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Transforming Big Data into Smart Data

Weekly Credit Brief

Feb 04 - Feb 10 2014

Story of the Week

Panasonic capitalizes on Abenomics, Sony falls from grace

Over the course of 2013, the 1-year RMI probabilities of default (RMI PDs) of two of Japan's largest consumer electronics firms, Panasonic Corp and Sony Corp, trended in opposite directions. At the beginning of 2013, 1-year RMI PD for Panasonic was at 57bps, while that for Sony was 29bps. But, now, the 1-year RMI PD for Panasonic has decreased from double-digit to a measly 7.4bps. On the other hand the same measure for Sony has risen, and is currently at 38bps (see Figure A1).

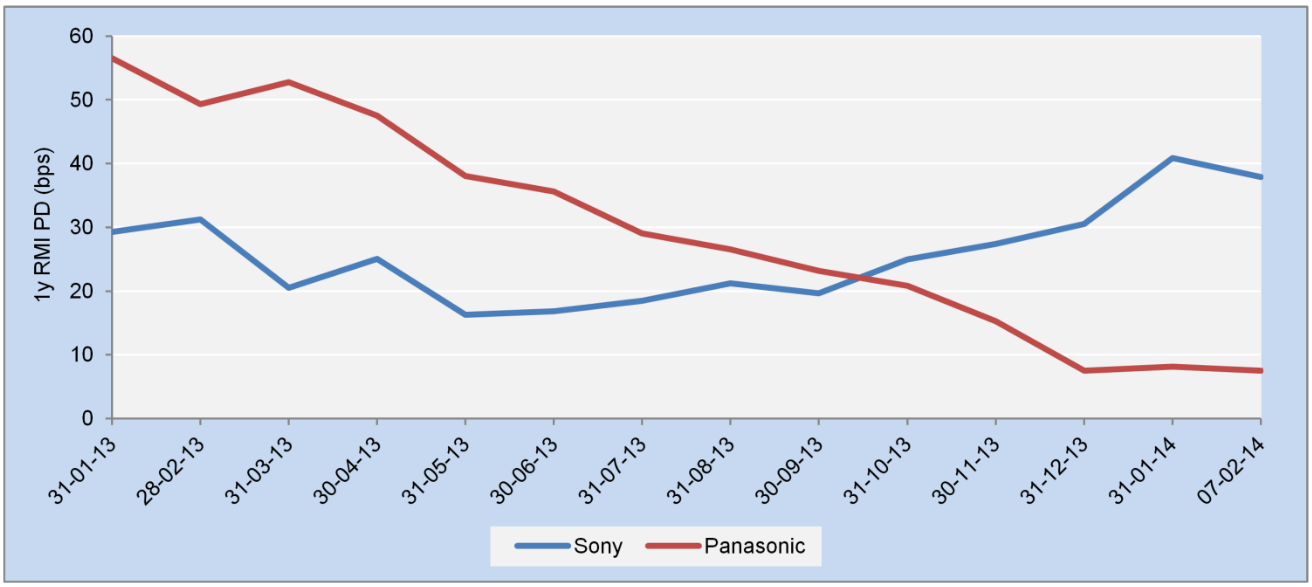

Figure A1: 1-year RMI PD for Panasonic Corp. and Sony Corp. *Source: The Risk Management Institute*

Abenomics

Since Prime Minister Shinzo Abe' took office in December 2012, the Japanese government and central bank have laboriously delivered the three-pronged 'Abenomics' policy strategy of fiscal stimulus, monetary easing and structural reforms. These policies have had enormous effects on the markets, taking the USDJPY pair to a multi-year high of 105.44 on January 2, 2014 and the Nikkei Stock Index to a five-year high of 16320 on December 30, 2013. The depreciation of JPY was particularly beneficial for a number of export oriented Japanese firms. Partly reflecting the export orientated dependence of the Japanese economy, the aggregate 1-year RMI PD for Japanese non-cyclical consumer firms fell from 14bps in November 2012 to 9.4bps at the end of January 2014.

Panasonic

Panasonic complemented this favorable macroeconomic policy with ahead-of-the-curve restructuring, resulting in high profitability and strong growth. After losing nearly USD 15bn in the previous two years, Panasonic restructured itself as a force in the automotive electronics and construction sectors while trimming smartphone and circuit board operations, and exiting plasma panel production.

In Q3 FY2014, Panasonic's automotive and industrial systems divisions posted a profit of JPY 28.2bn while its household fittings and appliances earned JPY 32.1bn. Both these sectors have benefited from the reflationary policies of Abenomics. The group's operating profit more than tripled from last year to JPY116.6 bn on a 10 percent increase in sales. The improvement in fundamentals has taken the distance-to-default (DTD) for Panasonic to 4.27 on February 7, 2014 from 1.65 at the end of January 2013. DTD is a volatility-adjusted measure of a firm's leverage, with numbers close to or below zero suggesting potential insolvency. The ratio of market to book value for Panasonic also rose to 1.23 times on February 7, 2014 from 1.05 times at the end of January 2013.

Sony

Sony Corp. on the other hand, failed to leverage on the beneficial economic environment of Japan. The company delayed restructuring and continued with its long-ailing computer and television businesses (see Figure A2 for comparison between restructuring costs of Panasonic and Sony). As a result, the company announced that it forecasts a net loss of JPY 110bn for the financial year ending March 31, 2014. This is much worse than the forecast it gave in October for a JPY 30bn profit. Forecast for full-year operating income was also revised downwards to JPY80bn from JPY 170bn forecasted in October. Following the earnings reductions, Sony also revised lower its forecast for smartphone shipment due to intensifying competition.

