

# MORNING NEWS CALL

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## TOP NEWS

### • **UnitedHealth says fourth quarter earnings rose**

The health insurer, said that fourth-quarter profit rose from a year earlier, exceeding the outlook it gave in November, and also backed its previous forecast for earnings and revenue in 2013.

### • **BB&T profit rises on higher mortgage banking revenue**

The regional bank's fourth-quarter profit beat analysts' estimates by a small margin, as higher demand for refinancing drove its mortgage banking revenue.

### • **BofA fourth-quarter profit falls after mortgage-related charges**

The second largest U.S. bank, reported its fourth-quarter profit fell from a year ago as it took more charges to clean up mortgage-related problems stemming from the financial crisis.

### • **Rio Tinto CEO pays price of calamitous acquisitions**

Rio Tinto sacked chief executive Tom Albanese and revealed a \$14 billion writedown in connection with his two most significant acquisitions, the Alcan aluminium group and Mozambican coal.

### • **Spain's borrowing costs drop at triple bond sale**

Improved investor sentiment toward struggling southern European economies helped Spain cut debt costs at an auction, allowing it to reach nearly 9 percent of the year's longer term borrowing needs.

### • **Most Boeing Dreamliners grounded for battery checks**

Airlines scrambled to rearrange flights as Europe, Japan, Qatar and India joined the United States in grounding Boeing Co's 787 Dreamliner passenger jets while battery-related problems are investigated.

## BEFORE THE BELL

Wall Street looked set to open higher, ahead of a flurry of economic data as strong corporate earnings from major companies lifted sentiment towards riskier assets. On the macro front, weekly jobless claims, housing starts and Philadelphia Federal Reserve business activity survey are due to be released. Major companies scheduled to report include American Express, Citigroup and Intel. European shares pared back earlier losses on gains in retail and health stocks. Most Asian shares ended down. Oil rose after Islamist militants attacked an Algerian gas field and took Western hostages while gold inched higher on a softer dollar.

## DOW 30 HITS & MISSES

(A quick glance at company results showing whether they beat, met or missed analysts' consensus estimates, according to Thomson Reuters I/B/E/S)

• **JPMorgan Chase & Co. (JPM).** Q4 EPS: actual \$1.39, expected \$1.16; Revenue: actual \$24.38 bln, expected \$24.42 bln

## STOCKS TO WATCH

### *Deals of the day*

• **Stryker Corp. (SYK).** The medical device maker said it will buy Hong Kong-based **Trauson Holdings Co Ltd** for \$764 million in an all cash deal, to expand in one of the fastest-growing markets for orthopaedic products in China. Stryker will pay HK\$7.50 for every share of Trauson. The offer is at a premium of about 45 percent to Trauson's closing price on Jan. 8, when the shares were halted on the Hong Kong Stock Exchange.

## INSIGHT

### **COLUMN-JP Morgan, margins and speculation**

The risk controls may have changed but many of the preconditions for JP Morgan's epic speculative loss remain - for all too-big-to-fail banks.

JPM on Wednesday released both its fourth-quarter earnings and a 129-page report into the details of its \$6.2 billion loss in its London-based Chief Investment Office. The two documents are a good pair, demonstrating why banks are likely to fall into the same pattern of taking on principal risk to make up for the declining profitability of core banking. It is impossible to understand why JP Morgan found itself so far out on a limb without reckoning with two facts: it, and other banks, are awash in deposits, but face dwindling profits from loans.

Both phenomena can be traced to government policy. Deposits have poured into the largest banks at least in part because of the, correct, perception that they are too big to be allowed to ever go under. Declining net-interest margins, the gap between what a bank charges on a loan and what it pays for funds, is a natural offshoot of the very low interest rate environment, a sort of perverse outcome engineered by the Federal Reserve's zero interest rate policy.

The upshot of all of this is that banks, especially the largest, are sitting on huge amounts of cash but aren't making all that much on their loans. That piles on pressure to make money elsewhere, arguably one of the key forces behind the CIO debacle. The first thing to understand is that the CIO office exists exactly because of this imbalance between deposits and lending - its purpose, as described by the bank, is to ensure liquidity and make a "reasonable" return. In 2011 that reasonable return equated to revenues of \$3.3 billion and profits of \$411 million, making it a powerful and much admired force in the bank.

