CreditOutlook

Credit Implications of Current Events

20 NOVEMBER 2017

NEWS & ANALYSIS

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Our next issue is Monday 27 November.

Corporates

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GE's mounting end-market challenges outweigh cash flow boost from dividend cut

Last Monday, General Electric Company (GE, A2 stable) announced its plan to streamline operations, fix its underperforming power segment and cut its dividend in half. The dividend reduction is credit positive because it will help GE's industrial businesses generate positive free cash flow in 2018 for the first time in several years. However, the severe deterioration in the financial performance of GE's power unit will lengthen the time needed to restore the company's already-weak credit metrics. We therefore downgraded GE's senior unsecured rating by one notch to A2. The outlook is stable.

GE is contending with weak earnings and cash flows in several business segments that collectively comprise about half its revenue. The sharp deterioration in the financial performance of GE's power segment likely will last through at least 2019. In addition, the oil and gas segment faces continued weakness in the global oil field services industry, while the transportation segment grapples with weak North American demand for freight locomotives.

We expect debt/EBITDA, including our standard adjustments, to be about 3.4x at the end of 2017, calculated with GE's 62.5% ownership stake in Baker Hughes, a GE company, LLC (A3 stable) on a deconsolidated basis, and 3.7x in 2018. Even if our calculations included GE's proportion of any distributions from Baker Hughes, debt/EBITDA would be no lower than 3.2x in 2018. The 50% cut in GE's dividend will help the company's industrial businesses generate positive free cash flow of about $2 billion in 2018. Including any cash distributions from Baker Hughes, retained cash flow/net debt could increase to as much as 20% in 2018 from just 6% in 2017.

The downsizing of GE Capital Global Holdings, LLC (A2 stable) has shrunk GE's ability to generate cash flow and has increased its reliance on its industrial businesses to fund the dividend. Funding the dividend in this manner has become increasingly untenable as challenges have mounted in the company's oil and gas, transportation and power segments.

Nevertheless, GE is a formidable industrial enterprise with a significant and competitive presence in its core businesses derived from its technological leadership. A vast installed base and an equipment and services backlog of about $320 billion, close to 50% of which is in the company's very profitable aviation segment, will help to generate robust cash flow.

NEWS & ANALYSIS

Credit implications of current events

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GKN's latest profit warning for 2017 is credit negative

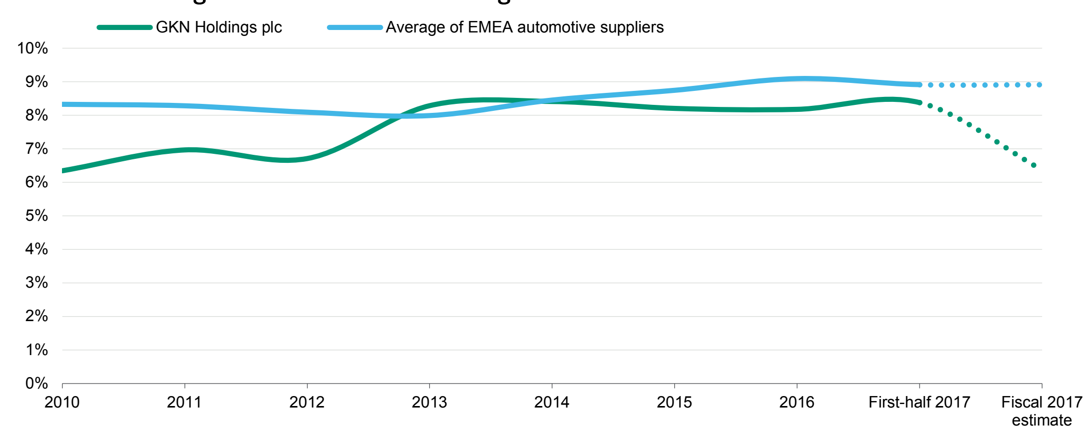
Last Thursday, UK-based automotive and aerospace supplier GKN Holdings plc (Baa3 stable) issued a second profit warning for its 2017 results. The warning followed GKN's review of working capital in its North American aerospace plants, which it announced on 13 October and is not yet complete. GKN now expects a write-off of £80-£130 million of working capital, on top of a previously announced £15 million non-cash charge on inventories and receivables of its facility in the US state of Alabama. On 13 October, GKN also announced a £40 million charge on two commercial claims to be taken in fourth-quarter 2017. The write-offs will burden GKN's Moody's-adjusted EBITA margin by another 90-130 basis points in 2017.

In addition, GKN's board announced Thursday that CEO-designate Kevin Cummings, who previously led the company's aerospace division and was assume the CEO job at the beginning of 2018, will leave the board immediately. GKN's board said it would initiate a new internal and external search for a CEO and appoint an interim chief in January 2018 until it names a new successor. The additional management change leaves some uncertainty about the company's future strategy and its corporate governance.

The write-downs will negatively affect GKN's Moody's-adjusted EBITA margins in 2017, which we now expect will be 6.0%-6.5%, versus 8.2% in 2016 (see Exhibit 1). Although we consider the write-downs unusual and do not expect them to be repeated in 2018, the company likely will be challenged to fully and immediately recover historically higher margin levels.

EXHIBIT 1

GKN's EBITA margins versus the sector average

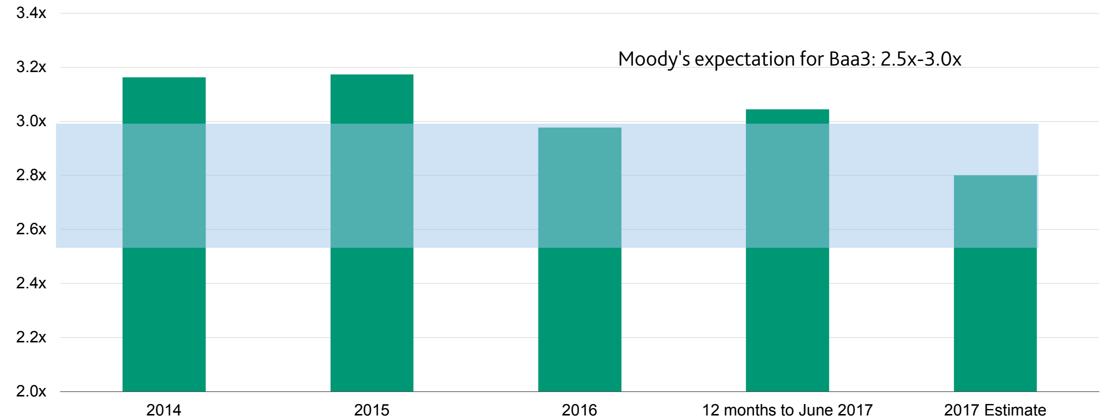


Sector average is the average of EMEA automotive suppliers.

Sources: GKN, Moody's Financial Metrics and Moody's Investors Service estimates

We do not expect the additional write-offs to affect GKN's gross debt or EBITDA metrics. By year-end 2017, we expect the company's Moody's-adjusted debt/EBITDA to be around 2.8x, down from 3.0x for the 12 months to June 2017, which is in line with our expectation of 2.5x-3.0x for GKN's Baa3 rating and stable outlook (see Exhibit 2).

EXHIBIT 2
GKN's debt/EBITDA



All ratios are based on adjusted financial data and incorporate our global standard adjustments for non-financial corporations.
The forward view is our view, not the issuer's, and does not incorporate significant acquisitions and divestitures.
Sources: Moody's Financial Metrics and Moody's Investors Service estimates

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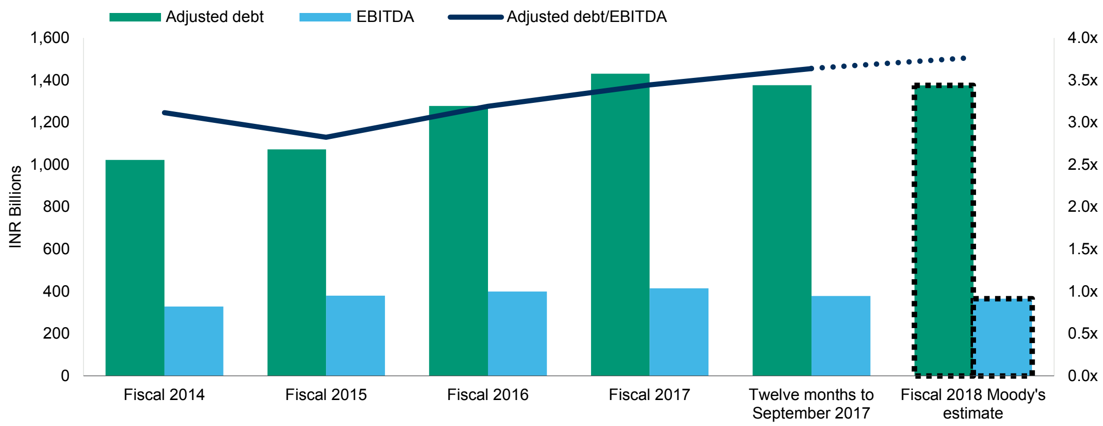
Bharti Airtel's Infratel stake sale is credit positive, but profit challenges remain

Last Tuesday, Bharti Airtel Ltd. (Baa3 negative) announced that it had completed its sale of a 4.49% stake (around 83 million shares) in Bharti Infratel Ltd. (Infratel) for INR33.25 billion ($510 million). The transaction is credit positive because it strengthens the company's balance sheet and reduces debt. However, there is no immediate effect on Bharti's ratings and outlook.

Bharti's reported debt was INR1.05 trillion at 30 September 2017 and adjusted debt was approximately INR1.4 trillion. Despite the company applying the transaction's proceeds entirely to debt reduction, Bharti's pro forma leverage, as measured by adjusted debt/EBITDA, will improve only marginally to 3.6x as of 30 September 2017 from 3.7x (see Exhibit 1).

