's product engineering, award-winning design and global sales, marketing and manufacturing expertise.

Although, Moody's Investors Service downgraded credit ratings on Nokia's senior unsecured notes to B1 on August 23, 2013, a few days before the deal between Microsoft and Nokia was announced. The CRA said that the company was facing challenges in its businesses and would not reach a break even on a cash flow basis until 2014, at the earliest. Moody's noted that Nokia and Windows Phone were gaining traction in establishing themselves as a third mobile operating system behind Apple's Ios and Google's Android. Nevertheless, the CRA cut the company's ratings as Nokia shipped 13.5mn devices in the first half of 2013. Operating margins and cash flows for the firm were also negative in the same period.

In the News

Billionaire's airport bonds sunk by Latam row

Sep 06. Borrowing costs at billionaire Eduardo Eurneekian's airport in Buenos Aires are climbing by the most in eight months versus Argentine corporate issuers on investor concerns in increasing government control over the industry. Aeropuertos Argentina 2000 SA's bonds due 2020 have sunk 2.75 cents to 93.19 cents on the dollar since August 21, when regulators ordered Latam Airlines Group SA to abandon a hangar at the Aeroparque Jorge Newbery airport in ten days' time. Yields on the notes surged 0.93% to 12.99%, a little less than double the increase for Argentine corporate borrowers, according to JPMorgan Chase & Co. (Bloomberg)

Junk sales sprint toward record in rate refuge

Sep 06. The amount of junk bonds issued so far this year has far exceeded the amount of offerings last year by USD 44.8bn. Sales this year of USD 249.4bn are on track to surpass 2012's record amount of USD 353.1bn. Companies have been rushing to issue more debt before interest rates rise any further. 10-year US Treasury yields have risen to their highest levels since 2011 as most market observers expect the Federal Reserve to reduce its stimulus in September. The strong demand for high yields allowed Sprint to sell 63% more debt than it intended on September 4. Sprint's recent issuance has made it the largest speculative debt deal since June 2008 after it sold USD 4.25bn of 10-year bonds at 7.875% and USD 2.25bn of 8-year bonds at 7.25%. (Bloomberg)

Shiller warns of housing bubble after 225% surge

Sep 06. Prominent American economist Robert Shiller warned that a housing bubble is emerging in Brazil at a time of sluggish economic growth and persistent inflation. Home prices have surged 181% and 225% in Sao Paulo and Rio de Janeiro respectively, more than double the increase in rent prices, a clear signal that the housing market has become overheated, according to Mr Shiller. The Yale university professor who predicted the collapse of the US housing market suspects housing bubbles are brewing in emerging economies including China, Taiwan, India, Russia, Colombia, Canada and Hong Kong. (Bloomberg)

Slovenia to liquidate two small banks as bailout looms

Sep 06. Slovenia's central bank announced last Friday the liquidation of two small banks, Factor Banka and Probanka, in an attempt to boost the stability of its banking sector. Guarantees of EUR 540mn and EUR 490mn respectively were provided by the government to repay depositors in the two banks and prevent a bank run. Although the two banks are amongst the smallest lenders in the country, the liquidation is set to bring fears that Slovenia might be bound for a bailout to the fore. The local banking sector has been heavily affected by about EUR 7.5bn in bad loans, a sum exceeding 20% of national GDP. (Reuters)

Malaysia's risk tops Philippines on Najib Budget Gap

Sep 06. The cost of insuring against a Malaysian government default surpassed that of the Philippines for the first time on September 6, as credit default swaps (CDS) for Malaysian sovereign bonds climbed 63bps to 141bps. The yield on Malaysia's 10-year debt also increased 44bps to 3.92%, 16bps higher than the yield on similar maturity Philippine notes. While Malaysia's rising public debt has led to an outlook downgrade by Fitch Ratings from 'stable' to 'negative' at the end of July, the Philippines' Ba1-rated sovereign debt is poised for an upgrade by Moody's Investor Services. (Bloomberg)

China's bad debt could leave USD 500bn equity hole

Sep 04. China's bad debts level could reach USD 500bn if eleven of the country's biggest lenders fail to recover 10% of their loans, according to a Breaking views calculator. Even though the Chinese banking industry appears to be in healthy shape, many of the banks are facing challenges with their overdue loans. In fact, some of the banks are simply rolling over their bad debts. Chinese banks may however choose to not to resolve this bad debt problem yet as they have healthy incomes from the sale of wealth products and credit cards. (Reuters)

S&P forecasts potential risks in credit rating for Korean companies

Sep 04. An analysis by S&P indicated that Korean companies' credit ratings have dropped to levels below 2009 due to falling overseas market demand. Slower economic growth in China and a weakening JPY are the main reasons cited for an overall decrease in ratings for domestic firms. However, downward ratings pressure could be alleviated with the efforts by the steel, oil, and chemical industries, and state-owned companies, to reduce spending. (Business Korea)

Banks' foreign liquidity conditions remain sound (GlobalPost)

China record drop in credit growth puts momentum at risk (Bloomberg)

Financial regulator pushes banks to lend more to small businesses (Japan Today)

IMF warns Norway over housing bubble (FT)

Moody's lifts outlook for German banks for first time since 2008 (Reuters)

Worst losses since 1999 defy history's rally signal (Bloomberg)

Moody's downgrades Australian banks' subordinated debt (Bloomberg)

Rupiah forwards surge most in three years on exports outlook (The Jakarta Globe)

Indonesia prepares rescue package to counter tapering US QE (Xin Hua)

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