In 2012 the CIO was charged with reducing so-called risk-weighted assets, a measure the bank wanted to take because upcoming regulations will place greater strictures on RWA levels. When push came to shove, however, Ina Drew, head of the CIO, blanched at the losses cutting back on risk implied and instead instructed her team to "be more sensitive to the profit-and-loss impact of their trad-



## Moves

• **Rio Tinto (RIO).** The miner sacked CEO Tom Albanese and revealed a \$14 billion writedown in connection with his two most significant acquisitions, the Alcan aluminium group and Mozambican coal. A heavyweight who joined the third-largest diversified miner two decades ago, Albanese will be replaced by iron ore boss Sam Walsh. Doug Ritchie, who led the acquisition of Mozambique-focused miner Riversdale, was also shown the door.

## Results

• **Bank of America Corp. (BAC).** The bank reported its fourth-quarter profit fell from a year ago as it took more charges to clean up mortgage-related problems stemming from the financial crisis. It earned \$700 million, or 3 cents a share, compared with a profit of \$2 billion, or 15 cents per share, in the same period a year ago.

• **BB&T Corp. (BBT).** The regional bank's quarterly profit rose 29 percent on higher income from its mortgage banking business. Net income rose to \$506 million, or 71 cents per share, in the fourth quarter, from \$391 million, or 55 cents per share, a year earlier.

• **BlackRock (BLK).** The money manager said its fourth-quarter profit rose 24 percent as investors moving into equities increased demand for its iShares family of exchange-traded funds and other products. Net income totaled \$690 million, or \$3.93 per share, for the quarter compared to \$555 million, or \$3.05 per share, a year earlier.

• **EBay Inc. (EBAY).** The e-commerce company reported holiday quarter results that beat Wall Street expectations as it benefited from a boom in mobile shoppers, but it gave a 2013 forecast in line with analyst estimates. On Wednesday, it said fourth-quarter revenue jumped 18 percent to \$3.99 billion. Profit came in at \$927 million, or 70 cents a share, in the period. That compares with profit of \$789 million, or 60 cents a share, in the same quarter last year. EBay forecast 2013 revenue of \$16 billion to \$16.5 billion and profit of \$2.70 to \$2.75 a share.

• **Fastenal Co. (FAST).** The company reported fourth-quarter earnings of 33 cents a share on revenue of \$757.2 million.

• **Fifth Third Bancorp. (FITB).** The regional bank posted a higher quarterly profit on a gain from the sale of its shares in payment processor **Vantiv Inc (VNTV)**. Net income rose to \$390 million, or 43 cents per share, for the fourth quarter from \$305 million, or 33 cents per share, a year earlier. The bank realized a pretax gain of \$157 million in the quarter from the sale of its shares in Vantiv.

• **HB Fuller Co. (FUL).** The company reported fourth-quarter earnings from continuing operations of 64.1 cents per share on revenue of \$513.3 million. It forecast 2013 adjusted earnings of \$2.55 to \$2.65 per share.

• **Huntington Bancshares Inc. (HBAN).** The company reported fourth-quarter earnings of 19 cents per share. It recorded net income of \$641.0 million, or 71 cents per common share, for 2012, up 18 percent from the prior year.

• **PNC Financial Corp. (PNC).** The bank's fourth-quarter profit rose 46 percent, boosted by the sale of a portion of its stake in card network **Visa Inc (V)**. Net income rose to \$719 million, or \$1.24 per share, from \$493 million, or 85 cents per share, a year earlier. Net interest income rose 10 percent \$2.42 billion.

• **Sallie Mae (SLM).** The student lender reported a lower quarterly profit as it set aside more money to cover soured loans and forecast 2013 core earnings below analysts' estimates. The company said it expects full-year core earnings of \$2.30 per share. Analysts are expecting earnings of \$2.33 per share. Profit fell to \$348 million, or 74 cents per share, in the fourth quarter, from \$511 million, or 99 cents per share, a year earlier.

• **UnitedHealth Group Inc. (UNH).** The health insurer, said that fourth-quarter profit rose from a year earlier, exceeding the outlook it gave in November, and also backed its previous forecast for earnings and revenue growth in 2013. The company said fourth-quarter profit rose to \$1.20 per share from \$1.17 per share a year earlier. Revenue rose to \$28.8 billion from \$25.9 billion a year

ing."

