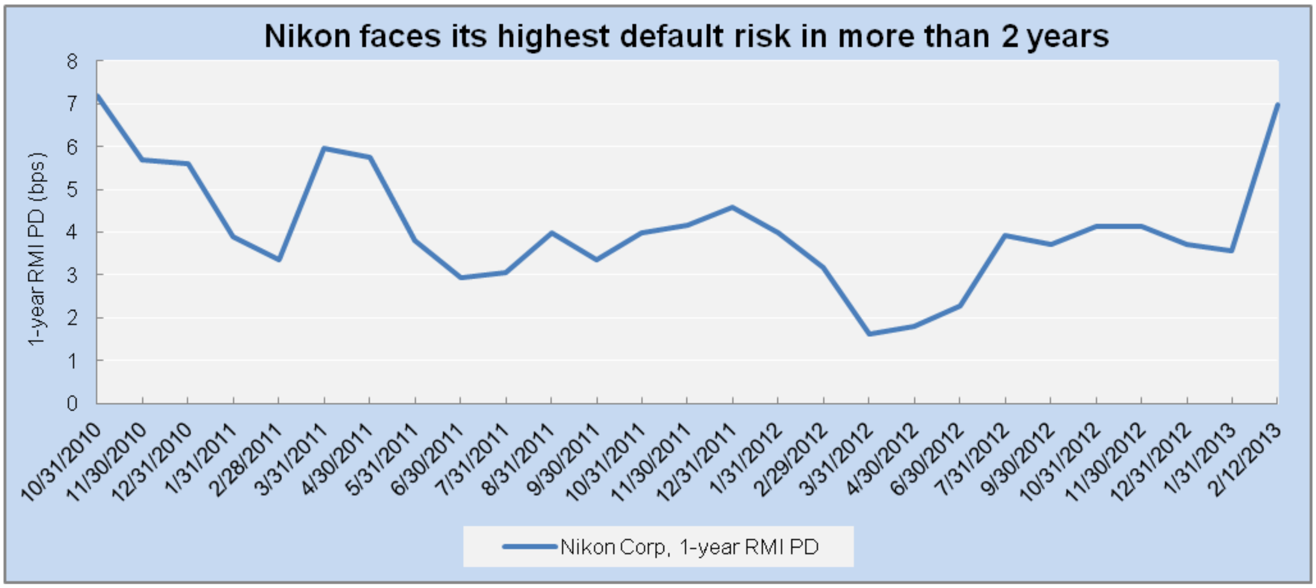
Weekly Credit Brief
Feb 05 - Feb 11 2013

Story of the Week

Weak demand clouds Nikon's credit outlook

By Dexter Tan

The 1-year RMI probability of default (RMI PD) for Japanese-based Nikon Corp increased significantly after reporting weak Q3 earnings last week. Q3 operating income was lower by 74% QoQ due to falling sales in the steppers/scanners market and reduced government spending in the bioscience sector. The stock registered the largest decline since 1985 after posting a 19% drop in stock price. As displayed in the chart below, the company now faces the highest default risk since October 2010. Moving forward, the credit outlook for the company has become more uncertain given a lower profit guidance from the firm's management, lower demand for lower end camera models and greater competition from smartphones.



Lower profit forecast: Net income for the company has been cut to JPY 38bn from a previous forecast of JPY 60bn as a result of deteriorating demand and increased competition for entry-level single lens reflex (SLR) cameras. Low end SLR camera prices dropped sharply in December, while low demand from Europe and China forced the company to revise its annual sales outlook downwards. The company's sales target for SLR cameras was reduced to 7mn units from 7.1mn units earlier while sales targets for lenses were lowered to 9.8mn from 10mn. According to the Camera and Imaging Products Association in Tokyo, global shipments of digital cameras fell 14% MoM in November. Demand for high-end camera models, a segment which Nikon is expected to rely upon for future growth, declined 12% during the same month.