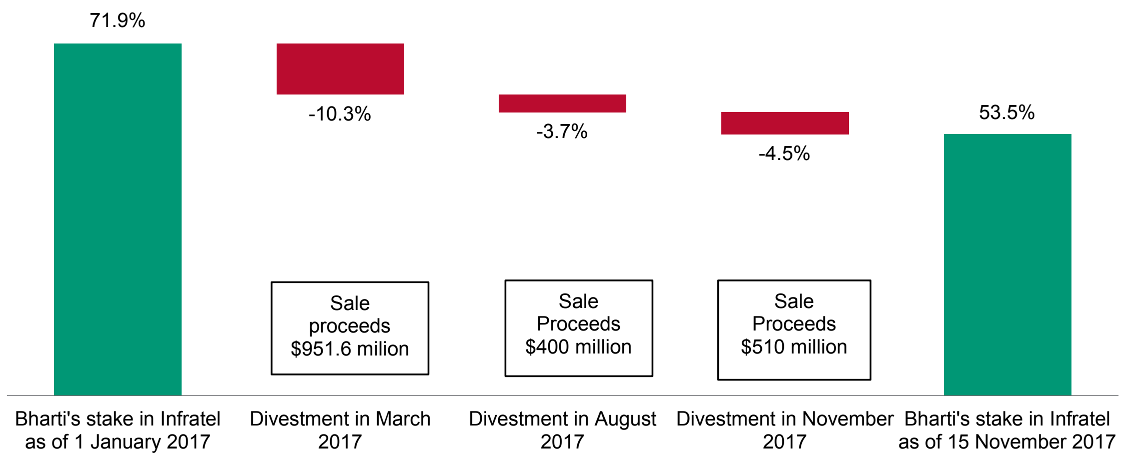
EXHIBIT 1
Bharti's leverage is increasing despite debt reduction as EBITDA contracts



Data for 12 months to September 2017 and fiscal 2018 estimate assume that the company applies the proceeds from the stake sale entirely to debt reduction. Fiscal years end 31 March of each year.
Sources: Moody's Financial Metrics and Moody's Investors Service estimates

Since March 2017, Bharti has divested 18.49% of its interest in Infratel for $1.86 billion that the company has applied to debt reduction (see Exhibit 2). Bharti's stake in Infratel now equals 53.51% following the latest transaction.

EXHIBIT 2
Bharti's sales of investment in Infratel this year



Source: The company

Bharti has used these divestment proceeds to pay down a significant amount of debt. However, the positive effect on Bharti's leverage has been muted because Bharti's profitability has contracted over the past 12 months amid the emergence of intense price competition following the launch of services by Reliance Jio Infocomm Ltd. Over the next 12 months, we expect competition, a revamping of pricing plans and persistent pricing pressure in India's telecom sector to weigh on Bharti's operating performance. Additionally, lower interconnect usage charges that took effect on 1 October 2017 will negatively affect Bharti's profitability over the next 12-24 months.

As a result of these industry challenges, we expect Bharti's organic EBITDA to contract by around 12% year on year to March 2018, such that leverage will remain above our quantitative guidance for its Baa3 rating, barring any further significant debt reduction from additional efforts to monetize assets. However, we expect that Bharti's profitability will benefit ultimately from operational and capital spending synergies after completing its announced acquisitions, the latest of which was Tata Teleservices. Moreover, Bharti will be a key beneficiary as smaller companies such as Reliance Communications Limited exit the market and prices stabilize, with competitive dynamics ultimately resulting in telecom market composed of three companies.

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Yuexiu REIT's proposed commercial complex acquisition is credit negative

Last Tuesday, Yuexiu Real Estate Investment Trust (Yuexiu REIT, Baa3 negative) announced that it will acquire a 67% interest in a commercial complex in Wuhan, China, from its parent company, Yuexiu Property Company Limited (Baa3 negative), for a total consideration of RMB2.28 billion. The planned acquisition is credit negative for Yuexiu REIT because it will increase its debt leverage and execution risk. Following the announcement, we changed our outlook on Yuexiu REIT's Baa3 issuer rating to negative from stable.

We expect that the proposed acquisition will increase Yuexiu REIT's debt leverage, as measured by adjusted debt/EBITDA, to 10.7x-11.2x over the next 12-18 months from around 9.7x for the 12 months that ended June 2017. Such levels are higher than what we expect for the company's Baa3 issuer rating. We note that Yuexiu REIT is considering taking measures such as asset sales or issuing units to restore its debt leverage to levels appropriate for its Baa3 issuer rating. But it remains to be seen when it will execute such measures.

Additionally, the proposed acquisition will increase execution risk for Yuexiu REIT because Wuhan is a new market for the company and has an ample supply of office space. The average occupancy rate in Wuhan as of 31 October was around 40.5% for office buildings and 86.8% for retail buildings. It will therefore take time for Yuexiu REIT to ramp up the operations of the commercial complex there.

The risk of inadequate cash flow from the commercial complex will be partially offset by a performance guarantee from Yuexiu Property. That guarantee assures that Yuexiu REIT will receive annual minimum adjusted net income of RMB78 million for 2018, RMB98 million for 2019 and RMB110 million for 2020.

Yuexiu REIT's adjusted EBITDA/interest coverage will be less affected by the acquisition. We expect interest coverage to decline to 2.9x-3.2x over the next 12-18 months from around 3.2x for the 12 months that ended June 2017 and 3.4x in 2016. Yuexiu REIT's proposed commercial complex in Wuhan currently has a value of around RMB3.59 billion and includes a grade-A office building, Wuhan Yuexiu Fortune Center; a shopping arcade, Starry Victoria Shopping Centre; and residential and commercial parking lots.

Yuexiu REIT will fund the acquisition with a new bank loan of up to RMB1.22 billion and the rest with a deferred payment to Yuexiu Property within one year of the completion of the transaction, which is subject to its unit holders' approval. At 30 June 2017, Yuexiu REIT's portfolio comprised seven properties, six of which were in Guangzhou and one in Shanghai. These properties included wholesale malls, grade-A office buildings, retail malls, premium international brand five-star hotels and serviced apartments totaling of 743,106 square meters of gross floor area.

Yuexiu Property held 35% of Yuexiu REIT as of 30 June 2017. The company's assets are held in a trust and are managed by Yuexiu REIT Asset Management Ltd, a wholly owned subsidiary of Yuexiu Property.

Infrastructure

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PJM's proposed power market reform would be credit positive for generators

Last Wednesday, PJM Interconnection, L.L.C. (Aa2 stable), the electricity grid operator for much of the US Atlantic region and a portion of the Midwest, proposed a change to the bidding rule for inflexible generation units. The new rule, which likely would take effect in 2018, could raise spot market prices and bolster generators' cash flows, a credit positive. The size of the gain has the potential to be fairly significant: according to PJM's simulation, spot energy prices may increase by $3.50 per megawatt-hour, which would translate into hundreds of millions of dollars a year in additional pretax cash flow for generators.

Based PJM's simulation, we estimate that Exelon Generation Company LLC's (Baa2 stable) pretax cash flow would increase by about $500 million, while PSEG Power LLC (Baa1 stable), Talen Energy Supply, LLC (B1 stable), Dynegy Inc. (B2 review for upgrade) and FirstEnergy Solutions Corp. (Caa1 negative) would each record an increase of around $150 million. For Calpine Corporation (Ba3 negative), the increase would be closer to $50 million. FirstEnergy Solutions in particular would benefit from any increase in pretax cash flow because it is at risk of defaulting within the next year.

The rule change involves a market microstructure for how inflexible generating units are bid into the spot market for power trading. A generation unit is deemed inflexible if it has to run at a certain minimum load because of technical or economic reasons. Based on existing rules, these inflexible units are prohibited from setting prices when quantities are below their minimum utilization rates because they risk driving up market prices owing to the cost of their inflexibility. However, under the new rule, inflexible units are recognized as part of market dynamics and are free to set the market price even if they drive up prices.

Although this reform has the potential to benefit generators greatly, we are circumspect on the actual upside, especially for the period beyond 2021. The power market is extremely complex and subject to many volatile commodity and operational factors. The upside that PJM modeled is based on a theoretical scenario. Additionally, current forward prices are at about the same level they were in May this year (see exhibit). This leads us to conclude that the forward market has not priced in a $3.50 per megawatt-hour price uplift as PJM has suggested.

Around-the-clock forward electricity prices for 2019 delivery

Source: OTC Global Holdings

Should the reform actually result in higher spot prices, there would be some unfavorable implications that offset benefits for most generators. Higher spot prices would lead to PJM lowering the compensation for capacity payments. Based on PJM's own simulation, total capacity payment compensation would fall between 17% and 31%, which we estimate would translate into a lower capacity price of $20-$34 per megawatt-hour-day. However, the lower capacity payments would not take effect until 2021 because the payments are established three years ahead.

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Regulator's approval of Public Service New Mexico's renewable investment is credit positive; general rate case order is still pending

Last Wednesday, the New Mexico Public Regulation Commission held an open meeting and approved Public Service Company of New Mexico's (PNM, Baa2 positive) plan to meet the Renewable Portfolio Standard of 20% by 2020. The hearing examiners also presented their recommended decision on PNM's general rate case at the meeting. Approval of the renewable investment is positive for PNM, but the forthcoming order on the general rate case has greater credit implications.

PNM filed the renewables plan on 1 June and hearings were completed in September. PNM's plan includes partnering with a local solar developer to build five 10-megawatt sites on PNM-owned property. The capital plan for the solar investment is $73 million, spending $20 million in 2018 and $53 million in 2019. This will add approximately $60 million to the rate base, with revenue requirements recovered through the renewable rider beginning in 2019 as sites go into service. The commission's approval of the solar investment goes against the hearings examiner's recommendation to disallow PNM's renewable plan and to go through a request-for-proposal process that would allow bidders to utilize PNM's land for development, which in the company's view would equate to taking PNM's property.