The rest is history, history ending with a large and embarrassing loss and entailing failure of management, of models and of risk controls.

JP Morgan may, or may not, have put in new policies which will address these shortcomings. They certainly say they have. What is a lot less clear is whether a bank, given lots of government-enabled cash to play with and a malfunctioning central business model, will be able to abstain in future from trading escapades.

## SHRINKING NET INTEREST MARGINS

JP Morgan reported a 53 percent increase in profits, with standout areas including surging revenue from fees for investment banking and for originating home mortgages. Deposits are up 6 percent in the year and the loan to deposit ratio has shrunk to 61 percent, among the lowest in the world and indicating the bank is putting proportionally less of its money to work. JP Morgan's loan-to-deposit ratio was at 75 percent as recently as 2010. At the same time those loans the bank is making are less profitable. The bank's net interest margin fell again in the quarter, to 2.85 percent, continuing a steady and depressing decline. At the end of 2010 it was 3.51 percent and 3.91 percent for all of 2009.

This is not just JP Morgan's problem. Bank of New York Mellon saw its shares tumble 2.8 pct on Wednesday after it announced a surge in revenues but a worrying decline in margins. Net interest margin at BNY Mellon dwindled to 1.09 percent in the fourth quarter, down from 1.27 percent in the same quarter of 2011. It was the same story last week with Wells Fargo, which reported strong earnings but saw its shares sell off based largely on poor and declining margins. NIM at Wells fell to 3.56 percent from 3.89 percent a year ago and 3.66 percent in the third quarter. The three banks together form quite a trend. So what happens from here? My guess is that so long as the banks are awash in cash and can't do very well out of lending there will continue to be leaks, through which that money, seeking higher returns, takes on risks not adequately controlled by managers and regulators. If mergers or private equity take off it could be channeled into financings which don't make much themselves but which are intended to help capture investment banking fees. If housing blossoms that would be another prime candidate. Of course long-term rates could also rise, taking net margins along for the ride. That, however, could do damage to bank balance sheets, which carry plenty of interest rate risk. An economic

earlier. UnitedHealth said that in 2013 it expects revenues of \$123 to \$124 billion, up from \$110.6 billion in 2012. It saw earnings rising to a range of \$5.25 to \$5.50 per share from \$5.28 per share in 2012.

#### **In Other News**

- **Amgen Inc.** (AMGN). A pivotal trial of the drug maker's anemia drug found that the drug did not improve survival for heart failure patients. Separately, the company will build state-of-the-art manufacturing facility in Singapore investing approximately \$200 mln.
- **ArcelorMittal SA** (MT) and **Companhia Siderúrgica Nacional** (SID). The two companies have emerged as leading contenders to acquire ThyssenKrupp AG's steel operations in the United States, the WSJ reported. ArcelorMittal has submitted a \$1.5 billion bid for ThyssenKrupp's plant in Alabama, while the Brazilian company made a \$3.8 billion bid for that plant and a majority stake in a Brazilian mill, the Journal said.
- **AT&T Inc.** (T). The telecoms group AT&T is looking at an acquisition in Europe, possibly of Dutch peer KPN or the UK's Everything Everywhere, to offset weak growth at home, the WSJ reported.
- **Barclays Bank Plc.** (BCS). The British bank's new boss has told staff they should leave if they do not want to sign up to a set of standards aimed at rebuilding the bank's reputation after a string of scandals.
- **Boeing Co.** (BA) Europe, Japan and India joined the United States in grounding 787, a day after a second incident involving battery failure caused one of the Dreamliner passenger jets to make an emergency landing. While, the union representing 23,000 engineers and technical workers on Wednesday made a contract offer that it said could avert a strike and allow the aerospace company to focus on addressing safety concerns customers have with the new 787 Dreamliner.
- **Dell Inc.** (DELL). Private equity group Silver Lake Partners is close to arranging about \$15 billion in financing for a buyout of the PC maker, Bloomberg reported, citing people familiar with the matter.
- **Dow Chemical Co.** (DOW). The chemical company is preparing to defend itself at trial against allegations it took part in a conspiracy to fix prices of chemicals used to make a wide range of foam products found in cars, furniture and packaging. The plaintiffs, direct purchasers of the chemical products, estimate damages exceed \$1 billion. Under federal antitrust law, damages are trebled so the final judgment against Dow could exceed \$3 billion.
- **Forum Energy Technologies Inc.** (FET). The company now expects full year 2012 earnings per diluted share of \$1.72 to \$1.74 below the company's previous guidance range of \$1.83 to \$1.88.
- **General Motors Co.** (GM). The automaker will invest \$1.5 billion in its North American plants this year, a senior executive said on Wednesday, adding the company's next-generation Chevrolet Volt plug-in hybrid could cost thousands of dollars less per car to build. The investment is part of the \$8 billion the company has said it will annually put into in its worldwide operations.
- **Goldman Sachs** (GS). Top executives at the bank have been considering deep cuts to staffing levels and pay for at least two years, but feared too many layoffs would leave the firm unprepared for an eventual pickup in business, people familiar with the company said.
- **Hewlett-Packard Co.** (HPQ). The technology company in recent days has received a large number of casual overtures exploring a purchase of some of its assets, but the company has no intention of selling any major units, a source familiar with the matter said on Wednesday. The WSJ cited unidentified people familiar with the matter as saying "some potential buyers" have expressed interest in HP's Autonomy and EDS units, without elaborating.
- **Kinder Morgan Energy Partners** (KMP). The company, which operates oil and gas pipelines and terminals, said on Wednesday it raised its cash distribution 11 percent in the fourth quarter, helped by higher volumes in most of its businesses. It raised its quarterly cash distribution to \$1.29 per unit, up from \$1.16 a year earlier. This year alone, Kinder Morgan Partners said it expects to invest nearly \$3 billion in expansion and acquisitions, it said.

