



Exploding airbag crisis drives Takata Corp into financial problems

by [LEE Yanru](#)

Takata Corp, one of the leading global automobile airbag manufacturers has recently been slapped with serious safety concerns over its inflator airbags. Instead of mitigating the automobile occupants' injuries during an accident, Takata's airbag has been blamed for aggravating its passengers' injuries due to the explosion of the inflator airbags, firing plastic and metal shards at the vehicle's passengers during its deployment. Till date, Takata's malfunctioned airbag inflators has been linked to at least 11 deaths and more than 100 injuries worldwide.

Due to safety concerns over Takata's defective airbags, more than 100mn vehicles associated with Takata's airbags were being, or planned to be, recalled globally in the last few years. Particularly, bulks of these recalls took place over the past few weeks. The US National Highway Traffic Safety Administration (NHTSA) ordered recalls for [40mn vehicles](#) linked to Takata's defective airbags on May 03, 2016. Last Friday, Honda announced plans to recall an additional [21mn vehicles](#) worldwide linked with Takata's malfunction-prone airbags.

After accounting for faulty airbags replacement costs, as well as settlement with consumers injured by its exploding airbags, Takata [lost JPY 13bn](#) for the fiscal year ended in March, a drastic reversal compared with an initial projection for making a JPY 5bn annual profit. The revised data marks Takada's second year of consecutive losses. To make matters worse, the calculated loss does not include costs incurred from the recent recalls of airbags by NHTSA and Honda. Moreover, this financial ordeal has certainly damaged Takata's reputation which may not just hurt its future safety airbag business, but also other areas of its business such as seatbelt manufacturing due to the serious damage to its brand name.

Takata's latest financial results further highlight its financial difficulties. Besides the nosedive in profitability, Takata also faces declining liquidity and increasing exposure to financial risks. This can be seen by the decrease in net profit margin, as well as a substantially lower cash ratio and a surging debt to equity ratio (see Table 1).

3 months ending	Q4 2015 Mar 31, 2015	Q1 2016 Jun 30, 2015	Q2 2016 Sep 30, 2015	Q3 2016 Dec 31, 2015	Q4 2016 Mar 31, 2016
Net Income Margin (%)	1.69	1.70	-4.87	4.40	-8.93
Total Debt/Equity (%)	58.02	55.35	61.53	58.55	67.47
Cash Ratio	0.33	0.31	0.28	0.29	0.25

Table 1: Financial data for Takata Corp. *Source: Bloomberg*

The malfunctioned airbags ordeal, as well as the recent poor financial performance has driven the RMI-CRI 1-year Probability of Default (PD) for Takata Corp from around 60bps at the start of last year to a high of 218.54bps on May 13, 2016. In tandem with the sharp rise in PD, Takata's market capitalization also plunged from more than JPY 100bn to JPY 27.86bn over the same period (see Figure 1).

