Credit Research Initiative
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Windy expansion jeopardized Sinovel

by Xu Meng

Sinovel Wind Group Company (Sinovel), the second largest turbine manufacturer in China with USD 2.8bn market cap, is facing serious financial troubles due to its aggressive expansion in the past four years. The latest financial statements proved that its strategy has been largely unsuccessful. As shown in Table 1, Sinovel's revenue was halved to USD 752mn for the last 12 months ended in Sep 2014 from USD 1.47bn in 2011, while its operating expense almost doubled to USD 293mn from USD 164mn. The decrease in revenue resulted from the failure of Sinovel's low-value-added products to attract customers and the increasingly intensified competition in wind turbine industry. Unlike its key competitors, such as Xinjiang Goldwind and Xiangtan Electric Manufacturing, which achieved positive net income, Sinovel experienced negative net income for two consecutive years due to its aggressive expansion and ineffective cost control which failed to keep its operating expenses in line with its revenues. On top of that, Sinovel's cash flow from operating activities remained negative in the past five years. As a result, its cash and cash equivalents have been on a decreasing trend since the IPO in Jan 2011, as shown in Table 1.

To deal with the liquidity problem, Sinovel recently passed a deal to sell its accounts receivables worth CNY 1.78bn to Fu Hai Xin Neng Investment Center and Da Lian Hua Neng Investment Centre in exchange for cash.

Year	Revenue	Operating expense	Operating cash flow
2010	2,995	140	-164
2011	1,466	164	-942
2012	643	140	-110
2013	595	316	-376
Last 12M	752	293	-202

Table 1: Revenue, operating expense, and operating cash flow of Sinovel (USD mn). Source: *Bloomberg*

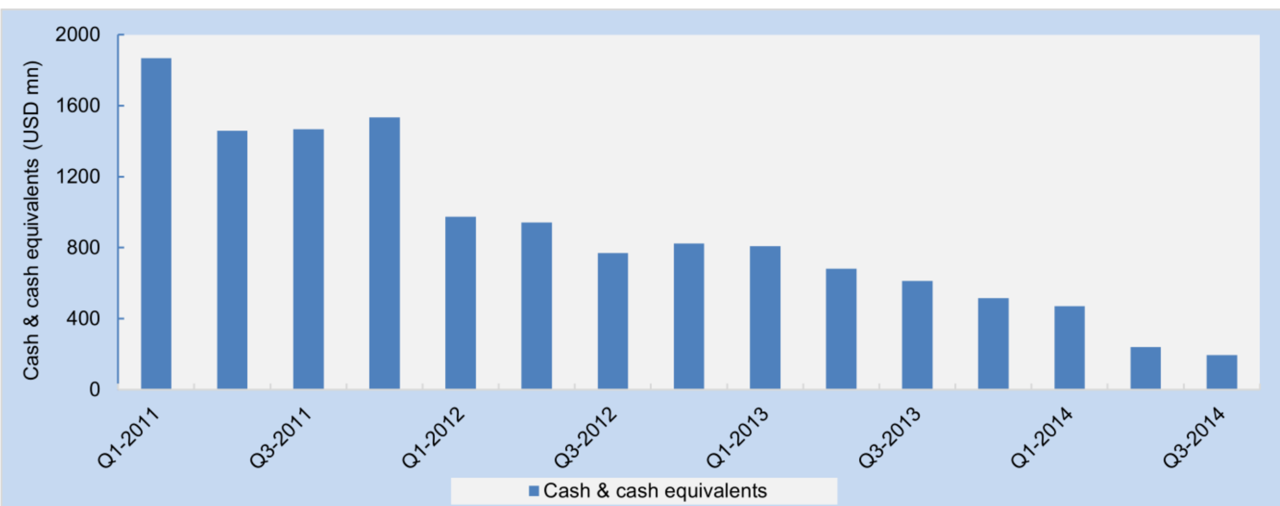

Figure 1: Cash & cash equivalents of Sinovel (USD mn). Source: *Bloomberg*

As shown in Figure 2, Sinovel's credit profile worsened seriously; the Sinovel's RMI 1-year Probability of Default (RMI 1-year PD) increased significantly to 130.43bps in Dec 26, 2014 from 18.79bps in Sep 2011, while the RMI aggregate 1-year PD of wind turbine manufacturers in China only fluctuated between 60bps to 80bps in the past three years.