Lower demand from China and Europe: Japanese exports had been hit in November last year (coinciding with Nikon's Q3 earnings results) following a weakening Chinese economy and local boycott over Japanese products. The territorial dispute over the Diaoyu Islands led to mounting anger, causing Chinese residents to avoid Japanese cameras during the year end shopping season. Overall, Japanese exports to Mainland China dropped 14.5% in November and 12% in October, after anti-Japan protests broke out throughout China last year. Nikon's European sales remained weak in the second half of 2012 due to a continued recession, with economic indicators pointing to further contraction in early 2013.

New competition from mobile phone substitutes: Imaging products account for 74% of Nikon's revenues and a large part of it comes from hand held cameras. The camera business has been encountering weakening demand as consumers turn to smart phones that can take high quality pictures. More sophisticated smartphones on the market now allow amateur photographers to take high quality pictures, edit them and upload them to the internet all in a single device. The point and shoot camera on the other hand is a less practical solution as it lacks internet connectivity. According to ABI Research, smartphones are taking up the market shares of portable consumer electronic devices like cameras. Annual shipments of digital cameras are expected to fall by over 11% globally compared with the prior year.

Sources:
China dispute hits Japanese exports (Financial Times)
Smartphones continue to affect camera and handheld game console sales (ABI Research)
Nikon tumbles most since 1985 after forecast cut (Bloomberg)

In the News

EU says G-20 debt restructuring talks could roil markets

Feb 7. The EU warned G20 nations to be wary of the risk of stirring financial markets if they decide to discuss sovereign debt restructuring during the Feb. 14-16 meeting to be held in Moscow. Russia has proposed adding this topic to the meeting's agenda and the EU, while not opposed to the discussion, has suggested that care be taken as the issue could be market sensitive. The EU planning document prepared for the meeting also calls for the US and Japan to identify and implement a medium-term fiscal strategy to meet their respective objectives, and acceleration of structural reforms in China. (Bloomberg)

MetLife credit-rating outlook revised to negative by Moody's

Feb 6. Moody's Investors Service affirmed its A3 credit rating for Metlife Inc, the largest life insurer in the United States, but revised the outlook on MetLife and its U.S. subsidiaries to negative from stable. Moody's cited the "current weak economic and low interest rate environment," which could pressure Metlife going forward. A Metlife representative commented that Moody's decision "is not surprising" and "is consistent with its previously expressed views of the outlook for both the U.S. and global life insurance industries." (Bloomberg, Moody's)

UAE banks to repay crisis capital as value diminishes

Feb 5. In the September 2008 crisis, triggered by the collapse of Lehman Brothers, the UAE Ministry of Finance placed USD 19.1bn with banks to strengthen their balance sheets. This support, in 2009, was converted into seven-year capital-boosting bonds with higher than market interest rates, which counted as Tier 2 or supplementary capital. Under the terms of government bonds, the weight attached to the capital decreases over time, so as time passes banks will witness a reduction in capital. To tackle this, banks could tap the bond market to raise ordinary debt and use the cash to repay the government instruments, or sell new subordinated offerings. With modest loan growth in the UAE economy, banks may also use existing liquidity to retire the expensive bonds. Using liquidity or issuing new debt may only marginally affect profitability in 2013. (Reuters)

S&P expects US lawsuit over pre-crisis ratings

Feb 4. A US government lawsuit filed last week against S&P for alleged wrongdoings leading up to and during the 2007-2008 financial crisis has highlighted long-standing concern surrounding the practices of credit rating agencies (CRAs). S&P and other major CRAs have continually faced criticism from investors and regulators over the accuracy of ratings given to mortgage-backed bonds. Some professionals have suggested that the lawsuit itself could finally push the rating agencies being more responsible and discreet in their future dealings. (Reuters)

New measures to lift veil on banks' capital ratios

Feb 4. An initiative by the Basel-based Financial Stability Board is asking banks to disclose more details on their financial health which would give more insight into how banks calculate their capital buffers against future potential losses. The new measures were designed by a group of bankers, asset managers, accountants and researchers to address concerns about the banks' often opaque accounting practices. No implementation deadline has been set but a number of banks are expected to use the new guidelines in their 2012 annual reports. (Reuters)

Published weekly by Risk Management Institute, NUS | Disclaimer
Contributing Editor: James Weston