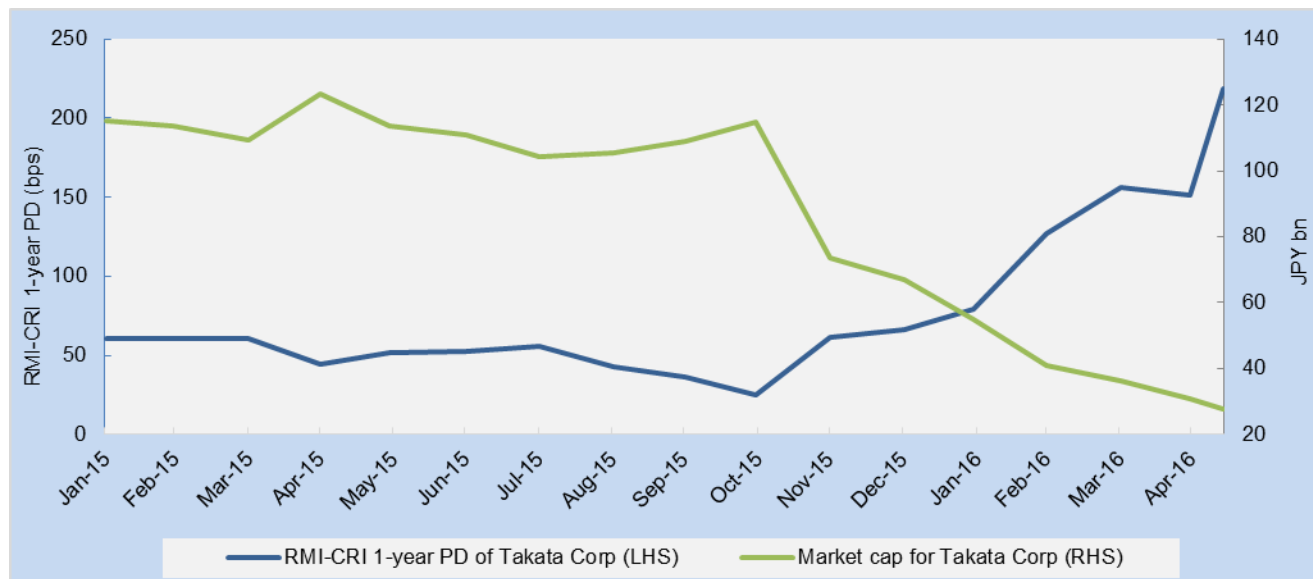


Figure 1: RMI-CRI 1-year Probability of Default and market cap for Takata Corp. Source: RMI-CRI, Bloomberg

On May 11, 2016, Takata Corp predicted that it will make a [profit of JPY 13bn](#) for the next fiscal year ending March 2017, after announcing a new cost reduction strategy, which includes revamping its safety airbag business, as well as selling its non-core business. Additionally, the company assured of minimal material uncertainty or major funding concerns. Its RMI-CRI 1-year PD subsequently declined from 230bps to 191bps on May 12, 2016, along with the increase in stock price by 12.7% on the same day. Unfortunately, this improvement in its credit outlook seems to be short-lived. The next day, the US state of Hawaii [filed a lawsuit](#) against Takata’s life threatening airbag, demanding a compensation of USD 10,000 for every affected vehicle owner in Hawaii. The RMI-CRI 1-year PD subsequently rose on this date, in conjunction with the decline of stock price.

At present, it seems that Takata Corp lacks a credible strategy to resolve its defective airbag crisis. The financial plight that Takata Corp is undergoing will no doubt deteriorate, if additional amount of airbags are recalled. Even worse, if more states or companies jump on the bandwagon and demand compensation for Takata’s defective airbags, then it is inevitable that Takata Corp will venture into an even deeper financial crisis.

<p>Credit News</p>
<p>China debtor requests central bank to provide debt guarantee</p> <p>May 15. After City Construction Holding Group Co.’s (CCHGC) surprise privatisation last month, its bond yields spiked. Subsequently, CCHGC sent a letter to seek People’s Bank of China’s explicit reassurance for its creditors. CCHGC claims that a default is not possible, emphasizing its close ties with the government and hinting the sensitive political duties undertaken by CCHGC. CCHGC has RMB 17bn (USD 2.6bn) worth of debt held domestically. The company insists that it is financially healthy, with RMB 23bn in net assets. (FT)</p>
<p>Saudi Arabia and Bahrain see low oil price prompt ratings cut</p> <p>May 14. Moody’s Investment Service lowered ratings of Middle Eastern oil producers Saudi Arabia, Bahrain and Oman in light of the slump in oil prices. Continuous oil production by OPEC, despite the global oil glut, curtailed upward movements in oil prices. Downgrade of Saudi Arabia’s ratings, the world’s largest oil exporter, was aligned with Moody’s statements that declining oil prices contributed to greater debt accumulation and sluggish growth in Saudi Arabia, weakening Saudi Arabia’s capacity to weather future shocks. (Bloomberg)</p>

