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Comcast's No. 1 Problem

In U.S. cable, one plus two may add up to an even bigger No. 1. That depends, though, on how regulators define what a bigger No. 1 means.

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Comcast, the largest cable provider by subscribers, agreed Thursday to buy No. 2 player Time Warner Cable for about $45.2 billion in stock, or roughly $66.8 billion including assumed debt. The deal easily tops an earlier offer from Charter Communications.

Comcast says its offer values Time Warner Cable at 7.9 times estimated 2014 earnings before interest, taxes, depreciation and amortization, or Ebitda.

That roughly reflects the consensus Ebitda estimate. But it excludes the $1.5 billion in annual cost savings Comcast foresees, with more than half of those coming in the first year.

Comcast expects lower programming expenses, as being bigger means greater leverage in negotiations with media companies. Yet these also highlight a potential risk: regulatory scrutiny of the deal. After its planned divestiture of three million subscribers, the combined company will control just under 30% of the pay-TV market.

Comcast says programming cost savings represent a minority of its projected synergies. And it actually paid more per subscriber per month for content than Time Warner Cable did in 2013 -- $34.81 versus $33.62 -- because it bought a broader set of digital rights, according to research firm MoffettNathanson. Comcast already agreed to a set of rules designed to prevent anticompetitive behavior when it bought content provider NBCUniversal. Regulators may determine that these are sufficient.

Perhaps a bigger issue will be how regulators choose to define the market. Traditionally, cable deals have been evaluated at the local-market level. That would seem to favor Comcast because it doesn't compete directly with Time Warner Cable in any markets.

But regulators also may opt to define a national cable or broadband market, evaluating whether the combination would affect pricing, service and innovation at that level, according to Jonathan S. Kanter, an antitrust attorney with Cadwalader, Wickersham & Taft.

These questions will likely consume the better part of the year, amid which Time Warner Cable may remain in something of an operating limbo. And if a deal falls through, it has no breakup fee to protect it, which is striking. Its investors are being offered a better price. But they must hope both companies' apparent confidence in the deal getting done is justified.

-- Miriam Gottfried

Renault Should Be Able To Rev Up

Renault's new financial guidance looks as low-frills as many of its cars.

The French auto maker said Thursday it expects to generate operating-profit margins of more than 5% on 50 billion euros ($67.97 billion) in sales by 2017. That doesn't look demanding. It made 3% margins last year and if not for negative foreign-exchange effects that would have been 4.6%, notes International Strategy & Investment.

Some caution is understandable; more ambitious plans at Renault have been stymied by market conditions before. But the company looks equipped to handle the coming challenges.

One concern is subdued growth and currency weaknesses in emerging markets, which account for about 30% of sales. But Renault says Russia remains its most profitable market and the second-biggest contributor to group profits after France. It also wants to source 80% of components locally for Brazil, Russia, India and China after 2016.

But the outlook in Europe shouldn't be as bleak as Renault expects. It has assumed zero growth through 2017. But new car sales are down 25% since 2007; demand should pick up as consumer confidence improves. And Renault is one of the few mass-market auto makers growing its market share in Europe.

Still, what really counts for Renault is a turnaround at alliance partner Nissan. The Japanese company is forecast to account for 58% of the French company's earnings per share this year, estimates Credit Suisse. Investments in factories, equipment and sales incentives contributed to a fall in Nissan's operating-profit margins to just 3.1% in the December quarter.

But Nissan's sales in the U.S. and China are improving, while a ramp-up in production in Mexico, Brazil and Thailand should improve profitability. And Nissan has new versions of popular cars such as Qashqai, Rogue and X-Trail, which should mean it can reduce sales incentives, notes Bernstein Research.

Renault trades at 5.8 times forecast 2015 earnings based on Credit Suisse estimates. That looks like a good value considering peers such as PSA Peugeot Citroen and Volkswagen trade at roughly seven times. Renault's caution may yet be unwarranted.

-- Renee Schultes

China Trusts' Road to Bust

Sooner or later, someone in China's trust-products universe is going to lose real money.

Weeks after a hasty bailout was arranged for a troubled Chinese trust product, another shadow lender, Jilin Trust, has failed to make payments on tranches of an investment product that came due over the past few months. Jilin is set to miss another payment next week. Once again, the product in question is linked to a troubled coal miner, and was sold to investors by one of China's big four state banks -- in this case, China Construction Bank.

The product's six tranches amount to nearly 1 billion yuan, or around $165 million, smaller than the $500 million worth of Industrial & Commercial Bank of China Ltd. sold-products rescued last month by a mysterious third party. Trust investors in that case lost interest payments but no principal. Another shadowy resolution in which investors eventually get their principal back can't be ruled out. Jilin Trust told investors the coal company is in restructuring as it attempts to pay back debt.

It is also possible authorities will let investors take a bigger hit. Even if not, more distressed trust situations are inevitable and will test Beijing's resolve. Bernstein Research estimates that about 40% of the roughly 10 trillion yuan in trust products outstanding will mature this year. The trust companies themselves are thinly capitalized, with an equity base equivalent to 2.6% of assets under management. A feedback loop could form: Investors steer clear of new trust products, and trust companies are then unable to roll over old loans to stressed borrowers, causing more defaults.

China's big banks will be insulated as long as they can hold the line that they aren't liable for failed products that they distributed. If banks are seen to be involved in a bailout, investors will be right to question how much of this off-balance-sheet activity needs to appear on the books.

