



Selling pressure darkens credit outlook for Yingli

Share price of Yingli Green Energy Holding Co plummeted over the last one week. The world's largest solar panel manufacturer has seen its share price fall close to 21% since the beginning of Oct to its lowest level in 17 months. The decline comes after [Reuters reported](#) that China has only completed a quarter of its rooftop solar installation target for this year. China set a goal of building about 14 gigawatts of solar generating projects in 2014. Additionally, a potential change in Japan's government incentives for clean energy may crimp demand. The industry has suffered as overproduction led to a glut of panels, fueling two years of losses and bankruptcies. (i.e. Shanghai Chaori Solar Energy Science & Technology Co)

The negative environment for solar panels resulted in a decline in the company's market capitalization and consecutive quarterly losses have elevated the credit risk profile for Yingli. As shown in Figure 1, the RMI 1-year probability of default (PD) for the company climbed from 17.49bps to 358bps in the previous 12 months. The firm incurred USD 267mn of losses during the last 1-year period due to low operating margins and high fixed costs. In addition, RMI's distance to default (DTD) variable for Yingli has fallen sharply, reflecting deteriorating credit conditions.

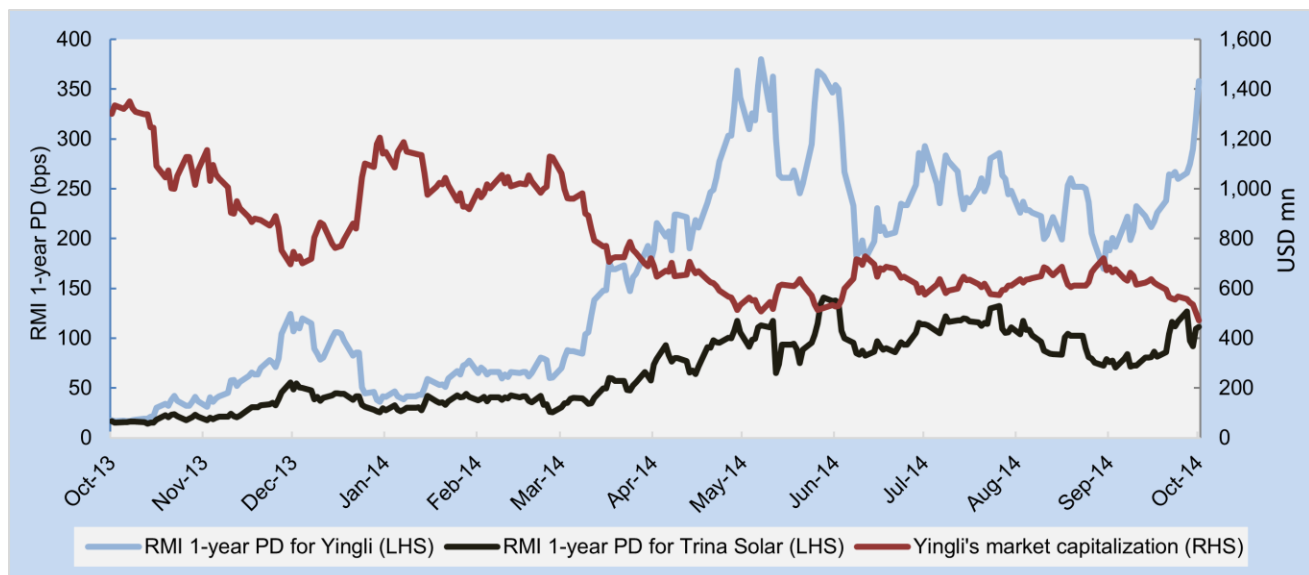


Figure 1: RMI 1-year PD for Yingli Green Energy Holding vs market cap. Source: Bloomberg, Risk Management Institute