With regard to the general rate case, the hearing examiners recommended the same revenue increase of $62.3 million and a 9.575% return on investment as provided in the general rate case settlement between the company and interveners. However, the recommendation modifies the settlement to temporarily disallow $36 million invested in the company's San Juan plant. Disallowing this investment would result in further regulatory lag.

The hearing examiners also determined that PNM's participation in the Four Corners plant was imprudent, which would set a precedent to not recover future capital spending at Four Corners. The company filed exceptions to the hearings examiner's determination. Several other signatories to the settlement also filed exceptions, primarily seeking approval of the settlement without modification. The company expects a final order by early December 2017. The commission must issue a final order by 6 January 2018 or further extend the suspension period to no later than 6 March 2018.

Approval of the renewable plan is positive for PNM because it adds to the rate base and earnings instead of working toward meeting the Renewable Portfolio Standard through power purchase agreements. Moreover, approval of the renewable plan may be a precedent to the commission approving the general rate case settlement as proposed by the company and interveners since only one party opposes the settlement. The New Mexico regulatory environment historically has been inconsistent and unpredictable and the possibility of litigating the case remains.

Our positive outlook on PNM's Baa2 rating and PNM Resources, Inc.'s Baa3 rating incorporates our view that the New Mexico Public Regulation Commission will rule on PNM's rate case settlement by the end of this year such that the final outcome will not be materially different from what is in the proposed settlement. The positive outlook also reflects our expectation that PNM Resources' financial metrics will remain strong for the current rating, including a ratio of operating cash flow pre-working capital to debt in the mid- to high-teens range and our expectation that planned capital expenditures will be financed in a balanced manner consistent with PNM Resources' current capital structure. The strong financial metrics help offset a challenging New Mexico regulatory environment

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TransCanada's Keystone pipeline leak is credit negative

Last Thursday, TransCanada Corporation's (Baa1 stable) Keystone pipeline had an estimated 5,000-barrel leak in South Dakota. This is credit negative for the company because of the financial implications associated with the spill as the company continues to improve its financial profile and reputational risk associated with the spill.

The company will forego revenue as the 590,000-barrel-per-day pipeline is shut down and the company incurs cleanup costs. Additionally, the spill occurred as the company awaits the Nebraska Public Service Commission's approval to move forward with its Keystone XL (KXL) pipeline, a decision likely to come on 20 November. Offsetting the costs and foregone revenue is that TransCanada has business interruption insurance and favorable contractual terms with its shippers that may allow the company to recover some or all of the lost revenue and cleanup costs. The section of the Keystone pipeline that has been shut down extends from Hardisty, Alberta, to Cushing, Oklahoma, and to Wood River/Patoka, Illinois.

The lost revenue and costs related to the spill are likely be small relative to the company's roughly CAD8 billion of EBITDA for the 12 months that ended 30 September 2017. Generally, unless oil spills are substantial, happen in populated areas, occur in or travel to waterways or environmentally sensitive areas, the cleanup costs are small and would not materially affect TransCanada's financial metrics. Additionally, business interruption insurance and favorable contractual terms may insulate the company's financial profile. TransCanada's financial metrics are weak relative to its rating, with debt/EBTIDA of 5.3x for the 12 months that ended 30 September 2017, but the company continues to delever in line with our expectations.

The other risk is reputational. High-profile operating issues attract increased public, government and regulatory scrutiny and make it more difficult to gain required approvals to move forward with other liquids projects. Last Thursday's spill comes at a difficult time for TransCanada given the risk that the incident may influence Nebraska regulators' KXL decision.

Proceeding with KXL is credit negative for the company during construction. Capital expenditures would increase, likely in the latter part of 2018 through 2020 and with a total cost that we estimate at CAD8-CAD10 billion. The project is large enough that it would negatively affect key metrics including debt/EBITDA during construction.

Once in service, KXL likely would generate stable cash flow. However, the overall level of contractedness is uncertain. The company recently solicited binding contractual commitments with prospective shippers on KXL and has not announced definitive results. Although the company has indicated that it has received interest consistent with historically high levels of contractedness that would ensure long-term stable cash flow, some of the contract conditions that shippers want may require further negotiation. These conditions may center on execution risk and risk-sharing.

In a worst-case scenario, the company would spend 99% of the cost of the pipe and be unable to bring it into service, triggering cash flow. TransCanada may be unwilling to shoulder high levels of execution risk and may insist on cost-sharing measures that counterbalance various downside scenarios. TransCanada has taken a multibillion write-down on KXL in the past and more recently a CAD1 billion write-down on Energy East, a previously proposed cross-Canada liquids pipeline.

Banks

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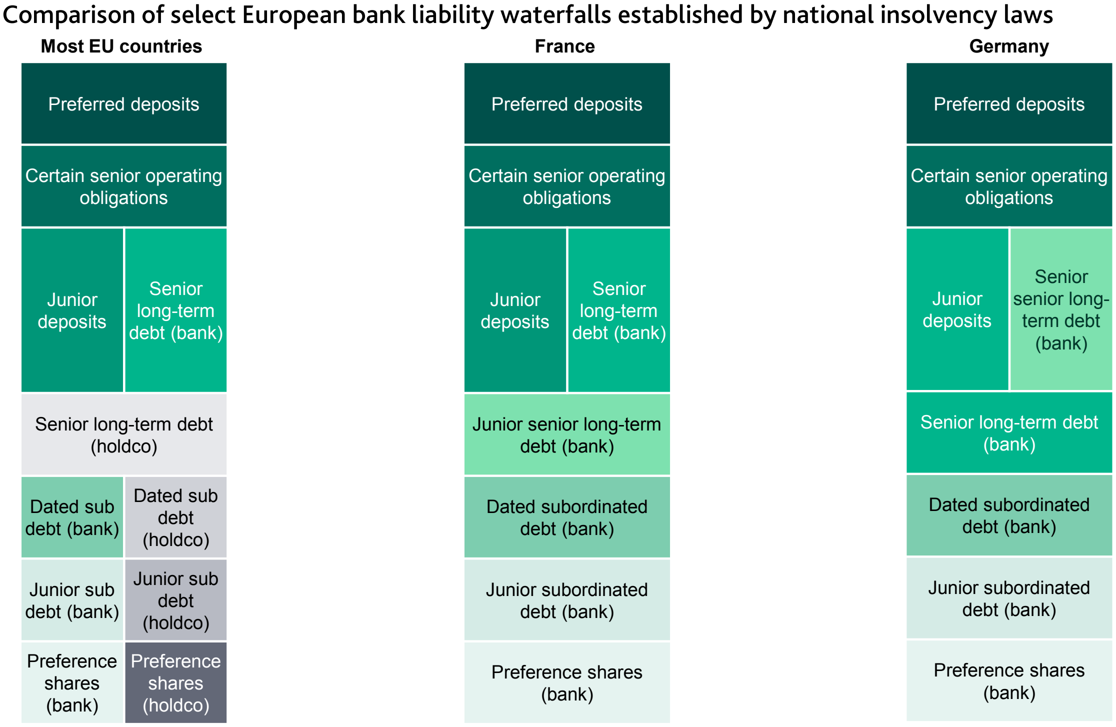
EU rules improve harmonization of bank creditor rankings, but are credit negative for German senior bank debt

Last Wednesday, the European Union (EU) Council published an updated draft amendment of the EU's Bank Recovery and Resolution Directive (BRRD), confirming that all major stakeholders (i.e., member states, EU Parliament and EU Commission) had reached a consensus on draft text that awaits passage on 30 November. Passage would harmonize to a greater extent bank creditor hierarchies across the EU, bringing more certainty of treatment in distress. However, the proposal would be credit negative for investors in German senior unsecured bonds because we expect Germany to reinstate a senior unsecured debt class that ranks alongside other senior creditors but is preferred to the current stack of plain vanilla senior unsecured bonds.

The proposal introduces a contractually subordinated (non-preferred or junior) senior unsecured class that would allow EU banks to efficiently build up a bail-in-able debt layer below current senior unsecured bank debt. These new debt instruments would count toward banks' regulatory minimum requirements for own funds and eligible liabilities (MREL) and total loss-absorbing capacity (TLAC) and would add to subordination cushions for senior unsecured creditors in all countries that introduce the debt class. A key benefit of this harmonization is greater simplicity and investor friendliness in the current less harmonized landscape of EU senior unsecured bank debt (see exhibit).

Comparison of select European bank liability waterfalls established by national insolvency laws



Source: Moody's Investors Service

There is significant variation between insolvency regimes among EU member states, with few countries so far having adopted national solutions to the issue of creating bail-in-able debt cushions. Where an EU member state has done so, the approaches have differed considerably. France's solution of introducing a new junior-senior debt class has served as a template for the harmonized approach now published by the EU Council.

For Germany, the draft BRRD amendment suggests that the current statutory subordination of outstanding German plain vanilla bank debt below operating debt, structured notes and deposits will continue if the EU Parliament approves this version. As part of next year's national transposition, we expect Germany to reinstate a senior unsecured debt class that ranks alongside other senior creditors including non-protected deposits, which would negatively affect investors in already-issued German senior unsecured bank bonds. This is because the introduction of a new preferred senior class would imply an acceptance by authorities that existing senior unsecured debt is more likely to be bailed in during a bank resolution. Furthermore, whereas investors in German senior unsecured bonds currently still benefit from a significant volume of equal-ranking debt, German banks instead may refinance part of future debt maturities with these new senior unsecured class, which would increase the expected loss severity upon failure for the statutorily subordinated senior creditors.

The proposed law does not change the relative ranking of deposits, leaving that to member states' discretion. The lack of a consistent approach across the EU remains a negative for bank creditors, particularly because it can result in different treatment of depositors at banks that operate throughout the EU.

