NUS National University of Singapore | RMI Advancing Risk Management for Singapore and Beyond
Weekly Credit Brief
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Story of the Week

RMI PD for Research in Motion shows significant improvement in credit outlook

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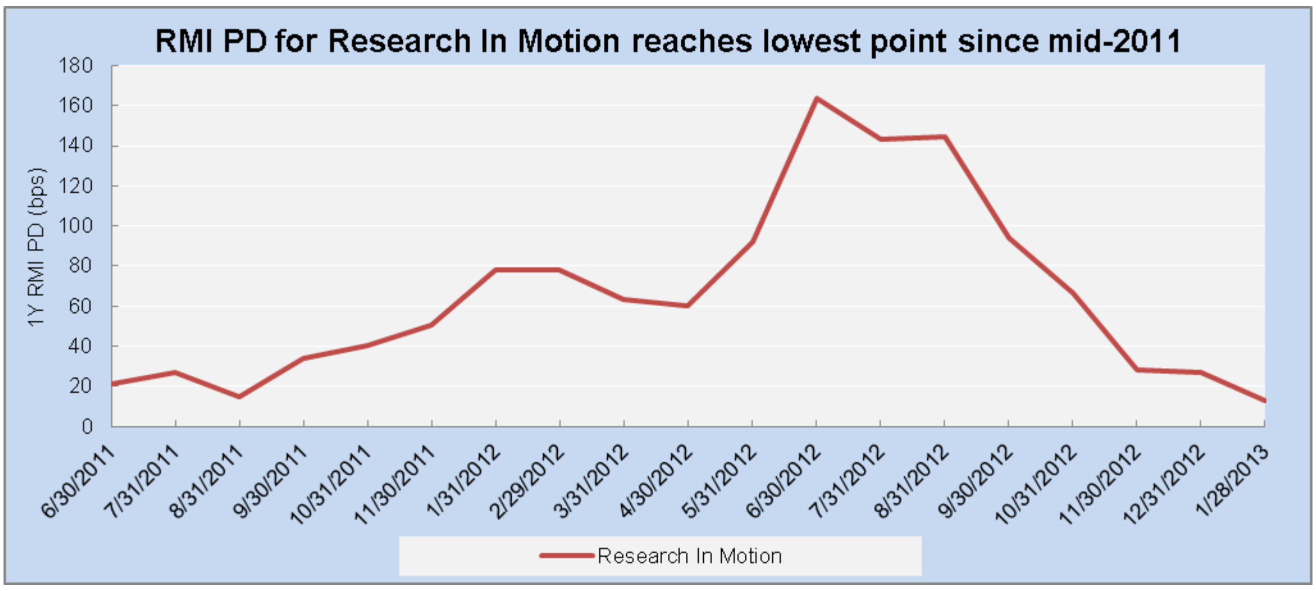
The 1-year RMI probability of default (RMI PD) for Research In Motion Ltd, the Canadian BlackBerry manufacturer, reached an 18-month low on January 28. This is a huge improvement (150.56 bps) from a high of 163.59bps on June 30, 2012, driven by an improvement in the company's liquidity and its market cap, the former being one of the key inputs into RMI's PD model. Moreover, this improvement in credit outlook came on the back of increasing support for CEO Thorsten Hein's restructuring and optimism around the January 30 launch of Blackberry 10.

However, whether this trend of credit improvement is sustainable will depend on the actual performance of the BlackBerry 10 vis-a-vis its expectations. Research In Motion does not have a credit rating from any major rating agency, illustrating the broad coverage and utility of RMI's PD model. RMI has also covered Research In Motion in a prior brief on July 24 2012, available here.



Positive changes: Mr. Heins, who assumed his current position in January 2012, made a number of key changes at Research In Motion. He streamlined Research In Motion's workforce by 30% and hired new marketing and sales chiefs. Mr Heins also expressed his intention to explore strategic partnerships or software licensing deals. These changes have been received positively by investors and Research In Motion's share price has rallied 158% since our review in July 2012.

