



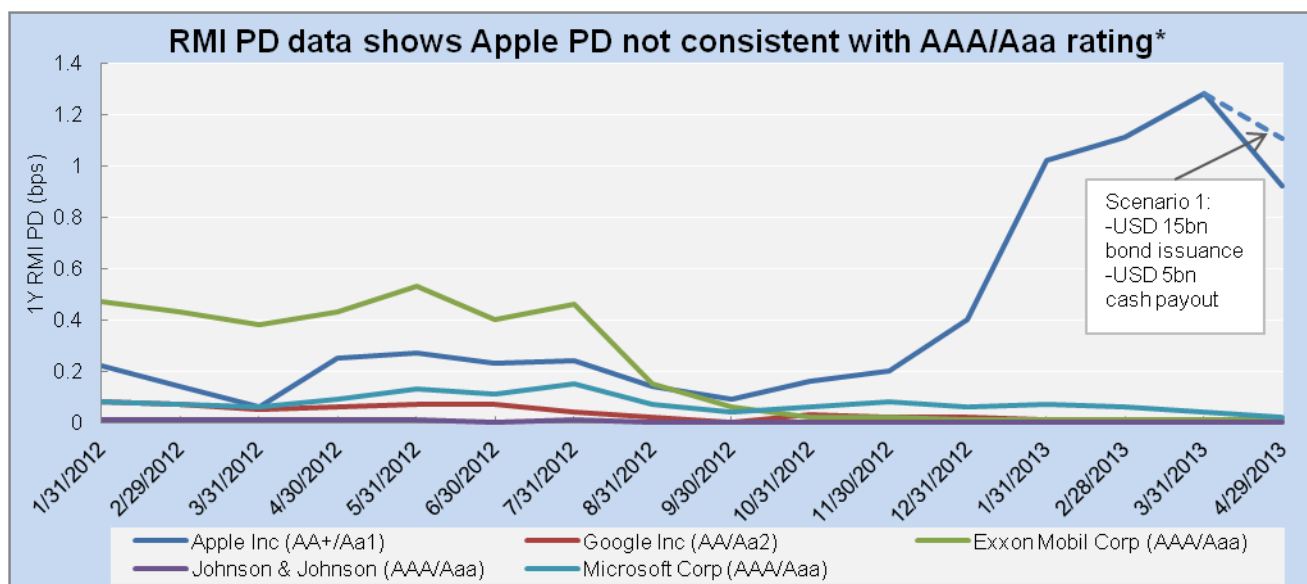
## Story of the Week

### Apple RMI PD shows not AAA/Aaa rated as company prepares debt issuance

By [James Weston](#)

Last week, Apple Inc announced a plan to return approximately USD 100bn in cash to shareholders through December 2015. The plan includes a 15% increase in its quarterly dividend payout, equivalent to USD 11bn in annual dividend payouts, and a sixfold increase in its planned share repurchases to USD 60bn. This equates to an average cash payout of USD 30bn per year, with the company planning to fund part of its new capital return program by issuing debt. This move is aimed at avoiding US repatriation taxes on its large holdings of overseas debt. The company could issue up to USD 50bn in debt over the next few years, according to analysts.

This could cause the company's RMI PD to remain relatively high, which has risen markedly since November 2012 as the company's market capitalization declined sharply on revenue and profit growth concerns. Under a relatively conservative scenario, where the company immediately issues USD 15bn of bonds and pays out USD 5bn in cash, the company's RMI PD would increase as illustrated below, ceteris paribus. This scenario assumes the balance of the projected USD 30bn annual payout to shareholders is funded through the company's ongoing US operations.



The graph above also compares Apple's RMI PD with other highly rated US corporates. Following Apple's announcement, S&P and Moody's awarded Apple their second-highest investment-grade ratings, AA+ and Aa1 respectively. This places Apple below currently AAA and Aaa-rated Exxon Mobil Corp, Johnson & Johnson and Microsoft Corp, and one level above key competitor Google Inc. Both S&P and Moody's said Apple's liquidity is likely to remain excellent at around USD 100bn. However, both rating agencies cited the company's dependence on a highly competitive market exposed to rapidly changing consumer preferences and short product life cycles as key reasons for not awarding the company their highest credit ratings.

RMI PD data suggests Apple's credit quality is currently well below that of US-corporates rated AAA/Aaa by S&P and Moody's. The recent increase in the RMI PD for Apple has been driven by the decline in the company's market capitalization, which has decreased the company's distance-to-default (DTD), a measure of volatility adjusted leverage. Comments by Fitch Ratings last week also suggest a similar credit outlook.

\* The credit ratings shown in the chart legend are the companies' respective Long-Term Foreign Issuer ratings from S&P and Issuer Ratings from Moody's.

Although Fitch has not released a public credit rating for the company, Fitch said Apple would probably receive a high single A rating due to “inherent business risks that overshadow a significant liquidity cushion.” Interestingly, Fitch currently rates Microsoft AA+.