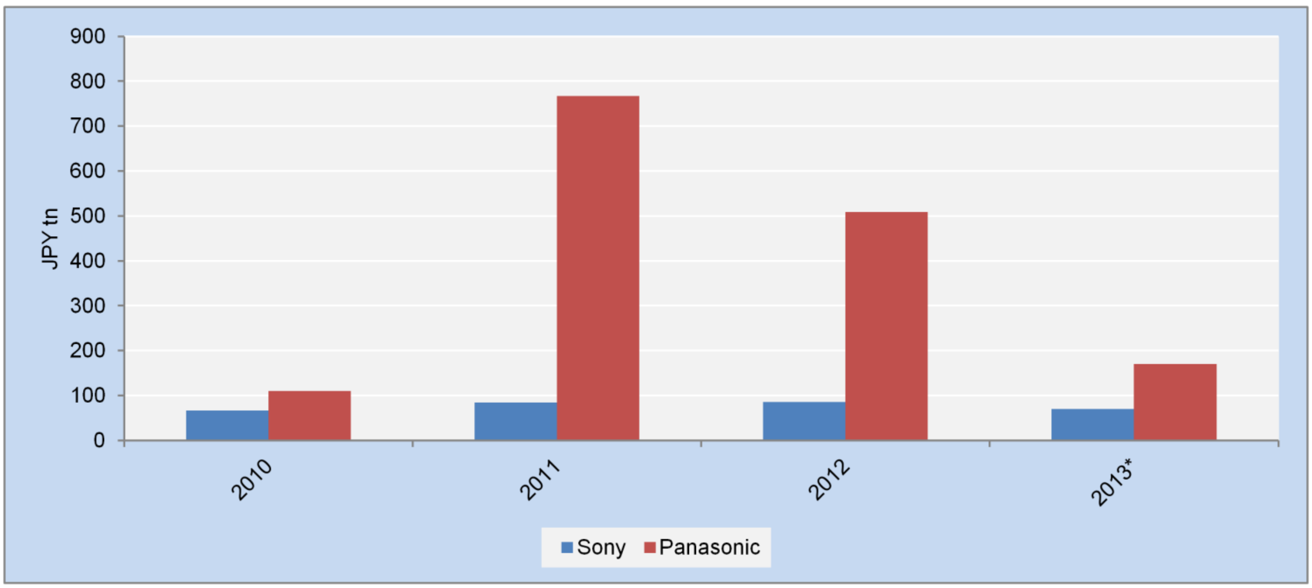

Figure A2: Restructuring charges for Sony and Panasonic. * Company estimates. *Source: Bloomberg, The Risk Management Institute*

Along with the financials, the company also announced a plan to sell off its PC business and split off its television business unit after 10 years of losses. It was also announced that this restructuring will eliminate close to 5,000 jobs – 1,500 in Japan and 3,500 overseas.

In the News

OGX creditors to inject USD 215mn as Batista bows out

Feb 08. Creditors to OGX, led by Pacific Investment Management Co., agreed last week to the terms of USD 215mn in funding for Oleo & Gas Participacoes SA (OGXP3) that will take away control from ex-billionaire Eike Batista. As per the arrangement, OGX will issue debentures in two tranches, with the first USD 125mn expected in mid-February. The agreement is subject to regulatory approval. (Bloomberg)

China central bank urges proper management of risk, liquidity

Feb 08. The People's Bank of China (PBOC), China's central bank, urged commercial banks to manage liquidity wisely, while pledging to keep monetary policy stable and crack down on risky lending. In its quarterly monetary report released last week, the central bank said that regulations will be tightened in risky lending areas such as the property market, overcapacity industries and local government financing vehicles. The PBOC also reiterated its plans to push forward reforms to the currency exchange rate and interest rate systems, as well as support a deposit insurance programme and also to improve communication with the market and the public. (Reuters)

Volcker Rule CLOs emerge as issuance plunge 60%

Feb 07. Sales of US collateralized loan obligations (CLO) dropped 60% in January to USD 2.55bn as new regulations under the Volcker Rule restrict financing to borrowers in the debt markets. Banks who oversee nearly USD 70bn of CLO debt may not be allowed to invest further in such instruments, and may be forced to sell their existing holdings. The sales could dampen prices and lead to further selling. A spokesman for the Federal Reserve said that law makers are assessing the impact of the Volcker Rule on markets, and the proposed treatment of CLOs is the top priority for the interagency group's agenda. Distinctions between which securities can be included in a CLO could be worked out in the final amendments to the Volcker Rule. (Bloomberg)

Indonesia's Growth Beats Estimates as Rebound Seen Faltering

Feb 5. Although Indonesia's 2013 Q4 GDP growth of 5.72% YoY surpassed estimates on better performing exports, the upside surprise is not expected to last as domestic consumption and investment will eventually be dampened by Bank Indonesia's tight monetary policy. In its effort to support the rupiah and contain inflation, Bank Indonesia had raised its main reference rate by 175bps since last May. Overall, the Indonesian economy grew 5.28% over the course of 2013 and is forecasted to expand between 5.8% and 6.2% this year. Meanwhile, inflation has remained stubbornly high at above 8% for the past half a year following the curbing of fuel subsidies by the Indonesian government to balance its budget. Thus, the Bank Indonesia rate is not expected to fall anytime soon. (Bloomberg)

ECB rejects deflation fears as it holds rates at 0.25% (BBC)

European banks have USD 3tn of exposure to emerging markets (Reuters)

Turkey outlook cut by S&P citing 'hard landing' risk (Bloomberg)

PBOC signals money-market volatility as China seeks to tame debt (Bloomberg)

S&P warns of higher risk in bank bail-in bonds (FT)

Najib belies Fitch deficit warning with best bonds (Bloomberg)

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