More positively, the draft directive confirms that issuance in foreign currencies and floating rate interest payments based on Euribor or Libor will be acceptable formats for non-preferred senior unsecured bond issuances. This ensures that issuers have additional flexibility to target different investor groups. Additionally, the proposal clarifies that other forms of subordination to meet MREL and TLAC are still permitted, acknowledging the structural subordination model established predominantly by banking groups in the UK that operate a holding company/operating company model. The draft directive requires EU member states to transpose the directive into national law within 12 months, and definitely before TLAC requirements take effect on 1 January 2019.

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Commercial International Bank's dollar-denominated Tier 2 issuance is credit positive

Last Tuesday, Commercial International Bank (Egypt) SAE (CIB, Caa1 stable, b3[1]), Egypt's third-largest bank, signed an agreement with the European Bank for Reconstruction and Development (EBRD, Aaa stable) to invest in the bank's $100 million (EGP1.8 billion) subordinated loan, which will qualify as Tier 2 capital. The agreement is credit positive for CIB because the dollar-denominated Tier 2 capital will increase the bank's total capital and protect its total regulatory capital ratio against the risk of further weakening of the local currency, the Egyptian pound. The subordinated loan also will diversify CIB's funding sources and increase the dollar funds available to the bank to service its clients.

Although the bank did not announce the pricing for the subordinated loan, we do not expect that its cost will materially negatively affect CIB's funding cost or its high net interest margin of 4.94% as of September 2017. The Tier 2 debt, which will mature in 10 years, will increase the bank's total capital ratio to 18.05% from 16.95% as of September 2017, widening the buffer above the 11.25% regulatory minimum. Additionally, it will protect the bank's capital ratio against the risk of a further weakening of the pound to some extent because this component in the bank's capital calculation will be stable relative to its dollar-denominated risk-weighted assets.

All Egyptian banks' capital ratios are vulnerable to the risk of a further depreciation of the pound. Following the Central Bank of Egypt's decision to liberalize the exchange rate in November 2016, the pound depreciated by 50% against the US dollar and 48% against euro over the following month. As a result, CIB's total capital adequacy ratio declined to 10.74% as of December 2016 from 13.90% as of September 2016 (both figures exclude profits) as the bank's risk-weighted assets grew by 40% over the same period. The growth was mainly the result of the appreciation of the bank's foreign currency-denominated assets, mainly US dollars.

The subordinated debt also will increase the dollar funds that the bank has available to service its clients. The shortage of dollars has been a key challenge in Egypt for the past few years and has been gradually addressed following the floatation of the currency, which resulted in an increase of foreign investment and remittances. Although we view favorably CIB's stable deposit-based funding structure, the subordinated debt issuance will diversify the bank's funding and improve its ability to issue in the debt markets. Deposits, mainly from retail clients, accounted for 97% of the bank's total liabilities as of September 2017.

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1 The bank ratings shown in this report are CIB's deposit rating and baseline credit assessment.

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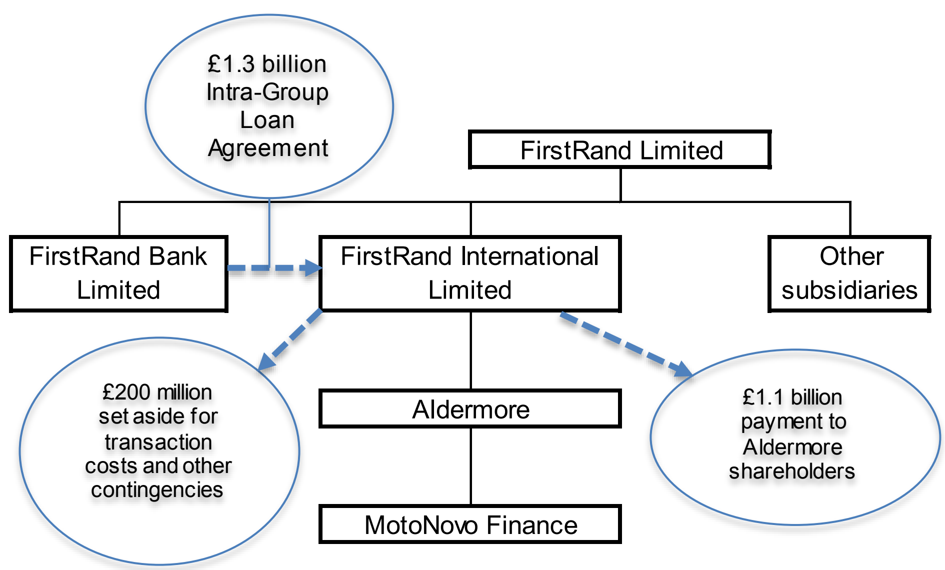
FirstRand Bank's acquisition of Aldermore will reduce capital and earnings

Last Wednesday, FirstRand Bank Limited (FRB, Baa3/Baa3 negative, baa3[2]) announced that a cash offer by holding company FirstRand Limited to take over UK specialist lender and savings bank Aldermore Group PLC through wholly owned subsidiary FirstRand International Limited will negatively affect FRB's capital base. The acquisition will reduce FRB's capital buffers and earnings, and limit its asset and income diversification. Nonetheless, the acquisition could benefit FRB through potential investment banking business in the UK with Aldermore's involvement and through cross-selling opportunities.

The takeover, which values Aldermore at around £1.1 billion (ZAR20.4 billion) against a net asset value of £605 million (ZAR11.2 billion) as of June 2017, will generate around £495 million (ZAR9.2 billion) of goodwill. The immediate financing of the deal, any transaction-related expenses and other potential contingencies, such as legal and advisory fees, will be covered by a £1.3 billion intra-group bridge loan facility that FRB will extend to FirstRand International Limited (see Exhibit 1). However, we expect the acquisition's permanent financing to be through capital reshuffling within the group, reducing FRB's strong capital base.

EXHIBIT 1
FirstRand Group organisational chart after the Aldermore acquisition and the transaction's initial funding



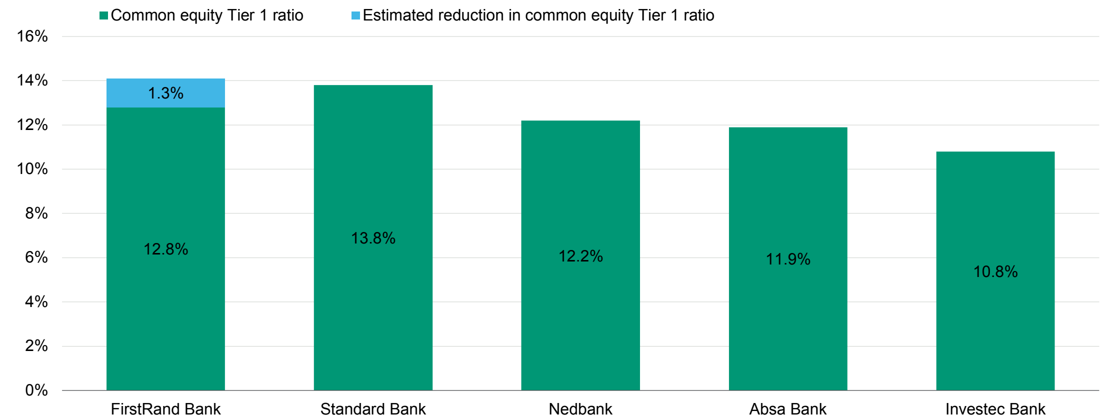
Sources: FirstRand Limited and Moody's Investors Service

Given that FirstRand Limited has previously indicated that a large portion of the group's excess capital sits on FRB's balance sheet for potential acquisitions, and has stated that its intention is to fund any goodwill from the transaction through common equity Tier 1 (CET1) capital, we expect that FRB will need to upstream capital to its holding company. Such dividend payments could total up to ZAR10 billion to cover the goodwill arising from the Aldermore acquisition. This level of capital, which amounts to around 82% of the bank's total dividends for the 12 months that ended June 2017, is likely to be channelled down to FirstRand International Limited to partly repay the loan facility that will be due to FRB. We expect the balance of the immediate loan to be extended to take some other form of financing either through internal or external resources.

[2] The bank ratings shown in this report are FirstRand Bank's local deposit rating and baseline credit assessment.

Accordingly, FRB, which retains around 80% of the group's total capital, indicated in its recent announcement that its CET1 capital ratio will decline 90-130 basis points from 14.1% as of June 2017, which translates into a pro forma CET1 ratio of 12.8% in a worst-case scenario. Nonetheless, this level of CET1 capital remains above the bank's internal target of 10%-11%, and will continue to compare favourably with its similarly rated local peers (see Exhibit 2).

EXHIBIT 2
Large South African banks' common equity Tier 1 ratios



All ratios are as of June 2017, except for Investec Bank, whose data is as of the fiscal year that ended March 2017. Absa Bank's ratio is normalised for its separation from Barclays Bank PLC.
Sources: The banks' financials

As part of the agreement, FRB will integrate into Aldermore its vehicle finance business in the UK, booked through its MotoNovo Finance (MNF) franchise in its London branch. FRB will retain existing business on its balance sheet, but future business will be booked by Aldermore once the integration has been completed. Consequently, Aldermore's cheaper deposit-based funding in the UK, compared with FRB's more costly hard-currency market funding, will support MNF, resulting in a more sustainable funding model.

FRB's current UK business accounted for around one-quarter of its total vehicle and asset finance business line, or around 3.7% of its total loans, and around 4% of its total earnings as of June 2017. The deal will reduce FRB's asset and earnings geographical diversification, and the bank's potential to benefit in the future from MNF's asset growth. Nonetheless, the hard-currency market funding and securitisation that FRB used to fund MNF will become available for local and cross-border lending in the rest of Africa. Moreover, FRB likely will benefit from Aldermore's growing franchise in the UK, including potential investment banking business and though cross-selling opportunities.