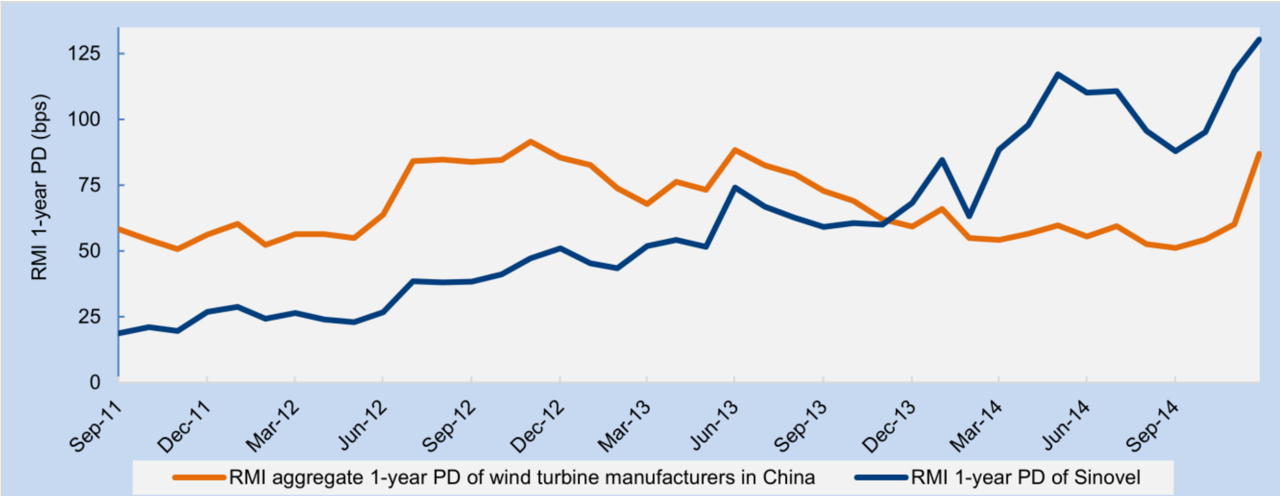

Figure 2: RMI aggregate 1-year PD of Sinovel versus RMI aggregate 1-year PD of wind turbine manufacturers in China. Source: *Risk Management Institute*

In addition, Sinovel's relationship with its customers is probably at the lowest point as it was sued by one of its loyal customers, Huaneng Renewable, seeking CNY 90.6mn in damages. Sinovel was also sued recently by one of its suppliers, CSSC Chengxi Shipyard over CNY 152mn worth of unpaid wind towers. According to an anonymous Sinovel staff, Sinovel is now focusing on capital collection from upstream and downstream so that the company can improve its annual report.

Source:
Sinovel seeks to avert default by selling receivables owed (Bloomberg)
Huaneng sues Sinovel for USD 14.7mn (Recharge)
CSSC Chengxi Shipyard sues Sinovel Wind Group (IHS Maritime 360)
Sinovel Wind shuts four overseas subsidiaries (China Daily)

Credit News
U.S. Bond Sentiment Is Worst Since Disastrous '09 as Fed Shifts **Dec 30.** With Federal Reserve Chair Janet Yellen poised to raise interest rates in 2015 for the first time in almost a decade, people expect Treasury yields have nowhere to go except up. According to data compiled by Bloomberg, their calls for higher yields next year are the most aggressive since 2009, when U.S. debt securities suffered record losses. Even as the bond market's inflation outlook tumbles and economy strengthens, forecasters are sticking to the view that Treasuries are a losing proposition with a disastrous next year for U.S. government bonds. (Bloomberg)
Petrobras deadline prompts some bondholders to push for default **Dec 30.** Petrobras, a Brazil's state-run oil company, could be declared in technical default on some of its foreign debt as early as Tuesday if bondholders pursue efforts to force it to speed up its assessment of losses in a giant corruption scandal. According to the terms of those bonds, Petrobras should provide the third-quarter financial statements within 90 days of the end of a quarter, in this case by Monday, Dec 29. However, in the statement on Monday, Petrobras has extended the deadline to Jan 31 as new corruption allegations came to light, saying it had a waiver from investors but not giving any details. A January release of unaudited results will meet obligations to creditors and prevent a forced early repayment of debt, Petrobras said in a statement Monday. (Reuters)

