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**CREDIT ANALYSIS FOR  
CORPORATE ISSUERS**

1. Jequa is a Japanese company with the following selected financial information:

	¥ billions
Net income from continuing operations	503
Depreciation & amortization	256
Capital expenditures	140
Cash flow from operations	361
Dividends	72

Jequa's funds from operations (FFO) is closest to:

- (A) ¥759 billion.  
 (B) ¥247 billion.  
 (C) ¥149 billion.

2. Which of the following covenants would the issuer of unsecured investment-grade bonds most likely have in their bond indenture?

- (A) The issuer cannot issue additional classes of debt.  
 (B) The issuer must not declare/pay dividends to shareholders.  
 (C) The issuer must pay taxes in full and on time.

3. Becque Ltd. is a European Union company with the following selected financial information:

€ billions	Year 1	Year 2	Year 3
Operating income	262	361	503
Depreciation & amortization	201	212	256
Capital expenditures	78	97	140
Cash flow from operations	303	466	361
Total debt	2,590	2,717	2,650
Dividends	70	70	72

Becque's three-year average debt-to-EBITDA ratio is closest to:

- (A) 3.6x.  
 (B) 4.6x.  
 (C) 7.6x.

4. Derek Steele is a corporate credit analyst at a credit rating agency. He currently rates the 2043 maturity senior secured bonds of BBD Enterprises at A+. BBD has now requested a corporate family rating as well. The most likely rating that Steele would recommend in a rating committee for the corporate family rating is:
- (A) lower than A+.
  - (B) higher than A+.
  - (C) A+.
5. A portfolio manager notes to a colleague that recovery rates are the highest for debt with the highest priority of claims. She further notes that during bankruptcy proceedings, courts strictly observe the priority of claims to ensure fairness across different classes of creditors. The manager is correct with respect to:
- (A) priority of claims only.
  - (B) bankruptcy proceedings only.
  - (C) both priority of claims and bankruptcy proceedings.
6. Colleen Hock is a buy-side investor. She is looking to add a new bond to a bond portfolio to enhance yield. Which of the following corporate bonds would offer her the highest yield?
- (A) Junior secured.
  - (B) Senior subordinated.
  - (C) Senior unsecured.
7. One notable difference between an issuer credit rating and an issue credit rating is that an:
- (A) issue credit rating applies to the issuer's senior unsecured debt.
  - (B) issue credit rating is always notched below the issuer rating.
  - (C) issuer credit rating reflects the borrower's overall creditworthiness.
8. Structural subordination means that a parent company's debt:
- (A) has a higher priority of claims to a subsidiary's cash flows than the subsidiary's debt.
  - (B) has a lower priority of claims to a subsidiary's cash flows than the subsidiary's debt.
  - (C) ranks pari passu with a subsidiary's debt with respect to the subsidiary's cash flows.

9. Debt with a lower priority of claims than a firm's unsecured debt is best described as:
- (A) second lien.
  - (B) pari passu.
  - (C) subordinated.
10. Miko Corp. (Miko) is an electronics manufacturer which frequently issues senior unsecured bonds. Miko's largest subsidiary, BluTech Inc. (BluTech), also issues senior unsecured bonds. BluTech's debt covenants prohibit transferring cash to the parent before BluTech's debt obligations are satisfied. Based on this scenario:
- (A) Miko's and BluTech's bonds would rank pari passu given that the two entities are related, regardless of the restriction.
  - (B) Miko's bonds are structurally subordinated to BluTech's bonds.
  - (C) BluTech's bonds are structurally subordinated to Miko's bonds..
11. A bond agreement between a lender and the issuer of secured high-yield bonds would most likely include which of the following covenants types?
- (A) The issuer must pay all taxes on time.
  - (B) The issuer must maintain compliance with certain financial ratios.
  - (C) The issuer must not enter into transactions with certain affiliates.
12. A firm with a corporate family rating (CFR) of A3/A- issues secured bonds. Covenants to these bonds include a limitation on liens and a change of control put. If credit rating agencies notch this issue, its credit rating is most likely to be:
- (A) A2/A.
  - (B) Baa1/BBB+.
  - (C) Baa2/BBB.
13. Davis Corp. recently issued secured high-yield bonds. With respect to increases in the probability of default (POD) and loss given default (LGD), bondholders of this bond would most likely be concerned with:
- (A) Both POD and LGD.
  - (B) POD but not LGD.
  - (C) LGD but not POD.

14. The management of HHB Corporation (HHB) recently approved issuing \$200 million in highyield bonds to finance its stock buyback program. What is the most likely credit implication as a result of management's actions?
- (A) Because shareholders have lower seniority than bondholders, the action would have no credit implications on bondholders.
  - (B) The action may lead to a credit downgrade because it evidences preferential treatment of equity investors over debt investors.
  - (C) The action would be considered credit positive because it raises new funds while avoiding share ownership dilution.
15. Assuming all bonds are issued by the same issuer, which bond would have the lowest priority of debt repayment?
- (A) Junior secured debt.
  - (B) Second lien debt.
  - (C) Senior unsecured debt.
16. An increase in net income is most likely to decrease a borrower's:
- (A) debt-to-EBITDA ratio.
  - (B) FFO-to-debt ratio.
  - (C) operating margin.
17. A fixed income analyst is assessing key factors relating to a corporate bond issuer, including the issuer's assets relative to the size of its liabilities, expected future cash flows, the issuer's potential market share, and event risk related to market shocks. The analyst is most likely using a:
- (A) hybrid approach.
  - (B) bottom-up approach.
  - (C) top-down approach.