#### Sources:

[Apple's USD 145bn in cash fails to win AAA debt rating](#) (Bloomberg)

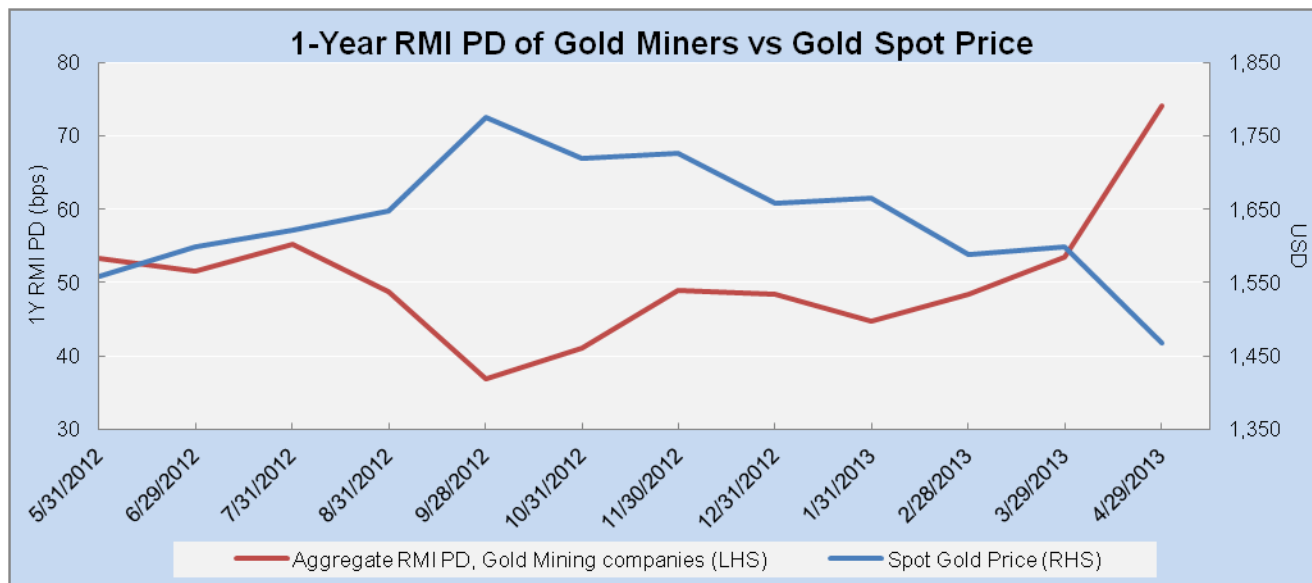
[Moody's assigns Aa1 senior unsecured rating to Apple Inc](#) (Moody's)

[Apple business model inconsistent with 'AA' rating](#) (Fitch Ratings)

### Chart of the Week

#### Fall in gold price leads to deterioration in credit outlook for gold miners

By Jun Jie Ne Win Jonathan



The above chart depicts the relationship between the spot price of gold and the aggregate 1-year RMI probability of default (RMI PD) for gold miners\*\* from May 2012 to April 2013. As shown in the chart, the negative trend in gold price since September has caused a gradual deterioration in the credit outlook of gold miners.

As of April 29, gold has fallen more than 12.5% since the start of the year, and fell close to a 10% in a single day (15 April), the largest daily price decline in 33 years. The huge price decline came as a shock to the gold mining industry as gold has given investors 12 consecutive years of annual gains. This placed more pressure on the gold-mining industry, which has underperformed the precious metal sector for of the past six years.

The fall in the price of gold exacerbated two deep-seated problems in the gold-mining industry; soaring production costs and unviable acquisitions. Production costs have been rising over the past year at a faster pace than the metal's price, with the global average production cost of gold reaching USD 1,200 an ounce, according to Nomura. The 13% decline in gold price has sharply compressed the profit margins of gold miners.

To capitalize on the strong trend of rising gold prices, mining companies ventured more into mining sites in Africa, where geopolitical risk is high. These projects face steep production costs due to poor infrastructure, and gold miners now likely have lesser financing options to fund projects or to finance more exploration and development. As such, there will likely be production stoppages if the price of gold does not show any improvement. By neglecting to control production costs and emphasizing increased output, gold producers now have an increasingly difficult task of paying down their outstanding debt load.

#### Sources:

[Gold miners lose USD 169bn as price slump adds ETF pain](#) (Bloomberg)

[Gold miners come clean on costs after lost 6 years](#) (Bloomberg)

[Gold miners approaching USD 1,300 pain threshold](#) (Bloomberg)

[Barrick Gold at 20-year low turns to Thornton](#) (Bloomberg)

[High-cost producers feel the pinch](#) (Brisbane Times)

\*\*There are 830 gold mining companies in the RMI PD database.

