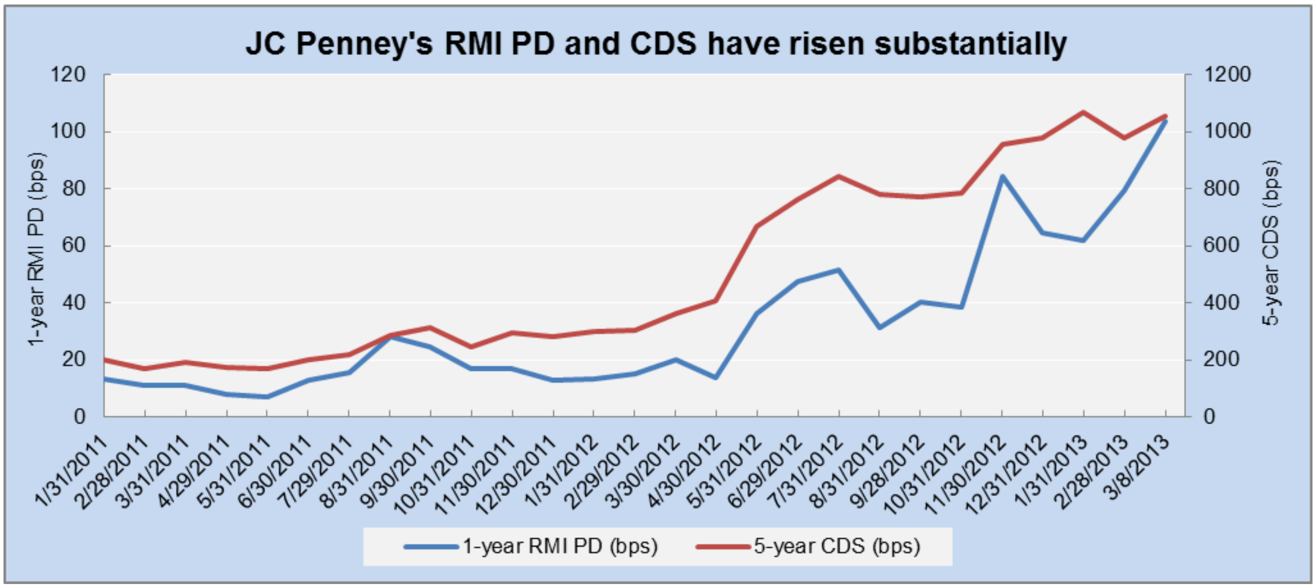
Weekly Credit Brief
Mar 05 - Mar 11 2013

Chart of the Week

JC Penny's credit outlook marred by weak business
By Iao Chi Wa

The 1-year RMI probability of default (RMI PD) of American retailer JC Penney has increased substantially due to weak recent earnings performance. The company's net income declined for the sixth consecutive quarter during the three months ending February 2, 2013. The firm's stock price has lost more than 60% of its value from a year ago. The company's future credit outlook remains uncertain given an unviable business strategy and deteriorating capital structure.



CEO Ron Johnson has failed to restore the company's business with his new turnaround strategy. His idea of introducing various brands into shop houses and cutting coupons and discounts had minimal improvement on the company's revenues, resulting in a USD 4.2bn decline in annual sales over the last year. The company's ability to remain solvent is declining as large earnings losses over the last several quarters have depleted the cash positions on the balance sheet. The firm's current ratio (measured by the ratio of current assets to current liabilities) has dropped to 1.43 from 2.40 from 2 years ago. To trim costs, the management announced that they will be cutting an additional 2,200 jobs.

Credit indicators other than RMI's PD also reflect a deterioration in JC Penny's credit profile. On March 8, the company's senior bond due in 2020 recorded a yield of 9.88% from 5.64% a year ago. 5-year credit default swap spreads on the firm's bonds also rose to 1057bps, representing a more than fivefold increase from early 2011. Additionally, the firm's financial leverage represented by total debt to equity ratio has reached a record high of 91.3, according to financial statements for the period ending February 2, 2013.

Sources:
[JC Penny cash drain imperils makeover plan] (Bloomberg)
[JC Penny CEO Johnson seen having six months to fix troubles] (Bloomberg)
[JC Penney cuts 2200 jobs as retailer struggles] (FT)

In the News

Saudi banking assets rise to USD 462bn

Mar 11. The Gulf Cooperation Council (GCC) banking sector continues to remain robust as assets have increased 11% in 2012 to USD 1.47tr. Higher energy prices, increased hydrocarbons, a pick-up in construction and real estate activities have driven growth in credit facilities. Credit facilities constitute the largest component of overall GCC banking sector assets and accounted for 58% of overall assets in 2012. Credit facilities grew 14% in 2012 to USD 859bn. (Arab News)

Payrolls rise as US jobless rate reaches four-year low

Mar 9. Job growth surged in the United States as automakers, builders and retailers pushed the unemployment rate to a 4-year low, relieving worries that congressional debates and a planned reduction in public spending would harm the economic expansion. Employment rose 236,000 in February after a revised 119,000 gain in January. The jobless rate meanwhile fell to 7.7%, the lowest since December 2008. An improving labor market has improved the job prospects of both graduating students and the unemployed. (Bloomberg)

Bank Negara Malaysia seen raising overnight policy rate by 25bps by year end

Mar 8. Malaysian economists expect Bank Negara Malaysia to increase its overnight policy rate (OPR) by 25bps before the end of 2013, citing accelerating inflation, low investment yield and potential asset bubbles as reasons. Economists aligned their forecasts with the central bank after the monetary policy statement was released on March 7. The OPR has been maintained at 3% for 11 consecutive meetings since July 2011. (The Edge)

Sharp likely to seek fresh bank loans after Samsung deal

Mar 7. Japanese consumer electronics giant Sharp Corp could face a shortfall of USD 2.1bn once their convertible bonds mature in September. The company has undergone equity deals with Samsung and Qualcomm Inc. recently to receive fresh capital. The company also negotiated with Lenovo Group and Hon Hai Precision to sell its assembly plants and factories. Sharp is likely to seek more loans from banks in the near term, although its borrowing cost remains high as the company is rated below investment grade. (Reuters)

Beijing signals steps to rein In lending

Mar 6. The Chinese government intends to curb lending as a recovering Chinese economy has generated fresh concerns of domestic inflation. Regulators have introduced cooling measures in the property market but low borrowing rates created by central banks around the world have prompted more speculative capital inflows into China, creating more inflationary pressures in the economy. The Chinese central bank is expected to prevent inflation from rising too quickly by selling bonds and repos to contain liquidity in the financial system. (WSJ)

Philippines may forego global bond sale as it boosts local debt (Bloomberg)

Japan corporate bond risk falls, credit-default swap prices show (Bloomberg)

PBOC says high M2-to-GDP ratio shows risk (Fox Business)

Cyprus said to face 100% debt-to-GDP target by 2020 for bailout (Bloomberg)

China February new loans of CNY 620bn were less-than-estimated (Bloomberg)

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