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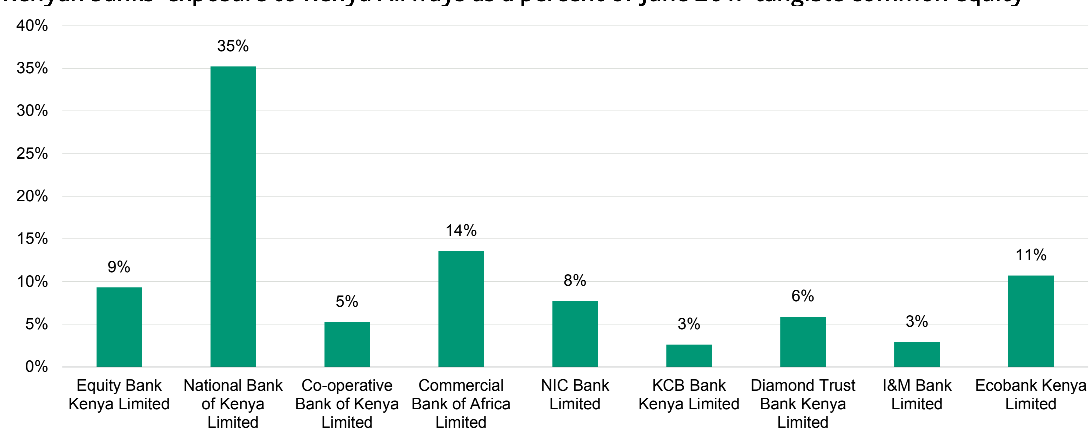
Kenyan banks will incur losses from Kenyan Airways' debt restructuring

Last Monday, Kenyan Minister of Finance Henry Rotich announced further details on a debt restructuring plan for Kenya Airways. Under the plan, which awaits finalization, local commercial banks will restructure existing loans to the airline at reduced commercial terms in exchange for enhanced collateral, including a 38% equity stake in the company. The restructuring of bank loans at reduced terms is credit negative for Kenyan banks because it will result in losses that likely will increase loan provisions and reduce profitability.

As part of the plan, commercial banks will restructure $217 million of loans to the airline, the majority of which are unsecured short-term loans and which together equal 7% of banks' tangible common equity (TCE). The banks will convert these loans into 10-year loans at reduced rates of 1% for the first five years, 3% for the next two years and 5% for the last three years, from an average of around 9% previously. The loans will be transferred to a new holding company, Kenya Airways Lenders Company, that the banks will own as part of their collateral and which will convert these loans into a 38% equity stake in Kenya Airways. This effectively will lead to a simple debt-to-equity conversion on the airline's balance sheet, while the banks will maintain loan exposures to the holding company at reduced commercial terms in exchange for enhanced collateral.

Additionally, the government also will conduct a debt-to-equity swap and inject additional cash into the airline. Exhibit 1 shows the nine Kenyan banks participating in the restructuring, and their exposure to the airline relative to their TCE. Government-owned National Bank of Kenya Limited (NBK) has the most exposure relative to its TCE at 35%.

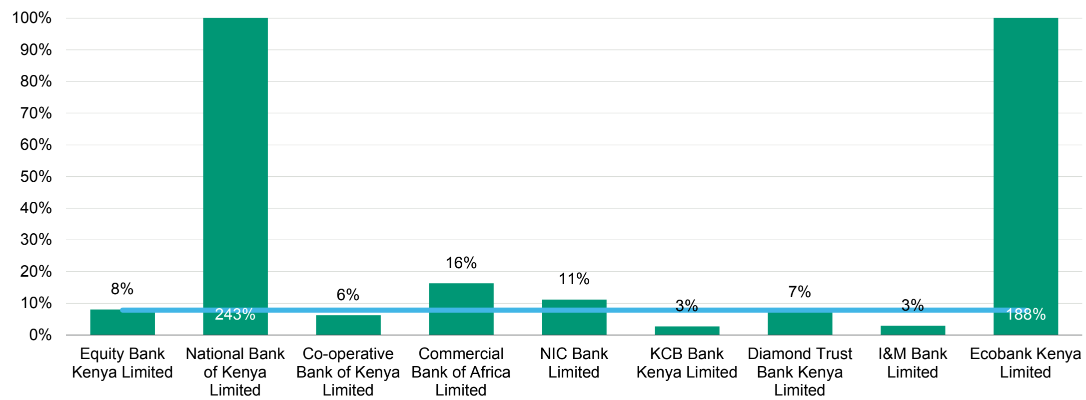
EXHIBIT 1
Kenyan banks' exposure to Kenya Airways as a percent of June 2017 tangible common equity



Commercial Bank of Africa's estimate uses year-end 2016 tangible common equity.
Sources: SNL Financials, banks' financial reports, Business Daily Africa and Moody's Investors Service

We estimate that longer maturities and reduced interest rates for loans will result in present value losses of 25% at the banks, although required accounting provisions will depend on auditors' assumptions and valuations. Exhibit 2 shows our estimate of the effect relative to each bank's annualised net income for the first half of 2017, with losses overall reducing net income by 8%. Although that effect is manageable for most banks, which can absorb the losses using recurring earnings, the loss will be challenging for NBK, threatening to further erode its already-depleted capital as a result of weak financial performance. NBK's capital adequacy ratio was 11.8% as of June 2017, below the 14.5% regulatory minimum. Ecobank Kenya Limited also appears vulnerable owing to weak profitability, but the bank's total capital ratio was 19.7% as of June 2017 and provides a strong buffer to absorb losses.

EXHIBIT 2
Kenyan banks' loss as a percent of annualised net income for first-half 2017



The horizontal line is the aggregate loss for banks.
Sources: SNL Financials, banks' financial reports, Business Daily Africa and Moody's Investors Service

In addition to the 38% equity stake in Kenya Airways as part of the restructuring, the banks will receive credit enhancement in the form of cash payments to the holding company from Kenya Airways and a partial government guarantee. We estimate the coverage at 60%-70% of loans, primarily in the form of credit enhancement and government guarantees, because we deeply discount the value of the equity stock.

Banks also will provide new financing (working capital facilities and off-balance-sheet letters of credit) to Kenya Airways totalling $175 million at prevailing commercial rates and backed by a government guarantee. Kenya Airways' improved capital position, with increased equity of KES11.8 billion ($112 million) as per the company's pro forma statements, versus negative KES45 billion as of March 2017, and its operational restructuring (reductions in staff, fleet and routes) will strengthen the airline's balance sheet, profitability and viability.

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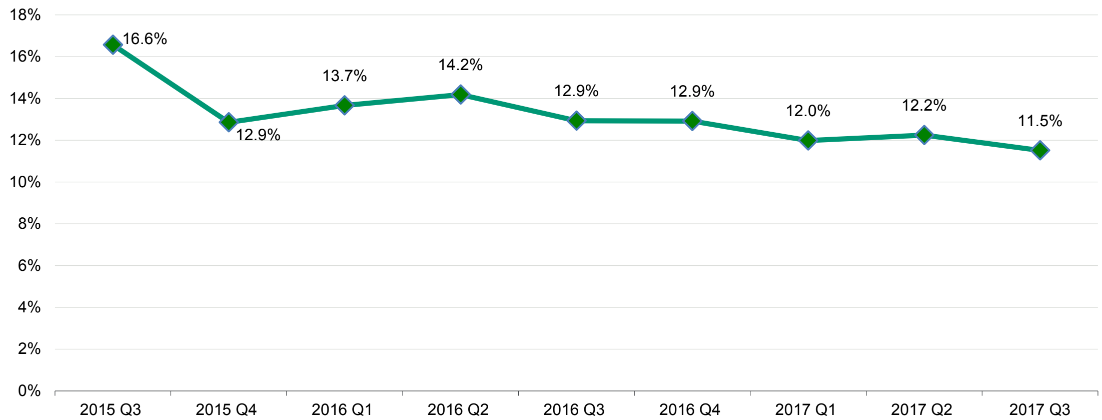
SBM Bank (Mauritius) Ltd.'s declining common equity Tier 1 capital ratio is credit negative

Last Wednesday, SBM Bank (Mauritius) Ltd. (SBM, Baa3 stable, ba1[3]), the second-largest domestic bank in Mauritius, published its interim results for the nine months that ended 30 September 2017 that showed a decline in its reported common equity Tier 1 (CET1) capital ratio to 11.5% from 12.9% a year earlier, the lowest level since the SBM group completed a restructuring in 2015 (see Exhibit 1). The continued decline in SBM's CET1 ratio is driven mainly by rapid growth in risk-weighted assets in recent quarters that outpaced capital generation and actual earnings retention. These trends are credit negative for the bank because they limit its loss-absorption capacity against unexpected losses.

EXHIBIT 1

SBM Bank (Mauritius) Ltd.'s capitalisation is declining



Sources: The bank and Moody's Investors Service

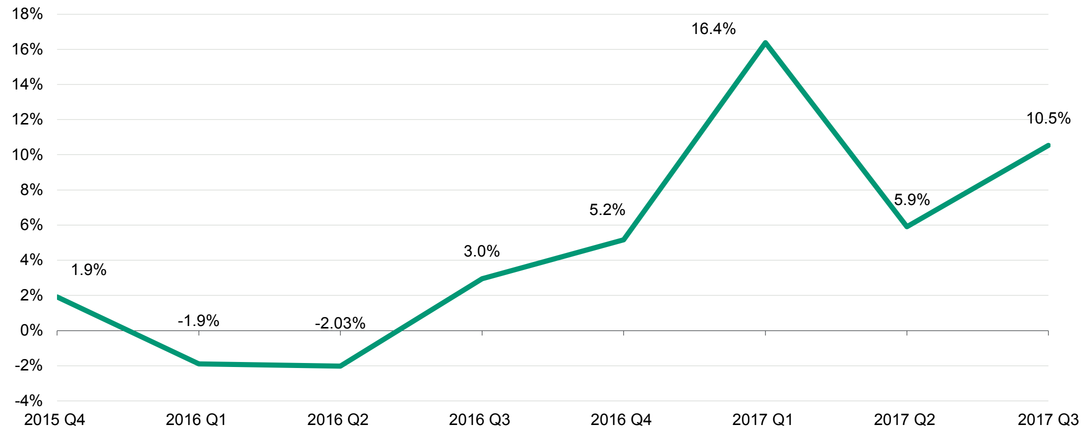
The continued decline in capitalisation, which reduces the bank's loss-absorption capacity, was driven mainly by the bank's rapid risk-weighted assets expansion related to its strategic decision to accelerate growth in its offshore business (also known as segment B lending). Total net loans grew year on year by a high 43% to MUR97 billion as of September 2017 from MUR68 billion a year earlier (see Exhibit 2). Such growth usually carries downside risks, especially considering the group's recent strategic venture into Kenya and plans to further expand its operations in Africa.

