Weekly Credit Brief

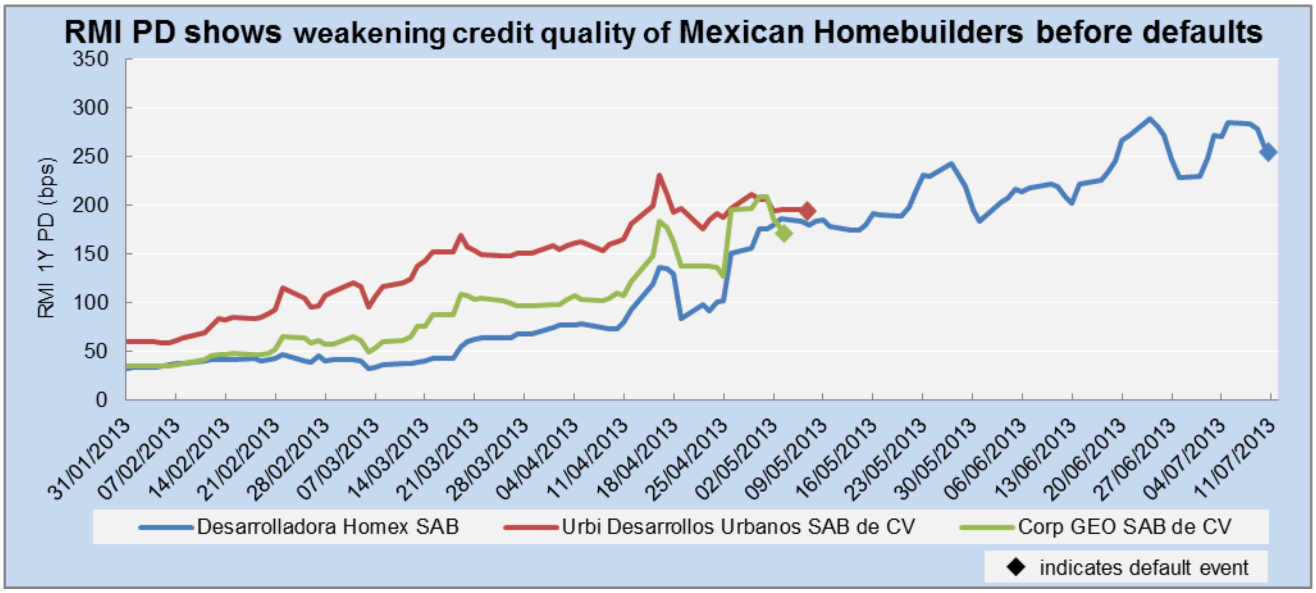
Jul 09 - Jul 15 2013

Story of the Week

Homex skipped interest payment after 30 day grace period, following other defaults in Mexico

Desarrolladoar Homex, S.A.B. de C.V. ("Homex"), Mexico's largest homebuilder by sales, failed to pay its bondholders last week after extending a 30 day grace period on its 9.5% Senior Guaranteed Notes. Bonds issued by the company have been falling in value as slow cash collections affected its ability to complete homes under construction.

The RMI 1-year probability of default (RMI PD) for Homex rose to a record high of 289bps on June 24, close to 3 weeks before the firm declared that it was not able to meet its interest obligations. The RMI PD had been rising as the homebuilder struggled with liquidity problems after it was hit by debt burdens and increasingly worthless land banks. This follows similar RMI PDs exhibited by two other large homebuilders in Mexico, Urbi Desarrollos Urbanos SAB ("Urbi") and Corporacion Geo SAB, who both missed interest payments in April.



The problems facing the firm were partially a result of a change in policy to bring more housing projects into Mexico's city centers and away from the outskirts where Homex has accumulated large parcels of land. The arrival of the new President Enrique Peria Nieto in December also led to slower disbursements of government subsidies to the company. The government's focus towards urban homes resulted in a wave of home abandonment in the outskirts as Mexicans reject long hours of commuting to work and thus prefer to return to city living. The capital intensive apartments closer to the city required the homebuilder to place a large part of its working capital upfront than the free standing homes Homex had been building, thereby depleting its cash reserves.

However, Homex managed to quell investors' concerns somewhat in April after the firm announced the sale of its stakes in two prisons as well as by securing a bridge loan for construction under a new loan guarantee program being offered by the government. The firm's most recent earnings showed that Q1 cash and cash equivalents declined 94% to MXN 332mn from a year earlier while revenues fell 46% to MXN 3.3bn during the first three months of 2013. Adjusted earnings before interest, taxes, depreciation and amortization ("EBITDA") fell 52% to MXN 599mn as of Q1 2013.

It remains to be seen if the government's plan to increase lending to homebuilders announced on July 1 could stop the demise in the construction business. Many of the proposals do not come into effect until further in the year. The Finance Ministry's initiative for development banks to provide MXN 5bn through eight year syndicated credit lines to provide a lifeline for homebuilders will start late July. With effect from September, Nieto's government will provide a guarantee on all new bond issuances, while the rest of the help for homebuilders will begin in January 2014.