Another positive factor for Research In Motion's credit outlook is an improvement in the company's liquidity. Over the past six months, Mr Heins has greatly strengthened the company's cash position. On June 30, 2012, cash equivalents and short term investments totaled CAD 1.94bn. As of December 20, 2012, the same measure was CAD 2.73bn. With an increased level of cash, Research In Motion could find itself well positioned to capitalize on promising opportunities, such as funding the promotion of the new Blackberry 10 device.

Critical Issue: At the end of 2012, Research In Motion's share of the global mobile phone market has shrunk to 4.7%, compared with the combined market share of almost 90% for Apple and Android. To this end, Research In Motion is looking to the new BlackBerry 10 device to reclaim lost market share from Apple Inc and Google Inc.

The BlackBerry 10 will be Research In Motion's first device with no buttons on the main surface. Most BlackBerry models have had keyboards and its experiments with touch screens have not fared well. These models include the Storm that was discontinued because of poor sales and weak reviews. It is clear that Research In Motion is taking a major risk by centering their bets on the BlackBerry 10.

Another risk that the BlackBerry 10 runs is alienating its traditional customer base. Enterprise customers, such as corporates and governments, have long been the cornerstone of Research In Motion's customer base. It is estimated that enterprise users number about 20mn people, or one-quarter of Research In Motion's global subscriber base of approximately 80mn users, accounting for a substantial percentage of the company's revenues. As such, it remains uncertain whether these customers would be receptive to a big shift in the design of the BlackBerry and be willing to upgrade to the newer model.

Sources:
RIM Gains After CEO Comments on Strategic Options (Bloomberg)
BlackBerry Debut Provides Steve Jobs Moment for CEO (Bloomberg)
Worldwide Mobile Phone Market review, Q4 2012 (IDC)
RIM's BlackBerry 10: Will business buy in? (The Globe and Mail)

In the News

Tripling in debt to USD 1.7tr drags on economy

Jan 28. Strategists warn of heightened credit risk for Chinese companies after data compiled by Bloomberg showed total short and long term liabilities of Chinese firms increased to USD 1.7tr from USD 604bn in 2007. It is estimated that borrowing costs on total social financing accounted for 14.3% of China's nominal GDP in 2012, up from 14.2% in 2011 and above the 10.1% average between 2002 and 2010. Apart from the record amount of debt, the new Premier might have to address growth problems stemming from fading fiscal policy, higher inflation and shadow banking risks. (Bloomberg)

Rising bad loans signal more pain for Spanish banks

Jan 24. Spain's property market crash has forced Spanish banks to suffer real estate related write downs. The mark down of property related assets by banks has compelled Spain to accept USD 53bn in aid from Europe in 2012 for banks in need of cash. Stronger banks like Sabadell and Bankinter are also affected by the property downturn. Sabadell's bad assets ratio was up to 9.33% in Q4 from 8.46% in Q3 while Bankinter expects bad loans to rise to 5% of total loans this year from 4.28% at the end of 2012. (Reuters)

Italy pushes bond issues to ease credit squeeze

Jan 23. Small and medium businesses in Italy are getting some relief thanks to new measures approved by the government last October. The new rules enable small unlisted companies to secure debt directly through their balance sheet assets, which was harder to get as a result of the regulations involved. In addition, small businesses will be able to tap into alternative sources of financing that can compete with the traditional bank lending channel. (WSJ)

Bond-to-stock shift provokes performance anxiety

Jan 22. Bloomberg reports that US investment-grade bonds are underperforming equities by the most in 15 months, as speculations increase that it is now the right time to rotate out of debt and into stocks. Moreover, investors pulled USD 5.5bn from funds that invest in bonds in the six weeks ended January 9, while investing USD 47.6bn into equities, according to research firm EPFR Global. Yields on US investment-grade bonds hit all-time low last year as investors poured USD 285.5bn into bond funds. Diminished demand for debt could lead to an increase in corporate borrowing costs. (Bloomberg)

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