3 The bank ratings shown in this report are the bank's deposit rating and baseline credit assessment.

EXHIBIT 2

SBM Bank (Mauritius) Ltd.'s rapid loan expansion has been driven mainly by the offshore sector

Net loans' quarter-on-quarter growth.

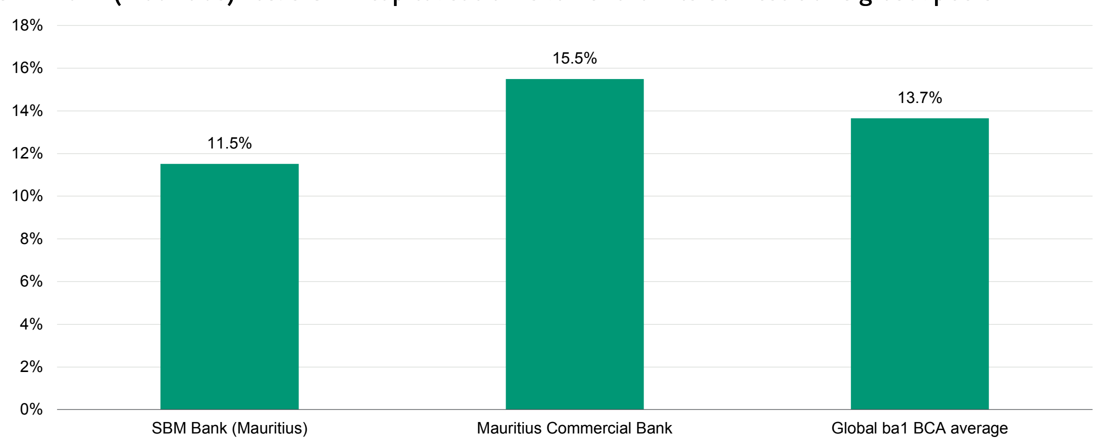


Sources: The bank and Moody's Investors Service

Although capital levels exceed the current regulatory CET1 requirement of 7.625%, a smaller capital buffer limits the bank's loss-absorption capacity and lags similarly rated domestic and global peers. SBM's CET1 of 11.5% as of September 2017, which is the same as its Tier 1 ratio, is below market leader Mauritius Commercial Bank Limited's (Baa3 stable, ba1) 15.5% and the 13.7% average Tier 1 for banks globally with a ba1 baseline credit assessment (see Exhibit 3).

EXHIBIT 3

SBM Bank (Mauritius) Ltd.'s CET1 capitalisation is lower than its domestic and global peers



Data as of September 2017

Sources: The bank and Moody's Investors Service

We expect SBM's capitalisation to remain challenged because of the upcoming conversion of its branches in India to a banking subsidiary under the holding company. The planned conversion also will negatively affect the bank's CET1 capital by around 150 basis points, reducing further its pro forma CET1 ratio to approximately 10% as of September 2017. Nonetheless, the holding company's board recently approved an injection of MUR2 billion of capital into SBM from the holding company's excess capital of around MUR8.6 billion, pending regulatory approval. This likely will take place in two tranches, MUR1 billion in the fourth quarter of 2017 and MUR1 billion in the first quarter of 2018, and will address some capital challenges and help comply with a fully loaded Basel III requirement of 12% by January 2020.

SBM Holdings reported a CET1 ratio of 16.2% as of September 2017, which is down from 19.9% as of December 2016 because of SBM's acquisition of a Kenyan bank this year. The high level of capital maintained at the holding company will continue to be readily available to SBM in case of need. Given the group's strategy to further expand into Africa, we expect this capital cushion to marginally decline unless the bank and its parent restrict any dividend payments to shareholders and retain most of their earnings.

SBM's restructuring in 2015 split the institution's banking and nonbanking entities and its local and foreign operations, and upstreamed capital to SBM Holdings, which became the bank's ultimate holding company. As a result, SBM's CET1 ratio dropped to 12.9% in December 2015 from 16.6% as of September 2015.

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Thai regulators approve payment system using quick response codes, a credit positive for banks

Last Tuesday, the Bank of Thailand (BOT, Baa1), the central bank, announced that five Thai banks had received the regulator's approval to commercially launch competing e-payment systems using quick response (QR) codes. The QR code payment system allows customers to use banks' mobile phone apps to scan merchants' standard QR codes to purchase products and make payments immediately. The regulator's approvals are credit positive for the five banks because it will further improve their efficiency and delivery of digital payment systems. The approval also confirms the strength of the banks' risk management systems for digital payment versus competitors that did not receive approval at this stage.

The BOT allowed eight financial institutions to test their payment projects before approving the five banks to launch QR-code-based e-payment systems. The approved banks are Bangkok Bank Public Company Limited (Baa1/Baa1 stable, baa2[4]), Government Savings Bank, KASIKORNBANK Public Company Limited (Baa1/Baa1 stable, baa2), Krung Thai Bank Public Company Limited (Baa1/Baa1 stable, ba1) and Siam Commercial Bank Public Company Limited (Baa1/Baa1 stable, baa2). The BOT did not disclose the three banks whose plans it did not approve.

Digital payment systems increase the likelihood of financial technology (fintech) companies working with banks to drive innovation in the banking system. Given the involvement of sensitive financial data, fintech companies setting up their own payment systems outside the purview of bank regulators could expose banks and customers to downside risks.

The banks will be able to realize cost savings as penetration of the new payment system increases with both merchants and consumers. Before approving the five banks' payment systems, the BOT tested the readiness and robustness of each bank's IT systems, risk management, consumer protection, security, and related operations in branches and call centers, aiming to serve consumers continuously and efficiently. Initially, the new payment methods will seek to support small payment transactions at food stalls, small and midsize shops, fresh markets and taxis. As per the BOT, the payment services will be enhanced to support more sources of funds such as credit cards and to facilitate other innovative financial services.

[4] The bank ratings shown in this report are the bank's deposit rating, senior unsecured debt rating and baseline credit assessment.

Insurers

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Argentina's regulation limiting insurers' investment in central bank securities is credit negative

Last Friday, Argentine insurance regulator Superintendencia de Seguros de la Nacion published a resolution that excludes from insurers' assets for regulatory solvency margins central bank notes and mutual funds that invest in those securities. The prohibition is credit negative for Argentine insurers because the central bank notes, called LEBACs, are the most liquid and high-yielding securities in local capital markets, and comprise 40%, or $8 billion, of insurers' cumulative investment portfolio either directly or through mutual funds (see Exhibit 1). The regulatory limit on LEBACs will negatively affect insurers' profitability, liquidity and the overall risk profile of their investment portfolio.

EXHIBIT 1
Argentine insurers' investment portfolio

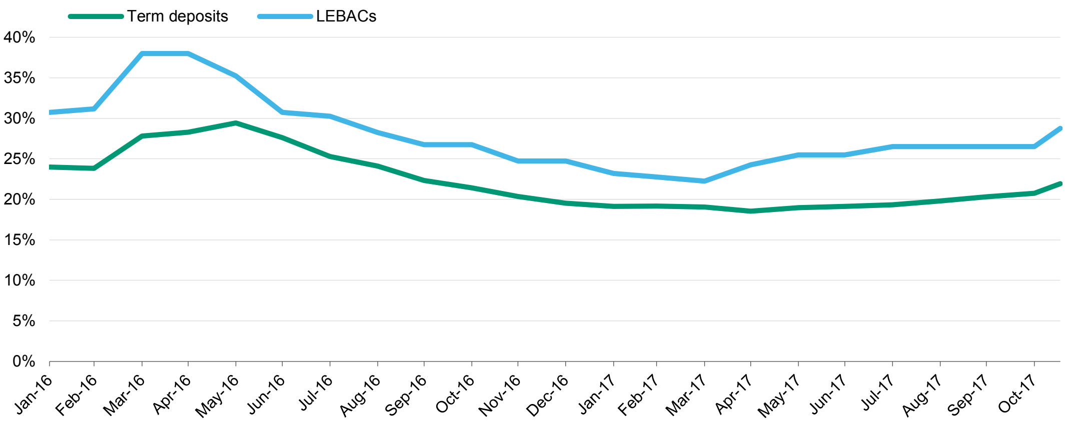
Investment securities	Amount as of June 2017 $ billions	Percent of total investments
Government and central bank securities	$8.6	43%
Mutual funds	$4.9	25%
Corporate bonds	$2.5	13%
Term deposits	$2.1	10%
Equity	$1.0	5%
Cash	$0.4	2%
Financial trusts	$0.2	1%
Foreign investments	$0.1	0%
Loans	$0.0	0%
Other	$0.0	0%
Total	$19.9	100%

Source: Argentina's Superintendencia de Seguros de la Nación

There currently are only a few short-term local-currency investment alternatives to LEBACs, mainly term deposits with significantly lower yields and liquidity because they do not trade on a secondary market. Over the past several years, insurers generally have incurred underwriting losses, compelling them to depend more on LEBACs' high investment returns. As shown in Exhibit 2, LEBACs' yields have been consistently higher than term deposits.