recovery would help too, as loan demand would pick up. If not, look for other speculative leaks out of our largest banks.

--- James Saft, Reuters columnist  
 --- The opinions expressed are his own.



- **News Corp** (NWSA), **Viacom Inc** (VIAB) and **Comcast Corp.** (CMCSA). Four Hollywood studios were named on Wednesday in lawsuits brought by two directors and a representative for late actor Charles Bronson claiming what could be up to hundreds of millions of dollars in back royalties on films distributed to the home video market. News Corp's 20th Century Fox, Viacom Inc's Paramount Pictures, Comcast Corp's Universal Pictures and Sony Pictures were sued in Los Angeles Superior Court.
- **NU Skin Enterprises Inc.** (NUS). The company forecast fourth-quarter earnings of 94 – 96 cents a share on revenue of \$588 million.
- **Sony Corp.** (SNE). The company which has spent several years shrinking its television unit, plans to expand sales from next year once the business has stopped losing money, CEO Kazuo Hirai said.
- **Sysco Corp.** (SYY). The company said as part of restructuring of the executive plans, it expects to incur approximately \$24 million in charges. About \$12 million of restructuring-related charges are expected to be incurred in second half of 2013 according to the company's SEC filing.
- **Taiwan Semiconductor Manufacturing Co Ltd.** (TSM). The contract chip maker said that it expects first-quarter revenue to inch down to between T\$127 billion and T\$129 billion from T\$131.31 billion a quarter earlier. Company Chairman Morris Chang said last month that he expects 2013 revenue growth of 15 to 20 percent.

#### ANALYSTS' RECOMMENDATIONS

- **Apple Inc.** (AAPL). JP Morgan cuts target price to \$725 from \$770 due to lighter sell-in activity for the iPad in Dec quarter and reduction in valuation multiple to reflect bruised investor sentiment
- **BNY Mellon** (BK). Jefferies cuts target price to \$26 from \$27 due to higher expenses as it sees expense growth to outpace core revenue growth in 2013
- **Comerica Inc.** (CMA). BMO raises target price to \$32 from \$30 after it reported better-than-expected results driven by stronger fee income growth, tighter expense control and lower loan-loss provisions
- **eBay Inc.** (EBAY). Evercore raises target price to \$64 from \$60 on better-than-expected revenues and active user penetration citing higher earnings potential than and first-quarter outlook
- **Zimmer Holdings Inc.** (ZMH). JP Morgan raises target price to \$73 from \$69 on better-than-expected fourth-quarter results and continued above market performance, expects organic revenue growth to accelerate in 2013

