



Frontier Communications encounters setbacks after acquisition

By [Xu Zijun, Lisa](#)

Stock prices of Frontier Communications Corporation (Frontier) dived to a 52-week low on Thursday March 23. Its market cap dropped 67% from USD 6.56bn on March 31 last year to nearly USD 2.15bn. This is the third time in a year Frontier experienced a dramatic market cap drop following a series of negative events.

Frontier provides phone, Internet, and satellite TV services across 28 US states. The company has more than 7.5mn residential and business voice subscribers. It also has 2.5mn broadband Internet customers and about 554mn video subscribers. The company completed the acquisition of Verizon's wireless business in California, Texas and Florida (CTF) for USD 10.54bn on April 1, 2016. Frontier expected the acquisition to expand their footprint, but it caused a lot of trouble for the acquirer.

	2015 Q4	2016 Q1	2016 Q2	2016 Q3	2016 Q4
Total Debt	15892	15866	17966	17943	17932
Cash Ratio (%)	49.00	29.00	21.00	14.00	21.00
Total Debt/Total Equity (%)	283.08	301.98	354.92	377.19	396.61
Revenue	1414	1355	2680	2524	2409

Table 1: Frontier Communication's Credit metrics. (units in million US dollar unless indicated otherwise) *Source: Bloomberg*

The USD 10.54bn acquisition included a USD 10bn cash payment that was partially financed with USD 6.6bn senior notes and USD 1.925bn of convertible preferred securities. The increased debt burden raised Frontier's leverage (Debt/Equity) to 4.3X. The USD 6.6bn senior notes became one of the main reasons Fitch Ratings assigned a 'BB-' rating with negative outlook to Frontier from a previous 'BB' rating. Table 1 figures from 2016 Q1 and Q2 show the increase of total debt, ratio of total debt to total equity and decrease in cash ratio which indicate a weaker liquidity profile after acquisition.

The CTF acquisition added new geographic areas to Frontier's service region and doubled its revenues. However, the acquisition also brought customer transition problems. Frontier's frequent outages and disruptions made the firm lose subscribers. The overall subscriber base dropped from 5.228mn in Q2 2016 to 5.073mn in Q3 and further to 4.89mn at the year end. The loss of subscribers and CTF nonpaying account cleanup contributed to these consecutive revenue drops.

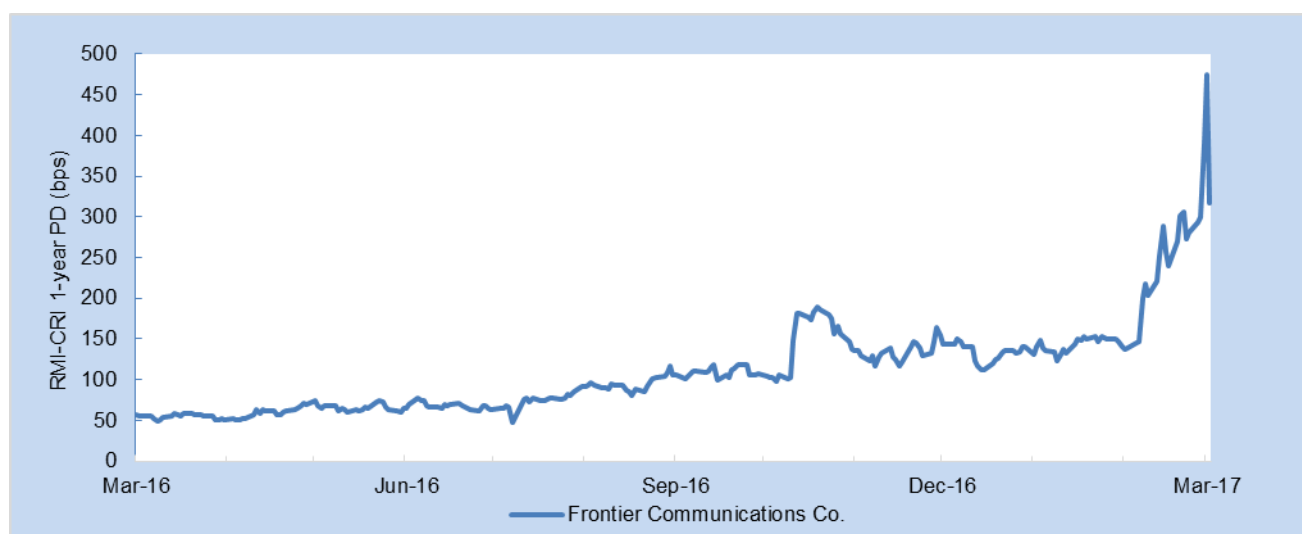


Figure 1: RMI-CRI 1-year Probable of Default (PD) for Frontier Communications Co. *Source: RMI-CRI*

Frontier released a disappointing Q3 quarterly report on November 3 which caused a share price drop of 13.74% on a single day. The lower liquidity ratios and a market cap slump coincided with the RMI-CRI 1-year Probably of Default Rate (PD) jump of 76.61% to 181bps. Moreover, the situation deteriorated further. Frontier's weak Q4 financial report and a series of downgrades resulted in a further price slump. On Thursday last week, the RMI-CRI 1-year PD jumped to a record high of 475 bps.