EXHIBIT 2

Comparison of 35-day LEBACs' and 30- to 35-day term deposits' annual yields



Source: Banco Central de la República Argentina

By March 2018, insurers will have to reduce to zero their holdings in mutual funds that invest in LEBACs. Insurers' investments comprised around 17% of mutual fund assets under management as of June 2017. Local bond and balanced funds that have insurance companies as shareholders will have to sell LEBACs and buy other securities to keep the insurance companies as investors. However, they expect that the purchase of newly permissible peso-denominated assets will negatively affect funds' returns, liquidity and credit quality. As of June, LEBACs comprised 48% of Argentine mutual funds' portfolios, with 289 of 440 funds holding LEBACs, which will make them ineligible investments for insurers.

In the same regulation, insurers have been allowed to increase their exposure to government bonds, municipal bonds and closed mutual funds. Other securities that were previously ineligible for regulatory solvency margins and are now eligible include financial trusts derived from public-private partnerships, mortgage-backed securities and infrastructure or real estate funds. Although the increased array of eligible securities will diversify assets, portfolios' credit quality will weaken because most of these securities have lower credit quality and liquidity than those of LEBACs.

We expect insurers to shift their portfolio investments toward government bonds, term deposits and cash. To comply with the new regulation, insurers are not mandated to sell their LEBAC holdings, but considering that LEBACs mostly have 30- to 90-day maturities, the instruments will mature within 90 days.

Clearing Houses

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SEC approves Fixed Income Clearing Corporation's committed repurchase facility, a credit positive

Last Wednesday, the US Securities and Exchange Commission (SEC) approved Fixed Income Clearing Corporation's (FICC, P-1 stable) committed repurchase (repo) facility. The approval is credit positive for FICC, its Government Securities Division (GSD, clearing counterparty rating Aaa stable) and FICC's parent, The Depository Trust and Clearing Corporation (DTCC, Aa3 stable), because the rules-based committed repo facility will bolster FICC's liquidity in the event of a GSD netting member default.

FICC, a designated systemically important financial market utility, needs a committed liquidity resource to help meet its cash settlement obligations in the event of a default of the GSD netting member (or affiliated family of netting members) to which FICC has the largest exposure in extreme but plausible market conditions. The GSD is an integral component of the US capital market infrastructure through its provision of trade comparison, netting, risk management, settlement and central counterparty services for the US government securities market.

The GSD's more than 100 netting members, mainly banks and broker-dealers, would commit to the new facility, which FICC calls a Capped Contingency Liquidity Facility (CCLF). In the event of a GSD netting member default, FICC would first obtain liquidity through its other available non-CCLF liquidity resources. These resources include cash and securities in the GSD's clearing fund, uncommitted repo transactions using the securities that were destined for delivery to the defaulting netting member, and uncommitted bank loans. In the event that these other liquidity resources were insufficient to meet FICC's clearing counterparty obligations to the GSD's non-defaulting netting members, FICC would initiate CCLF repo transactions with the GSD's non-defaulting netting members up to a pre-determined capped amount to make up the shortfall in liquidity and meet GSD's financial obligations as a central counterparty clearing house.

FICC intends to size its CCLF to meet the GSD's peak liquidity need during the prior six months, assuming the default of the GSD's largest family of affiliated netting members (i.e., its regulatory "cover 1" requirement). The CCLF also will have an additional liquidity buffer (initially set at 20% of the historical liquidity need, at a minimum of $15 billion) to cover changes in netting members' trading behavior and the possibility that the defaulting netting member is the largest CCLF contributor. Periodically, FICC will require netting members to certify their ability to meet these contingent funding obligations. FICC also will monitor the CCLF's sufficiency and will be able to increase members' commitments if necessary to satisfy its liquidity needs.

FICC will use a rules-based approach to allocate CCLF obligations, with those netting members that place a higher liquidity burden on FICC responsible for a larger share of the CCLF. The first $15 billion of aggregate liquidity needed will be committed by all netting members pro rata, with a larger portion allocated to those netting members to which FICC would have the largest cash settlement obligations as a result of a member default. FICC believes that the majority of netting members would fulfill their commitment to the CCLF in this step. Then, the supplemental amount of the total CCLF above $15 billion would be allocated solely to those netting members whose peak daily liquidity need exceeded $15 billion within a six-month look-back period. Based on data in the second half of 2016, FICC estimates that this supplemental amount would have been approximately 80% of the total CCLF obligation. (Using this estimate, the total CCLF for this period would have been approximately $75 billion, and more recently the total CCLF would have been $70 billion.)

Netting members concerned about the size of their financial exposure to CCLF can modify their trading and settlement activities to reduce their peak liquidity exposures to FICC. FICC said that netting members that participated in a two-month test were able to successfully reduce the total CCLF requirement by about $5 billion. According to FICC's regulatory proposal, CCLF is scheduled to become operational in 12 months to provide netting members sufficient time to plan for its implementation.

Sovereigns

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Greece's latest bond exchange offer is another step toward restoring capital markets access, a credit positive

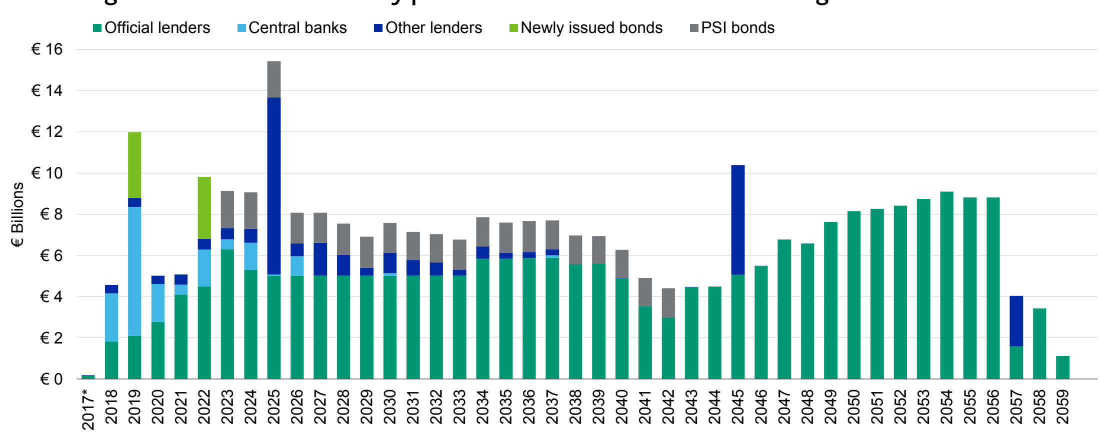
Last Wednesday, the Government of Greece (Caa2 positive) announced an offer to exchange its 20 private-sector involvement (PSI) bonds[5] into five new benchmark bonds. The exchange will leave Greece's debt burden and its average maturity roughly unchanged, but will consolidate the illiquid PSI bonds into more liquid benchmark securities. The PSI bonds originated during Greece's debt restructuring in 2012 and their exchange is another credit-positive step toward Greece's return to the international capital markets.

This exchange follows a more limited government bond swap in July of around €3 billion bonds maturing in 2019 into a new five-year bond. The July swap trimmed the government's 2019 repayment peak and lengthened its debt's average maturity.

The latest exchange offer is open until 28 November, so the ultimate size of the transaction is not yet known. The government hopes to exchange the majority or even the full amount of €29.6 billion of the 20 PSI bonds, which have maturities between 2023 and 2042. In exchange, the government will offer five new benchmark bonds with maturities of between five and 25 years. The exchange is structured to keep the average maturity of Greece's outstanding debt roughly unchanged. The swap will not change Greece's overall debt burden.

The exchange would consolidate the many illiquid PSI bonds into five benchmark securities with significantly higher liquidity. Individual PSI bonds are small at less than €1.5 billion on average, and also have attached to them non-standard features such as GDP warrants. In contrast, the new bonds have standard terms, aligning them with those prevalent for sovereign issuers. The swap would allow the government to create a more liquid yield curve out to 25 years (see exhibit).

Greece's government bond maturity profile will benefit from consolidating PSI bonds



* November-December 2017
Sources: Greek Finance Ministry and Moody's Investors Service

5 The PSI bonds were offered to private creditors of Greece as part of the 2012 restructuring. In return for the PSI bonds, which had some attractive features such as short-term (and liquid) European Financial Stability Facility notes and GDP warrants attached to them, Greece's private-sector creditors accepted a nominal haircut of 68.5% on their old bonds.

The improvements to the liquidity and trading conditions for Greek government bonds support the government's return to international bond markets for fresh funding as the country exits its third external support programme in August 2018. With the exception of a brief interlude in 2014 (and the bond issue in July), the Greek government has been absent from the international capital markets since 2010. In addition to the Public Debt Management Agency's preparations to improve market liquidity and smooth the repayment profile, we expect the government to build a significant cash buffer in anticipation of exiting the bailout programme, similar to the strategies of the Irish and Portuguese governments ahead of their exits from bailout programmes and returns to capital market funding.

Sub-sovereigns

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For Mexico's State of Durango, pension reform is credit positive

Last Tuesday, lawmakers in Mexico's State of Durango (Ba1 negative) approved a reform of the state's pension plan that will help reduce the system's large unfunded liabilities, a credit positive. The changes will alleviate financial stress by helping contain the amount of extraordinary annual contributions that the state will have to make to cover pension benefits.