In theory, China's trusts are economically useful, directing credit to dynamic companies that banks don't reach because of their bias toward serving other state-owned enterprises. The China Trustee Association says 35% of trust assets are invested in the infrastructure, energy, mining and real-estate sectors. Nomura economist Zhiwei Zhang reckons the true proportion is over 50%.

The good news is Chinese investors are getting reacquainted with risk. The question is whether this can happen without sparking a broader crisis of confidence.

-- Aaron Back

Pumping Iron Important for Rio

Rio Tinto is digging deep. With investors clamoring for lower costs, improving cash flows, reduced spending on grandiose investment projects and higher payouts to shareholders, the Anglo-Australian miner shoveled up the goods Thursday.

That makes Rio a good bet on a recovery of the mining sector -- if,that is, the price for iron ore holds up.

Rio has cut operating costs by $2.3 billion and should easily hit its $3 billion target by the end of 2014. Capital expenditure is expected to fall to $11 billion this year and $8 billion in 2015 from $12.9 billion last year. Record volumes in Rio's high-quality, low-cost iron-ore operations helped operating cash flow rise 22% in 2013 from the prior year.

Despite that, Rio's net cash flow after tax, at $15.1 billion, didn't cover its capital investment and $3.3 billion paid in dividends in 2013.

But a 15% rise in Rio's dividend is a sign of confidence that free cash flow will continue improving. Net debt, at $18.1 billion, is nearing Rio's target in the midteens.

The company, then, seems well placed to ramp up share buybacks or special payouts to shareholders next year. And Rio looks cheap. At about nine times 2014 earnings, at Jefferies forecasts, the miner is trading close to one-fifth below the average multiple for the sector.

That discount, however, reflects the fact that Rio remains particularly sensitive to steel production in China. Earnings in Rio's aluminum business increased more than tenfold last year; copper production is ramping up. But iron ore, an ingredient in steelmaking, accounts for close to 90% of the company's divisional earnings.

A tightening of Chinese lending conditions, as well as the government's heightened focus on air pollution, adds to the usual angst over the outlook for economic growth. Iron ore already has fallen from a peak of close to $140 a ton late last year to about $120.

And each $10 decline in the iron-ore price could knock perhaps $1.7 billion from Rio's free cash flow. Investors have built the prospect of some additional decline into expectations for Rio. But if the iron-ore price goes below more bearish outlooks, say well below $100 a ton, that could jeopardize potential payouts investors are hoping for.

Rio's judicious management could offset that: A somewhat conservative outlook on production for 2014 suggests chief Sam Walsh won't simply ship tons into an oversupplied market. But Rio has outperformed its peers since the sector's lows last year. China and iron ore could still test investors' metal.

-- Helen Thomas

Overheard

Titles matter. So it is no wonder there had been discussion of whether Janet Yellen, who earlier this month became the first-ever female head of the Federal Reserve, would go by chairman or chairwoman.

She chose a neutral path. The Fed, in an online biography, lists her as, "Chair of the Board of Governors of the Federal Reserve System." Of course, which title a person uses depends on a particular institution and personal preferences.

In a tweet this week, former Federal Deposit Insurance Corp. Chairman Sheila Bair talked of why she didn't push for a change to the statutory title for her role. Keeping the chairman's title meant, "I could use the old letterhead," she wrote. And there was a phonetic reason to not take the same tack as Ms. Yellen: "'Chair Bair' didn't sound right," she added. It certainly would have struck a discordant note with banking bulls.

CO chcomi : Charter Communications Inc | comcst : Comcast Corporation | rnltl : Renault SA | rtz : Rio Tinto PLC | craaus : Rio Tinto Ltd

IN i9741109 : Cable Broadcasting | i211 : Metal Ore Mining | i35101 : Passenger Cars | i814 : Banking | i81401 : Central Banking | i97411 : Broadcasting | imed : Media/Entertainment | imet : Mining/Quarrying | ibnk : Banking/Credit | i351 : Motor Vehicles | iaut : Automotive | ibasicm : Basic Materials/Resources | ifinal : Financial Services

NS c13 : Regulation/Government Policy | c1521 : Analyst Comments/Recommendations | c181 : Acquisitions/Mergers/Takeovers | ccat : Corporate/Industrial News | m11 : Equity Markets | ndj : Dow Jones Top Stories | nedc : Commentaries/Opinions | neqac : Equities Asset Class News | nhrd : Heard on the Street | nsum : News Digests | ntesi : Essential Stock Market Information | ntop : Top Wire News | c15 : Performance | c152 : Earnings Projections | c18 : Ownership Changes | cactio : Corporate Actions | mcat : Commodity/Financial Market News | ncat : Content Types | nfact : Factiva Filters | nfce : FC&E Exclusion Filter | nfcpex : FC&E Executive News Filter | nfcpin : FC&E Industry News Filter | niwe : IWE Filter | redit : Selection of Top Stories/Trends/Analysis

RE austr : Australia | china : China | eurz : Europe | fra : France | uk : United Kingdom | usa : United States | use : Northeast U.S. | usny : New York State | jilin : Jilin | apacz : Asia Pacific | asiaz : Asia | ausnz : Australia/Oceania | bric : BRIC Countries | chinaz : Greater China | devgcoz : Emerging Market Countries | dvpcoz : Developing Economies | easiaz : Eastern Asia | eecz : European Union Countries | medz : Mediterranean | namz : North America | weurz : Western Europe

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