Operating Margin (%)	2016 Q1	2016 Q2	2016 Q3	2016 Q4
Frontier Communications Co.	4.28	11.92	10.46	10.59
AT&T Inc.	17.59	16.19	15.67	10.15
Centurylink Inc.	15.77	14.78	13.58	9.14
Sprint Co.	0.1	4.51	7.54	3.64
Windstream Holdings Inc.	11.48	11.37	9.62	5.63

Table 2: Operating margin comparison between Frontier and other competitors *Source: Bloomberg*

Despite all the setbacks of the acquisition, Verizon's CTF business did help Frontier to spread its expenses over all customers and to lower its operation costs. In addition, Frontier's operating margin increased more than twice after acquisition, its Q4 value is higher compare to some of its competitors. Among all the debts, USD 363mn of debt will be due in 2017, USD 733mn in 2018 and USD 818mn in 2019. The USD 522mn cash balance and an undrawn USD 850mn revolver enable Frontier to address these maturities. However, the company faces a very challenging maturity profile starting in 2020 when USD 2.4bn of debt matures. With the maturities drawing near in three years, Frontier may need to find other solutions.

Credit News

Huishan Dairy confirms it missed interest payments

Mar 28. China Huishan Dairy Holdings, the Chinese company whose share price plunged 90% last week in Hong Kong, has confirmed on March 28 that it had met with numerous creditors on March 23 after failing to make interest payments and losing contact with the head of its treasury operations on March 21. The company stated in a filing to Hong Kong Stock Exchange that the Liaoning government had set out a plan for overdue interest payments to be remedied within two weeks. The firm's shares would remain frozen until when the board has been able to ascertain an updated position of the company's financial position. ([FT](#))

Toshiba seeks support from Korea Electric Power Corp. as Westinghouse nuclear unit prepares for bankruptcy

Mar 27. As Toshiba Corp. prepares for a Chapter 11 bankruptcy filing by US nuclear unit Westinghouse Electric Co., Toshiba has sought Korea Electric Power Corp. aid. With Westinghouse's Chapter 11 filing, Toshiba is looking to finalize losses related to Westinghouse as part of its restructuring plans. Previously, Toshiba had forecasted more than JPY 700bn in losses between April and December due to its US nuclear operations, and in light of potential swelling losses, Toshiba had considered ways to separate itself from Westinghouse. However, the filing of bankruptcy protection could raise losses even further, to around JPY 1tn. ([Japan Times](#))

Creditors of Brazil's Oi balk at revised debt restructuring plan

Mar 24. Brazilian telephone operator Oi SA, which intends to present a new debt restructuring plan in the bankruptcy court, has faced strong opposition from its two biggest bondholder groups. The two groups released a joint statement stating that the terms of the plan were proposed without their consultation. The new plan proposed that financial creditors receive 25% of the company's equity and convertible bonds to be called in 3 years, giving them up to 38% of company shares. The two bondholder groups failed to come up with a restructuring plan in November. The company sought court protection from creditors for BRL 65bn (USD 21bn) in June 2016. ([Reuters](#))

Sears plummets after filing sparks concern that end is near

Mar 22. After acknowledging “substantial doubt” about its future, Sears Holdings Corp.’s stock plunged the most in more than two years. The 131-year-old departmental chain, which had lost more than USD 0bn in recent years, had suggested in its latest annual report filing that weak earnings have crimped Sears ability to keep on operating. According to an analyst at Bloomberg, despite having enough cash to get through 2017, plenty of troubling signs, such as declining payables-to-inventory ratio, have surfaced for Sears. ([Bloomberg](#))

Senior lender gives Rickmers until April 15 to present debt restructuring proposal

Mar 21. Senior lender HSH Nordbank has not accepted any proposal from US-listed trustee Rickmers Maritime for debt forgiveness or any other terms, notwithstanding active and on-going discussions, said its trustee-manager. The lender has given Rickmers until April 15 to present a proposal that would ensure a higher level of recovery relative to a winding-up scenario. Rickmers’ outstanding bank debt stood at USD 270.8mn (SGD 378.9mn) as of December 31, 2016, and has SGD 100mn of medium-term notes maturing in May 2017. Bondholders of the trustee rejected a debt restructuring proposal in December that would have allowed it to draw on a USD 260.2mn facility for refinancing. ([Straits Times](#))

Discount travel agency Tellmeclub files for bankruptcy ([Japan Times](#))

Investors primed for a pick-up in new corporate bond sales ([FT](#))

Louis Dreyfus eyes sale of controlling stake in metals unit ([FT](#))

Regulatory Updates**UK’s biggest banks tested for deep recession in BOE scenarios**

Mar 27. As UK prepares to leave the European Union, UK’s largest banks will be subjected to a stress test by the Bank of England (BOE) which includes scenarios such as deep economic slowdown and a plunge in pounds. Under the adverse scenario, the stress test of seven UK banks would see the UK output decline by 4.7% in the first year and a 32% decrease in the pound against the dollar coupled with a 5% inflation rate by the end of 2018. Although Brexit was not mentioned explicitly by the BOE in the stress test-scenarios, the BOE stated that orderliness of Brexit would have an impact on financial stability. ([Bloomberg](#))

PBOC said to inject funds after missed interbank payments

Mar 21. After several small Chinese banks missed debt payments in the interbank payments, the People’s Bank of China (PBOC) moved to inject several hundred billion yuan into the financial system. Three traders, who declined to be named, reported that rural commercial banks were among the defaulters, and one lender reportedly failed to repay an overnight repo of under RMB 50mn (USD 7.3mn). Benchmark money market rates have climbed to the highest level since April 2015, tightening liquidity for smaller banks as China’s central banks aim to discourage excessive leverage. The injection is also said to have occurred separately from the central bank’s routine daily open-market operations, which has seen funds drained for 16 consecutive days through March 16, when it increased rates for the second time in 2017. ([Bloomberg](#))

Most concentrated EU bank market sets battle lines on new buffer ([Bloomberg](#))

Italy’s Monte Paschi bailout has some ECB supervisors grumbling ([Bloomberg](#))