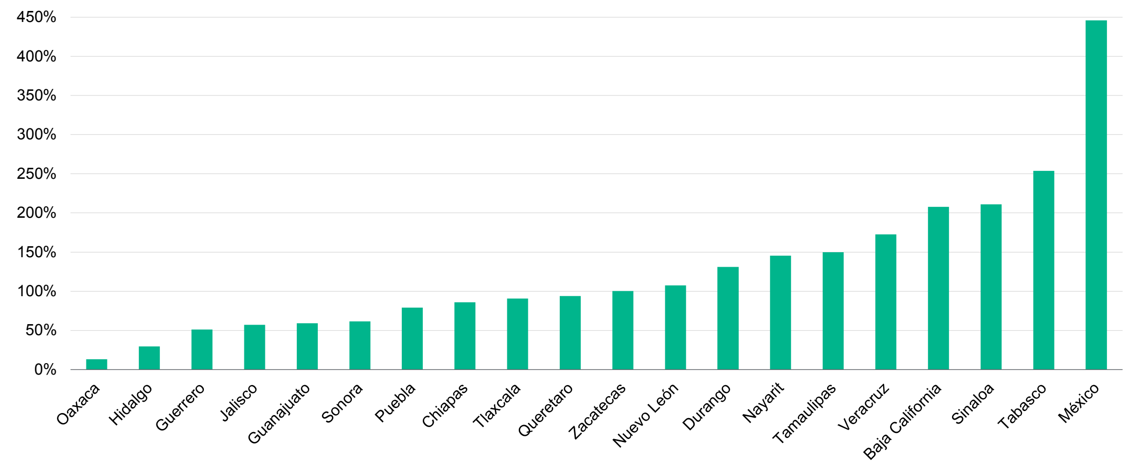
The reform, which will take effect in January 2018, raises regular contributions to the system, establishes regulated salaries, increases the retirement age to 65 years from 58 for men and 56 for women, and codifies the minimum number of years of service for employees to qualify for full retirement benefits. These changes will help improve the pension system's long-term solvency.

According to an actuarial study conducted in 2014, Durango's pension system, which serves more than 18,000 public employees and teachers, had MXN37 billion ($2 billion) in unfunded pension obligations, an amount equal to about 131% of the state's total revenue that year. The actuarial study estimated that the pension system would exhaust its reserves and begin paying out more than it receives in regular contributions this year. Projections show that extraordinary contributions would start at around MXN229 million in 2017, equal to less than 1% of total spending, but that in the absence of a reform, these contributions would quickly rise, reaching MXN1.4 billion within 10 years.

Although the reform will not completely resolve Durango's pension problems, it will generate measurable cost savings for the state. For example, assuming the increase in the retirement age leads to a delay in retirement for the approximately 1,300 employees that the actuarial study projected would retire between 2018 and 2025, we estimate this change alone would save the state approximately MXN147 million in annual extraordinary contributions. The other changes included in the reform will generate additional savings.

All Mexican states that we rate have unfunded pension liabilities, ranging from as low as 29% of total revenue to more than 400% (see exhibit), but only a handful have begun enacting politically unpopular reforms to reduce these burdens. Reform of the pension system in Durango, which has posted recurring cash financing deficits equal to 1.4%-4.2% of total revenue over the past four years and has relatively tight liquidity, will give the state increased flexibility to manage other rising spending needs.

Moody's-rated Mexican states' unfunded pension liabilities as a percent of total revenue



Sources: The states' latest available actuarial study

Securitization

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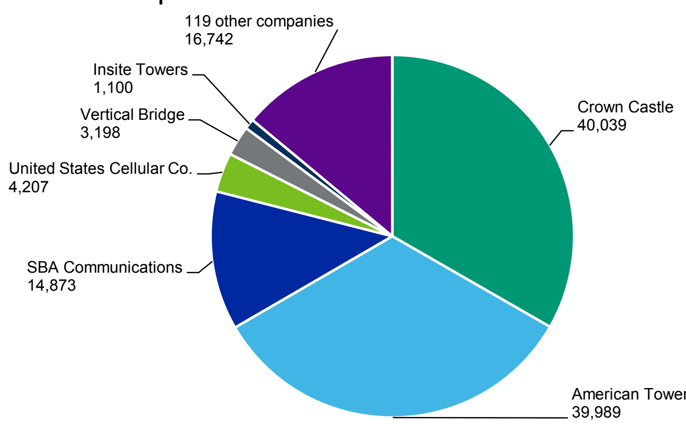
Entry of new tower suppliers is credit negative for wireless tower companies and their ABS

Last Monday, AT&T Inc. (Baa1 review for downgrade) and Verizon Communications Inc. (Baa1 stable) entered a joint agreement to build hundreds of wireless towers in the US with Tillman Infrastructure, an investor and builder of wireless towers. The two carriers have agreed to share the new towers instead of leasing additional sites from their largest existing tower landlords, Crown Castle International Corp. (CCI, Baa3 negative), American Tower Corporation (AMT, Baa3 stable) and SBA Communications Corporation (B1 stable).

The moves are credit negative for CCI, AMT, SBA and the asset-backed securities (ABS) they sponsor because new tower supply will increase wireless carriers' pricing leverage over tower operators and potentially slow tower operators' US organic revenue growth. The new supply also will exert downward pressure on market lease rates and reduce the number of lease renewals and new leases in wireless tower ABS portfolios, resulting in lower cash flows to the transactions.

However, the negative effect on tower operators' cash flows likely will be minimal over the next 12-18 months for several reasons. The three largest tower companies have significant market share in the US, and it will take several years for new tower construction to materialize. The exhibit below shows that CCI, AMT and SBA, the three largest US tower companies, own or operate roughly 95,000 of the 120,000 wireless towers in the US.

CCI, AMT and SBA own or operate most US wireless towers



Data as of 3 November 2017.
Source: Wireless Estimator

The AT&T/Verizon agreement calls for the construction of several hundred towers beginning in 2018, which will have a relatively small negative effect on the ABS portfolios, which typically contain more than 10,000 towers. However, the agreement allows for significantly more new towers in the future.

The wireless companies' move follows an announcement in October that Japan's Softbank Group Corp. (Ba1 stable), the parent of Sprint Corporation (B2 stable), will form a joint venture with Australia's Lendlease Group (Baa3 stable) to develop and acquire tower assets in the US.

The Softbank/Lendlease agreement calls for the acquisition of about 8,000 tower sites, with Sprint likely to be the tenant on most of the initial towers. However, it is not clear how many of these sites will be newly constructed. ABS cash flows could fall substantially if the joint ventures result in the construction of thousands of towers, but such activity would take several years to occur.

Carriers' arrangements with new tower suppliers will affect new leases but not existing contracts or amendment fees because tower operators have long-term, non-cancellable leases with carriers. Carriers also are unlikely to move their existing equipment to new suppliers from current tower operators because relocating existing equipment is expensive and disruptive for their networks. In addition, wireless service is sensitive to the coverage area determined by antenna locations, making carriers' demand for a particular location relatively inelastic. Local zoning restrictions also can limit significantly the ability to build new towers in particular locations.

All three tower companies successfully counterbalance the cyclicality in new tower leasing activity in the US with other sources of revenue growth, which will limit the effect of tower supplier competition. To support revenue growth, AMT and SBA continue to expand their wireless tower portfolios internationally, where revenue growth rates significantly exceed those in the US. CCI invests in the fast-growing small cell segment, where it also records revenue growth in the double-digit percentages. Small cells are low-powered radio access nodes that typically use high frequency spectrum bands with a significantly shorter range compared with spectrum deployed on wireless towers. Wireless carriers often use small cells to extend their service.

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J.G. Wentworth's restructuring will not disrupt servicing of its structured settlement ABS

On 9 November, The J.G. Wentworth Company (Caa3 negative), a consumer finance company specializing in purchasing structured settlement payments, announced an agreement with a majority of its lenders to file a prepackaged Chapter 11 plan for reorganization that will significantly deleverage the company. Under the agreement, lenders will exchange their claims under a $449.5 million senior secured credit facility for a cash consideration and 95.5% of the equity in the restructured company.

Although the restructuring is a distressed exchange and default, and is credit negative for the lenders, it will not disrupt servicing of the company's 32 Moody's-rated asset-backed securities (ABS) transactions because the servicer, J.G. Wentworth Management Company, an indirect operating subsidiary of The J.G. Wentworth Company, is not part of the bankruptcy filing.

Similar to The J.G. Wentworth Company's 2009 Chapter 11 bankruptcy, J.G. Wentworth Management Company is not part of the current bankruptcy filing, which should minimize the potential for any servicing disruptions in the ABS transactions, whose remaining balance exceeds $3 billion. In addition, the transactions have several features that mitigate servicing disruptions in the event of a servicer bankruptcy. The ABS benefit from having a backup servicer, Portfolio Financial Servicing Company, that will assume servicer responsibilities if J.G. Wentworth Management Company is unable to continue servicing.

The ABS transactions also benefit from having either Deutsche Bank Trust Company Americas (A2 stable, baa1[6]) as the standby or master servicer, or U.S. Bank National Association (Aa1/A1 stable, aa3) as the servicer of last resort. These entities would be responsible for continuing servicing until they can find a successor servicer in the highly unlikely event that both the servicer and backup servicer are incapable of carrying out their responsibilities. Because the transactions are backed by structured settlements, annuities and lottery payments, which are easily serviced receivables, a successor servicer could be found relatively quickly.

The restructuring will significantly trim J.G. Wentworth's debt, reducing the company's interest expense over the next four years, pushing out debt maturity by two years and lowering the probability of default on its obligations during that period. Moreover, the prepackaged agreement requires that only the holding company file for bankruptcy, not the operating subsidiaries, which will limit the effect of the restructuring on day-to-day operations. However, the company will still face challenges after the restructuring owing to increased competition in the business of purchasing structured settlement payment streams. J.G. Wentworth's purchases of structured settlement payments fell to $534 million for the first nine months of 2017 from $548 million in the same period of 2016 and $764 million in the same period of 2015. The company also is facing lower margins on its purchased assets owing to the heightened competition.

[6] The bank ratings shown in this report are the bank's deposit rating, senior unsecured debt rating (where available) and baseline credit assessment.

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