As compared to Trina solar (net profit of USD 10mn in Q2 2014), China's largest profitable panel maker, Yingli's high operating costs continues to be a pressing issue for the firm. All-in module costs for the firm were USD 0.49/watt in Q2 2014. (See Figure 2) In the same period, Yingli made USD 85mn in gross profit but operating expenses added to USD 99mn. Likewise in Q2 2013, the firm's gross profit was USD 397mn, but overshadowed by USD 526mn of operation costs. The bulk of the cost belonged to selling expenses, which primarily consisted of advertising costs, salaries and employee benefits. Warranty expenses, which are also classified as selling expenses, constituted 1% of revenues during 2013. The warranty expenses are a result of the firm's policy to guarantee power output for its multicrystalline PV modules up to 25 years. Unless Yingli changes the warranty terms of its products, these warranty costs are expected to remain high and possibly increase as the products become less power efficient with age.

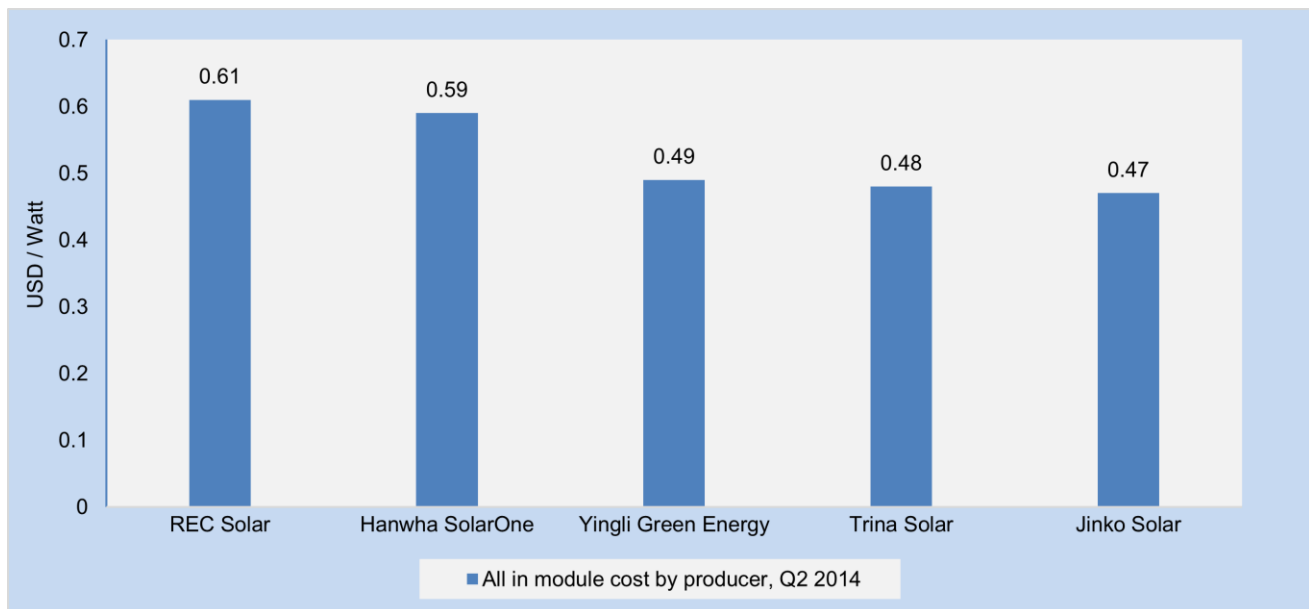


Figure 2: All-in module cost by producer. Source: PV Pulse, GTM Research, September 2014

Another potential pitfall is the danger of credit contraction, which could again negatively affect solar companies. Solar companies used to depend on the availability of cheap credit to grow. If credit is cheap and available, demand for solar products will be strong, as the internal rate of return for solar panels will be high if the cost of capital is low. But if credit is expensive and limited, many would-be solar buyers will likely postpone their purchases, as it does not make much economic sense to buy when the cost of capital is high. During 2008, many solar names crashed. The market value of Yingli Green Energy declined from USD 4.8bn in Jan 2008 to USD 324mn ten months later. Many other Chinese solar companies did even worse. Therefore, many analysts expect leading Chinese solar companies like Yingli to issue secondary offerings to shore up their balance sheets. Money from the secondary offerings would reduce leverage and possibly provide growth capital for future plant expansions.