Yingli quickens debt effort after missing bond payment

May 12. Yingli Green Energy Holding Co. (Yingli) asserted that it is working on repaying its debts after its recent default on USD 270mn worth of notes on Thursday. Yingli has been registering negative profit since 2011 due to the falling price of its solar panels. Its accumulated debt which peaked at RMB 15.5bn for expansion purposes further squeezed its revenue. The chairman and founder, Mr. Miao Liansheng, said that they will continue to explore methods to reduce manufacturing costs and related expenses and pursue other financing options. Yingli also expects shipments of 2.6 to 3 gigawatts of solar products in 2016, at least 6% growth from last year. Gross margin is also expected to increase from 16.8% in the fourth quarter of 2015 to an average of 17% to 19% this year. ([Bloomberg](#))

Middle East governments set debt record as oil slumps

May 11. Amid the softening in oil prices, public finances weakened across the Middle East, the world's largest crude exporting region, contributing to a new record for debt sales among Middle Eastern governments. An economist at Standard Chartered mentioned that the low oil prices has caused an acute fiscal crisis, creating an urgent need for debt as these countries turn towards international markets to maximize borrowing. Gulf governments including Qatar are already in talks with banks to tap the international bond markets while Saudi Arabia is expected to issue its debut international bond after summer. With increased issuance, pressure on local banks liquidity is expected to ease. However, HSBC's chief economists pointed out that sovereign, financial and corporate borrowers in the six-nation Gulf cooperation Council must repay or refinance USD 94bn in bonds in 2016 and 2017 – an obligation that would be difficult to meet in light of sluggish growth and rating downgrades. ([FT](#))

Baidu chief tells staff improve focus on users or face bankruptcy

May 10. In the wake of tighter regulations imposed on Chinese search engine Baidu, Baidu's chief called for an overhaul of company or face imminent bankruptcy. Tighter regulations, which involve restrictions on medical advertising on Baidu, came on the back of a scandal over the advertising of alternate cancer therapy. Baidu, since being embroiled in the scandal, saw a drop of over 13% in share price, as doubts were cast upon Baidu's dependence on the under-regulated medical industry for income. Barclays estimates 20-30% of Baidu's search incomes were from healthcare sources. Following this scandal, Baidu's chief, in an open letter, asserted his commitment to center Baidu's values towards users. ([FT](#))

Linn Energy files for bankruptcy ([WSJ](#))

TerraForm Global's bondholders issue default warning to firm ([WSJ](#))

Chesapeake Energy swaps debt for stock ([WSJ](#))

Regulatory Updates**China asks Britain for advice on creating financial super-regulator**

May 15. China has sought Britain's advice on creating a financial super-regulator in order to improve financial oversight. As China was considering to consolidate supervisory powers in one regulatory body, the British had already overhauled its regulatory system following the 2008 financial crisis and handed enormous power to the Bank of England. While the British model cannot be easily replicated by China, it provides a good reference to China's plan to merge its top financial regulators. China's current system allows for conflicting policy goals that possibly threaten its financial stability. The talk also signals China's willingness to look for help abroad in increasing transparency, reducing systemic risk and closing loopholes. ([Straits Times](#))

Banks see softer side of Brussels as EU readies rule revamp

May 10. Policymakers in Brussel started to relax aggressive regulations reining European banks. The European Union has opened up the entire financial rule book for review, including contentious issues such as a limit on bankers' bonuses. The EU's financial-services commissioner, Jonathan Hill, has also signaled fewer detailed rules and more judgments in financial regulation. In light of the struggling banking sector, the EU has tried to shift the balance towards a broader macroprudential direction. Regulators have made clear that global standards will be adapted to suit Europe's needs in face of weak banks and an economic slowdown. ([Bloomberg](#))

LSE ready to start service that eases banks' capital burden ([Bloomberg](#))

Report slams National Australia Bank's risk management ([Australia Financial Review](#))

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