Third of listed UK oil and gas drillers face bankruptcy

Dec 29. As crude oil price plunges, a third of Britain's listed oil and gas companies are potentially running out of working capital and even going bankrupt, and 70% of listed oil exploration and production companies are expected unprofitable with a gross loss of GBP 1.8bn in the region. UK listed drillers who mostly produce and discover relative expansive oil are suffering from the low cost of crude. And highly leveraged private-owned oil and gas explorers are expected to experience greater losses. (The Telegraph)

Fears for fresh Greek crisis after poll called

Dec 29. Athens called a snap general election where the anti-bailout Syriza party was highly likely to come into power, causing fears of a fresh Greek crisis. Syriza, with a prospect of winning the election, has pledged to write off much of Greece's debt and renegotiate the terms of its bailout. Fears among investors were reflected by almost 11% fall of Athens bourse to a two-year low as well as 9.8% Greek 10-year bond yields at year high and 12% government's short-term borrowing costs at record high. (FT)

Ting Hsin's NTD 6.5bn loan due by year's end (China Post)

AirAsia shares fall 11% after plane goes missing (Reuters)

Argentine Economy Contracts First Time Since 2012 on Default (Bloomberg)

Regulatory Updates

Japan's regional banks face stress test for ultra-low rates

Dec 30. Unlike regulatory tests elsewhere, Japan's financial regulator is running stress tests to see if too much cash in the system is stifling smaller banks' ability to earn, with the Financial Services Agency (FSA) initiating the tests on concerns on near a record low on 10-year Japanese government bond yields around 0.3%. The action highlights one of the unintended risks of Prime Minister Abe's program to fight deflation, keeping interest rates at rock bottom. While Japan's over 100 regional banks account for around 40% of the country's USD 4.6tn in outstanding loans, overall loan demand has shrunk 10% over the last 20 years. Earlier this month, 10 regional banks joined a syndicate of lenders in providing a USD 375mn loan to a major trader of commodities based in the United States. (DT)

China easing rules to boost lending

Dec 25. China's central bank is allowing banks to lend more out of their deposits as the world's second-largest economy struggles to gain momentum. Officials at the People's Bank of China revealed in a closed-door meeting that the central bank will soon relax a major restraint on banks' abilities to make loans. Analysts estimate the move is roughly equivalent to injecting USD 242bn into the banking system, with Shanghai's benchmark stock index rising 3.4% on Thursday amid reports of the move. However, as banks struggling with falling profits and rising bad-loan levels, economists warn the move may be inadequate and that the Chinese government may miss its annual growth target for 2014 - the first time since the 1998 Asian financial crisis. (MarketWatch)

SEC Faults Rating Firms for Rule Lapses, Lax Cybersecurity

Dec 24. U.S. securities regulators faulted the credit-rating industry for a variety of lapses in adhering to Securities and Exchange Commission rules, including lax Cybersecurity in two annual SEC reports based on reviews of the 10 credit-rating firms registered with the agency. Despite industry growth, the industry remains highly concentrated among the three largest firms, Standard & Poor's, Moody's, and Fitch, which the agency said lacked sufficient internal systems to prevent the misuse of information about the firms and entities they rate. The focus comes amid broad concerns about a potentially destabilizing cyber-attack. In response, spokespersons from the three largest firms revealed they will enhance internal policies to cooperate fully with regulatory standards. (WSJ)

No early Christmas for European banks as Basel consults on RWAs

Dec 24. The Basel Committee on Banking Supervision has released two documents detailing measures to improve the standardized approach for credit risk while ensuring the level of capital across the banking system does not fall below a certain level. One main change would be reducing banks' reliance on external credit ratings to determine certain risks, which could disproportionately impact banks outside the US. This means higher risk-weighted assets for banks, which would mean higher amounts of capital required to meet regulatory requirements. (Reuters)

India relaxes rules on borrowing money to invest overseas (Reuters)

South Korea's banks to get a boost from promised lighter (Reuters)

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Contributing Editor: Victor Liu