Credit Research Initiative
NUS National University of Singapore | RMI
transforming big data into smart data
Weekly Credit Brief Sep 29 - Oct 05

Intelsat plunges on bleak business prospects

by XIA Xinyao

Famed for having broadcasted Neil Armstrong's walk on the moon in 1969, Intelsat, the 51-year-old company, carries one out of every four television channels in the world via its platforms, making it a key gateway connecting content providers to cable operators. However, its stock price has dropped 60.94% since the beginning of this year, while the RMI-CRI 1-year Probability of Default (PD) for Intelsat, the world's largest commercial satellite provider in terms of revenue, has increased almost ten times from 28 bps to 268 bps (see Figure 1). These indicators reflect the market's concern about the company's long-term debt-paying ability due to its heavy debt and bleak business prospects.

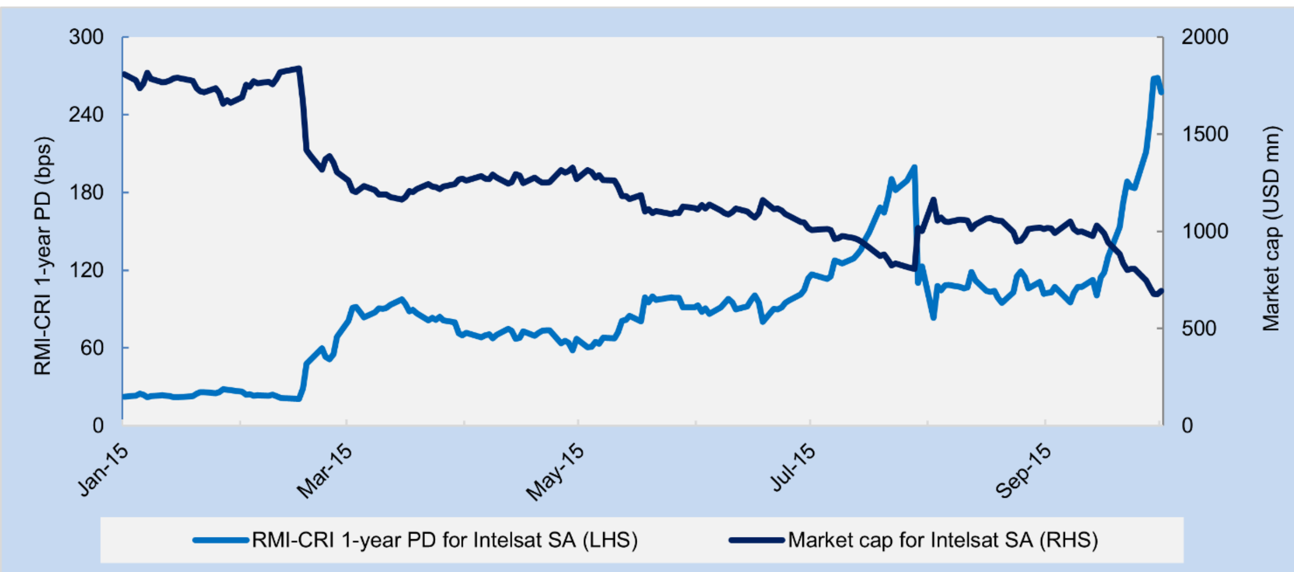

Figure 1: RMI-CRI 1-year PD and market cap for Intelsat SA. *Source: RMI-CRI, Bloomberg*

As of Jun 30, 2015, Intelsat's debt level had risen to USD 14.75bn, which was 1.04 times its total assets and carried a relatively high average interest rate of 6.35%. In late September, it was even rumored that Intelsat had considered the possibility of selling some of its strategic assets to cut debt. Although the company has no liquidity problem at the moment since the closest debt obligation will not mature until 2018, the heavy debt burden makes it practically impossible for the company to raise new debts to repay old obligations. In addition to the limited debt-raising ability, Intelsat is also struggling to meet its obligations through future business revenues because of the loss of government business and the elevated industry competition.

As the largest provider of commercial satellite services to the government sector, Intelsat depends on the US government for 19% of its annual revenue. However, Intelsat's government business has been falling because of the US budget freeze and troop withdrawals from Afghanistan and Iraq. On September 8, the company lost a five-year US Navy contract, which was potentially worth USD 450mn, for the first time since 2010.

Besides, the competition from other satellite services has become more severe than before. Large institutional investors have begun selling their investments in traditional satellite services behemoths out of fear of a price war that is resulting from more players entering the market and the arrival of high-throughput satellites (HTS), a new technology that produces many times the total throughput of a conventional satellite. This has cast a shadow on Intelsat's future revenue forecast.

Although heavy debt and a bearish business outlook are dragging Intelsat, the management remains confident in the hope that it can sell its customers a higher volume of bandwidth at lower prices by launching its first generation of HTS in 2016. However, as the new generation of HTS will bring further coverage over regions such as Latin America, Africa and the Middle East, all of which are currently experiencing pricing pressure and fierce competition, it remains to be seen whether this strategy will work out.