Credit News

Central bank details sombre state of Europe's banking system

Oct 13. A report by the European Central Bank showed that Europe's banking system is still recovering from the financial crisis and is less dependent on borrowed capital than it was in 2012. There were 5948 banks operating in Europe during 2013, down from 6100 in 2012. The total value of outstanding loans and banks assets also declined from EUR 29.6tn in 2012 to EUR 26.8tn in 2013. The report also said that problem loans have been rising and banks in countries like Greece and Italy are facing severe problems. Banks earn lower margins on issued loans given that official interest rates are close to zero. ([NYT](#))

Default risk alert as Li shakes local safety net : China Credit

Oct 12. Rating agencies say that the risk of defaults has increased as Premier Li Keqiang pares implicit guarantees for local government financing vehicles. Public institutions will no longer raise funds for local municipalities and the government will not be obligated to repay debt not used to fund public projects. These new rules set by the government could impact the market significantly. Local government liabilities have increased 67% from 2010 to CNY 17.9tn in June 2013, a size equivalent to 30% of China's GDP. ([Bloomberg](#))

Finland stripped of AAA rating

Oct 10. S&P Ratings Service cut the long term rating on foreign currency notes issued by Finland from AAA to AA+, citing reasons that the country could experience protracted stagnation because of its aging population and shrinking workforce. Other factors include weakening external demand for Finnish products, structural changes in the forestry sector and loss of market share in the information technology industry. ([USA today](#))

Russian companies face credit crunch danger

Oct 07. Major Russian companies are facing an approaching funding crisis as the US and European sanctions start to hurt. Debt issuances by Russian companies in global capital markets has dried up since July 2014 when the sanctions were imposed and rolling over of large debt with maturities starting in 2016 will likely become a challenge without access to global debt investors. Metals and mining, real estate and construction sectors are seen to suffer the most ([FT](#)) (Subscription required)

Finance becomes victim instead of cause of risk ([The Banker](#)) (Subscription required)

French telecom firm Iliad scraps bid for T-Mobile ([CNBC](#))

Regulatory Updates**Terms laid down for taming shadow bank risk**

Oct 14. The Financial Stability Board (FSB) intended to stop excessive lending and published a framework imposing minimum requirements on the collateral needed when shadow banks borrow money from banks through short-term loans secured by stocks or bonds on Oct 13- a minimum 1.5% "haircut" for corporate bonds with maturity of between 1 and 5 years, and a 6% haircut for equities. FSB also aimed at the repurchase (repo) market, a key segment of shadow banking, by setting a higher than proposed minimum floors for repo transactions. ([FT](#)) (Subscription required)

UK and US play out financial 'war game' to test response to collapse of bank considered 'too big to fail'

Oct 13. Finance ministers and central bankers from around the world gathered together to take part in a "war game" to gauge how they would respond to the collapse of a huge multi-national bank. The global exercise has been designed to test whether the new rules for regulating banks would work under a simulated scenario. The exercise forms part of the efforts to strengthen financial regulation to prevent a repeat of the 2008 financial crisis. ([The independent](#))

Reserve Bank of India eases liquidity ratio requirements

Oct 13. The Reserve Bank of India (RBI) announced that it would allow banks to use up to 5% of the funds they put aside to meet the local statutory liquidity ratio (SLR) to also be used against Basel III's liquidity coverage ratio (LCR). RBI also reduced the requirement of holding held-to-maturity bonds from 24% of the SLR portfolio to 22%. Both acts aimed to help the banking sector dealing with the demands of the new capital adequacy rules. ([Risk.net](#)) (Subscription required)

Banks must focus on conduct, not 'conduct risk' ([Risk.net](#)) (Subscription required)

FOMC will weigh global risks in policymaking ([CNBC](#))