#### ECONOMIC EVENTS

- 08:30** Housing Starts for Dec: Expected 0.890 mln Prior 0.861 mln
- 08:30** Build Permits for Dec: Expected 0.903 mln Prior 0.900 mln
- 08:30** Initial Claims for w/e 01/12: Expected 365,000 Prior 371,000
- 08:30** 4 Week Average for w/e 01/12: Prior 365,750
- 08:30** Continuing Claims for w/e 01/05: Expected 3.16 mln Prior 3.109 mln
- 10:00** Philly Fed Index for Jan: Expected 5.8 Prior 4.6

#### COMPANIES REPORTING RESULTS

- **American Express Co.** (AXP). Expected Q4 earnings of \$1.09 a share
- **Amphenol Corp.** (APH). Expected Q4 earnings of 90 cents a share
- **Associated Banc-Corp.** (ASBC). Expected Q4 earnings of 26 cents a share
- **Capital One Financial Corp.** (COF). Expected Q4 earnings of \$1.58 a share
- **Citigroup Inc.** (C). Expected Q4 earnings of 96 cents a share
- **Intel Corp.** (INTC). Expected Q4 earnings of 45 cents a share
- **NetScout Systems Inc.** (NTCT). Expected Q3 earnings of 35 cents a share
- **People's United Financial Inc.** (PBCT). Expected Q4 earnings of 19 cents a share
- **Wintrust Financial Corp.** (WTFC). Expected Q4 earnings of 59 cents a share



**CORPORATE EVENTS**

**08:00** SLM Corp. (SLM). Q4 earnings conference call  
**08:30** Bank of America Corp. (BAC). Q4 earnings conference call  
**08:30** NetScout Systems Inc. (NTCT). Q3 earnings conference call  
**08:45** UnitedHealth Group Inc. (UNH). Q4 earnings conference call  
**09:00** BlackRock Inc. (BLK). Q4 earnings conference call  
**09:00** MSC Industrial Direct Co Inc. (MSM). Annual shareholder meeting  
**09:00** Scotts Miracle-Gro Co (SMG). Annual shareholder meeting  
**09:30** Fifth Third Bancorp. (FITB). Q4 earnings conference call  
**10:00** Fastenal Co. (FAST). Q4 earnings conference call  
**10:00** Huntington Bancshares Inc. (HBAN). Q4 earnings conference call  
**10:00** PNC Financial Services Group Inc. (PNC). Q4 earnings conference call  
**10:30** Cvb Financial Corp. (CVBF). Q4 earnings conference call  
**10:30** HB Fuller Co. (FUL). Q4 earnings conference call  
**11:00** Bank of Ozarks Inc. (OZRK). Q4 earnings conference call  
**11:00** Citigroup Inc. (C). Q4 earnings conference call  
**11:00** CLARCOR Inc. (CLC). Q4 earnings conference call  
**11:00** Halcon Resources Corp. (HK). Special meeting of stockholders  
**11:00** Intuit Inc. (INTU). Annual shareholder meeting  
**13:00** Amphenol Corp. (APH). Q4 earnings conference call  
**17:00** American Express Co. (AXP). Q4 earnings conference call  
**17:00** Associated Banc-Corp. (ASBC). Q4 earnings conference call  
**17:00** Capital One Financial Corp. (COF). Q4 earnings conference call  
**17:00** Intel Corp. (INTC). Q4 earnings conference call  
**17:00** People's United Financial Inc. (PBCT). Q4 earnings conference call  
**17:00** Xilinx Inc. (XLNX). Q3 earnings conference call

**EXDIVIDENDS**

(Amount rounded off to two decimal places)

- **Apache Corp.** (APA). Amount \$0.17
- **C R Bard Inc.** (BCR). Amount \$0.20
- **Core Laboratories NV.** (CLB). Amount \$0.32
- **CommonWealth REIT.** (CWH). Amount \$0.25
- **Graco Inc.** (GGG). Amount \$0.25
- **Hormel Foods Corp.** (HRL). Amount \$0.17
- **PNM Resources Inc.** (PNM). Amount \$0.15

*(All analysts' estimates are according to Thomson Reuters I/B/E/S)*

(Compiled by Chandrashekar Modi, Ayesha Sruti and Kishan Nair in Bangalore)

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