Credit News

Glencore oil deals could bite banks

Oct 4. The slide in crude prices has been building up uncertainties over the jumbo transactions between Glencore PLC and oil producers. In a typical deal, a trading company like Glencore pays cash up-front to a producer, primarily using money loaned by banks. The banks are repaid through oil shipments owed by the trading company. Unlike a normal loan, the banks' claims are on contractual rights to the oil, rather than with the trading company. The deals rely on oil-price projections stretching several years that are intended to protect against losses. But steep price declines and constrained production can shrink or delay what banks get back. It has taken some related banks into risky areas. (WSJ)

Indonesia Inc. faces tough time rolling over debts

Oct 4. The recent sharp decline in the IDR against the USD has made it more difficult for Indonesian firms to refinance their foreign currency loans. So far in 2015, the IDR has depreciated over 18 percent against the USD and a quarter of outstanding foreign currency debts are maturing in less than a year. The slowdown in the economy and rapid decline of the local exchange rate have affected the firms' credit profiles. Companies that earn their revenue in local currency and have unhedged USD debt liabilities are among the most vulnerable. These include property developers such as Alam Sutera Realty and Lippo Karawaci, who are only hedged when the IDR is stronger than 14,000 rupiah against the US. (FT)

Capital flight darkens economic prospects for emerging markets

Oct 1. Emerging markets (EMs) will suffer a net outflow of capital this year for the first time since the 1980s as their economic fortunes darken and the US Federal Reserve prepares to lift interest rates. The projection will heighten concerns about the prospects for leading emerging economies including China and Brazil. The Institute of International Finance said it expected foreign investor flows to EMs to fall to USD 548bn this year, lower than levels recorded in 2008 and 2009 at the height of the global financial crisis. Furthermore, it said the net capital outflows would amount to USD 540bn this year, the first time this had been seen since 1998. (FT)

Australia faces rate cut pressure as commodity rout darkens outlook

Sep 30. Australian policy makers face renewed pressure to cut interest rates already at a record low as falling commodity prices darken the outlook for an economy heavily geared to selling resources to China. Oil-reliant Canada and milk-dependent New Zealand have already eased policy to make up for weaker commodity prices and the concern in Australia is that the stimulus provided by a housing boom and falling currency will wane in 2016. According to the chief economist for Australia at Citigroup, a rate cut may come as early as November this year. (Bloomberg)

Japanese bulk carrier Daiichi Chuo Kisen Kaisha files for bankruptcy protection

Sep 29. Daiichi Chuo Kisen Kaisha requested for bankruptcy protection in Tokyo as well as New York on September 29, 2015, with plans to restructure its USD 1.5bn debt. The Japanese bulk-shipper is the second bulk-shipping business to file for bankruptcy protection in the month of September this year; Global Maritime Investment Cyprus Ltd. was the first to file. Bulk shippers have been badly hit by the falling demand for commodities and the decline in ship charter rates. The oversupply of ships in the industry has forced carriers to slash rates in order to maintain their market share. (WSJ)

Italy seeks to prosecute S&P and Fitch over ratings (FT)

German unemployment unexpectedly rises in sign of economic risks (Bloomberg)

Japan on brink of technical recession (FT)

Regulatory Updates

Big insurers face tough new safety rules

Oct 5. Regulators are planning to implement safety rules for nine of the world's largest insurers, which are tougher than what some insurers had expected. Large insurance companies are being hurt by the proposals, considering the estimated increase in amount of capital they must hold to withstand against unexpected losses by 10% on average. Insurers attacked the proposals citing that AIG faced difficulty during the financial crisis not because of its traditional insurance operations and insurance companies should not be lumped together with banks. Insurers also claimed that the new capital requirement is excessively high and unlikely to contribute to financial stability. This new proposal is the latest sign that a wide range of financial institutions are facing increasingly tougher supervision since the Global Financial Crisis. (FT)

FSB said to plan loss-absorbency rules at low end of range

Oct 2. The Financial Stability Board (FSB) plans to phase in a loss-absorbency requirement for the world's largest banks starting from the low end of its proposed range in 2019. Banks on the FSB's list of global, systematically important institutions must hold capital and debt available to withstand losses in a crisis equivalent to 16% of their risk-weighted assets in 2019, with plans to rise to 18% in 2022. Besides, a leverage ratio requirement will also be imposed, rising from an initial level of 6% to 6.75%. The exact numbers could still be subjected to changes as the rules have not been made public yet. (Bloomberg)

US tightens mortgage lending regulations

Oct 1. New mortgage lending rules has been implemented on Oct 3, 2015 to make American mortgage terms more understandable to borrowers. This follows up from Dodd-Frank reforms, which aimed to curb predatory lending techniques leading up to the financial crisis. To prevent Americans from making hurried decisions or signing off on a mortgage without completely understanding the terms, the "know before you owe" rules will require the final terms of a mortgage to be shown to borrowers a minimum of 3 business days before the closing date. These new rules are being implemented to prevent a repeat of the risky behavior that fueled the housing crash in 2008. (FT)

Russia prepares for wave of bankruptcy filings under new law (Business Insider)

EU asset-backed debt drive may get tangled in competing aims (Washington Post)

China regulator imposes record fines in market rout clampdown (Bloomberg)

Published weekly by Risk Management Institute, NUS | Disclaimer
Contributing Editor: Victor Liu