Credit rating agency Moody's could have been slow in cutting Homex's senior unsecured debt rating. The CRA cut the outlook on the company to negative on March 20, but held the bond's rating at Ba3. The ratings were changed only after the company released a dismal Q1 earnings result. Ratings were then cut to B2 on April 25, Caa2 on May 31 and to Ca on July 12.

Sources:

Mexico offers credit for homebuilders battered by policy shift (Bloomberg)
Homex's cash drain leaves homes unfinished as margins narrow (Bloomberg)
Mexico's Homex says it is exploring ways to boost liquidity (Reuters)
In Mexico, troubling times (WSJ)

In the News

Moody's lowers outlook for Singapore's banking system to negative

Jul 15. Moody's Investors Service has changed the outlook for Singapore's banking system to negative from stable, owing to the recent period of rapid loan growth and rising real estate prices in Singapore. With the potential risk of a turn in the interest rate cycle, strong asset inflation and credit growth trends form a combination that could cause credit costs to rise from their current low base. This could in turn increase the probability of deterioration in credit quality for banks under potential future adverse conditions.
(Straits Times)

Treasuries rise most in year on bets stimulus to continue

July 13. US Treasuries rose the most in more than a year after the Fed Chairman said that the central bank will not end its bond buying program soon. According to the Bank of America Merrill Lynch indexes, US Treasuries due in a decade or more traded at its cheapest level in more than two years relative to global peers with comparable maturities. Yields on US government bonds were 81bps higher than those in a benchmark of other sovereign debt on July 11. US sovereign yields are likely to remain low as the Fed said that it will keep the target rate in a range of zero to 0.25% unless the unemployment rate falls to 6.5%. (Bloomberg)

Indonesia central bank surprises again with big rate hike

Jul 11. Indonesia' central bank, Bank Indonesia, surprised market observers by raising its benchmark policy rate and overnight deposit facility rate (FASBI) by 50bps each. The rates now stand at 6.50% and 4.75% respectively. Most economists surveyed were anticipating only a 25bps increase in the benchmark policy rate. This decision by Bank Indonesia, is the latest of a series of aggressive moves by Governor Agus Martowardojo to stem the country's surging tide of inflation and foreign outflows, and bolster a weakening Rupiah. Additional measures such as the restriction of bank financing for property down-payments will also be introduced to cool the housing sector. (NBC)

Brazil delivers another steep interest rate hike to tame prices

Jul 10. The Central Bank of Brazil raised its benchmark interest rate by 50bps to a 14-month high of 8.5% today, as part of a battle to curb 20-month high inflation, even as economic growth in Latin America's largest country remains sluggish. The central bank has hiked rates three consecutive times this year as it tries to gain traction in its efforts to rein in inflation. Annual inflation soared to the fastest pace in 20 months in June to 6.7%, above the target range of 2.5% to 6.5%. (Reuters)

Colombia bonds gain after debt rating outlook raised to positive

Jul 09. Yields on Colombia's benchmark government peso bonds due in 2024 dropped 7bps to 6.82%, representing the largest decline since June 27, after Moody's Investors Service upgraded the outlook on its Colombia rating of Baa3 to positive from stable. The credit rating agency expects shrinking budget deficits to drive down Colombia's debt levels and forecasts public debt to fall to the equivalent of 32% of GDP this year from 34.5% in 2009. The Andean country has a central government deficit target of 1% of GDP in 2022, down from 2.4% in 2012. (Bloomberg)

Greece wins release of aid, stays lashed to tightness

Jul 09. Greek officials breathed a sigh of relief last week as EU governments agreed to release a EUR 3bn tranche of aid, which will tide the country over until Germany's September elections. The aid package will be split in two, with EUR 2.5bn released this month and the rest in October. Greece is also expected to receive EUR 1.8bn from the IMF and EUR 2bn through central bank profits on Greek bonds. The pace of economic recovery in Greece has not met the troika's expectations, with policy implementation behind schedule and fiscal recovery hampered by the government's inability to liquidate state assets. (Bloomberg)

Bank lending hits four-year high

Jul 09. Net lending by Japanese banks saw its biggest annual rise since July 2009 as a result of quantitative easing in Japan and a growing economy. The brightening economic outlook is stimulating new investments into the country. Outstanding loans have increased for the 20th month and analysts expect bank lending to continue to increase steadily. Mortgage lending and borrowing for investment in real-estate trust funds, overseas and acquisitions have contributed to the increase in bank lending. The increase is in line with Bank of Japan's aim of spurring growth and inflation. (Japan Today)

Singapore Regulator fined 22 firms over money laundering (Bloomberg)

Bear Stearns fund liquidators sue credit rating firms (WSJ)

Malaysia holds rate as central bank targets household debt (Bloomberg)

NYSE Euronext to take over administration of Libor from BBA (Bloomberg)

Bank of Spain hopes to soften capital blow for banks (Reuters)

Italy's credit rating cut to BBB by S&P (Bloomberg)

Fitch cuts French credit rating on budget, economy woes (Reuters)

Pensions sue banks over credit-default swaps (WSJ)

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