**In the News****Eurozone business confidence at five-month low**

**Apr 29.** The European Commission's economic sentiment indicator dropped 1.5 points in April to 88.6, a five-month low. Managers expect activity in both the manufacturing and services sector to contract sharply, as the mentioned sectors suffered a 1.5-point and 4.1-point drop, respectively. The depressed sentiment may push the European Central Bank to cut interest rates at Thursday's monetary policy meeting, in order to stimulate lending and economic growth. ([Financial Times](#))

**China's first-quarter outstanding property loans up 16 percent year on year**

**Apr 24.** China's outstanding mortgage loans surged 16.4% YoY to CNY 13tn in Q1, according to the People's Bank of China (PBOC). New home prices rose for a third consecutive month in March, as home buyers rushed to close deals to avoid a new capital gains tax that is expected to be introduced soon. To cool the overheating property market, China's central government has previously announced its intention to impose a 20% capital gains tax and higher down-payments and mortgage rates for second home-buyers in selected cities. ([Reuters](#))

**PBOC to inject liquidity first time in 10 weeks**

**Apr 24.** PBOC added liquidity to the banking system via its open market operations in the week ending April 28, the first time in ten weeks. The fund injection is aimed at easing liquidity shortage ahead of a shortened week due to the Labor Day holiday. The seven-day repo rate jumped by 111bps to 4.74% on April 24, the highest level since late February, indicating increasing interbank borrowing costs. ([NASDAQ](#))

**Billionaire Batista OGX penniless by '14 fuels cash hunt**

**Apr 24.** The USD 2.56bn bonds due 2018 of OGX Petroleo & Gas Participacoes SA, the Brazilian oil producer, sank to a record-low of 57.2 cents on the dollar on April 18. The 2018 securities yielded almost 20% and performed the worst this year among emerging-market securities with more than USD 500mn outstanding, according to Bank of America Corp. OGX is estimated to exhaust its USD 1.65bn cash reserve by 2014, and there are speculations that the company is seeking to dispose of some of its assets to relieve its cash concerns. ([Bloomberg](#))

**Oil drop spurs Indonesia sukuk to beat Malaysia**

**Apr 25.** The yield on Indonesia's 8.8% USD-denominated 1-year sukuk fell 19bps in April to 1.57%, the lowest since October, according to Bloomberg. Indonesia's Islamic borrowing costs are falling three times faster than Malaysia's on expectation that a drop in oil prices will help the government lower the biggest current-account deficit since at least 1989. The yield spread between Indonesia and its neighbor may narrow further as investors increasing turn to emerging-market bonds and riskier assets, while Malaysia's current political risk deter short-term investors. ([Bloomberg](#))

**UK rules unfit for Shariah banks hinder push**

**Apr 29.** Shariah-compliant lenders in Britain suggested that British Prime Minister David Cameron needs to look to Bank of England (BOE) to moderate liquidity restrictions, in order to boost UK's role in Islamic finance. Cameron visited Malaysia last year to forge closer bilateral relations and launched UK's first Islamic Finance Task Force in March. BOE requires lenders to hold liquid assets as protection against short-term funding shocks. Islamic lenders thus face an obvious disadvantage as most of these assets are not shariah-compliant due to their interest-paying nature. ([Bloomberg](#))

**Moody's, S&P settle lawsuits over debt ratings**

**Apr 27.** Ratings agencies Standard & Poor's, Moody's and investment bank Morgan Stanley have settled two lawsuits that accused them of hiding risky investments. The lawsuits claimed that the ratings agencies and Morgan Stanley hid the risk of investing in a fund that purchased bonds backed by subprime mortgages. McGraw-Hill spokesman Jason Feuchtwanger said the cases were settled without any admission of liability or wrongdoing. The terms of the settlement were not disclosed. ([WSJ](#))

**Slovenia companies avoid banks in test of investor debt appetite**

**Apr 24.** Slovenia's biggest exporter, appliance maker Gorenje Group d.d., will sell as much as EUR 30mn of eight-month notes today at a yield of 4.45%. Slovenian companies are turning to the commercial paper market for financing as the Slovenian banking industry slumps in a crisis that saw bad loans rising to about a fifth of economic output. Including the Gorenje's sale, Slovenian companies would have sold about EUR 140mn of commercial paper this year, compared to EUR 124.2mn in 2012.

**African bonds may slake thirst for yield**

**Apr 25.** African countries are turning to the global bond markets for funding, marking a shift in investor perceptions of risk in government-bond markets. Rwanda recently raised USD 400mn for 10 years at a yield of 6.875%—or a premium of more than five percentage points over US Treasuries. The final yield was lower than the expected level in the low 7% area, with order books close to eight times the amount on offer. ([WSJ](#))

**RBA to Invest foreign currency reserves in China ([Bloomberg](#))**

**Earnings growth slows at bank of China ([WSJ](#))**

**Bank of China to issue CNY 60bn of Tier 2 capital instruments ([Fox Business](#))**

**Philippines cuts money-market rate again ([WSJ](#))**

**Holinger says bank spreads to fall on bad-debt cut: India Credit ([Bloomberg](#))**

**Bank of Japan sees inflation nearing target in 2015: Economy ([Bloomberg](#))**

**Microsoft shops nearly USD 3bn in debt ([Fox Business](#))**

**Asian officials must respond early to overheating risk, IMF says ([Bloomberg](#))**

**Junk debt yields fall to new record low ([WSJ](#))**

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