

Many U.S. companies seen poised to weather downturn

Jan 22, 2008

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CHICAGO (Reuters) - While the bad news is the U.S. economy may be headed into a recession, the good news is that many companies have financed recent expansions without assuming high levels of debt and are better placed to withstand a downturn than in the past.

"This has been a fairly conservative cycle of expansion, with better balance sheets compared to the 1980s and 1990s," said Cliff Waldman, an economist at the Manufacturers Alliance, a public policy and research organization. "At this point, I would worry more about consumer debt than business debt."

As of September 30, 2007, U.S. household debt was \$13.6 trillion versus nonfinancial business debt of \$9.8 trillion. Global markets have been rocked by uncertainty recently over the prospect of a broad economic slowdown -- brought about by the subprime housing crisis plus the credit crunch.

Investors are now taking a closer look at companies' balance sheets to see if they have over-stretched and whether the U.S. Federal Reserve's 75-basis-point rate cut on Tuesday will make it easier for them to pay down their debt.

For the most part, outside the hard-hit banking and real estate sectors, outstanding corporate debt does not seem to be investors' main worry -- with or without the Fed cut. While some companies may find it hard in the current environment to raise fresh debt -- some investors question whether companies will seek to raise debt to invest in a downturn anyway.

"The markets are very skittish and risk averse right now, which may make it

harder to gain access to credit," said Shawn Campbell, principal of Campbell Asset Management, with \$100 million of assets under management.

CLEAN BILL OF HEALTH

An analysis of the quarterly balance sheets of more than 6,000 publicly traded, nonfinancial U.S. companies conducted for Reuters found most industries outside of retailing well able to meet their short-term obligations at the end of 2007.

The analysis, done by financial information firm Sageworks Inc, found the ratio between short-term assets and short-term liabilities of U.S. companies -- an indicator commonly known as the quick ratio or acid test -- was 1.8-to-1.

Retailers and educational services companies, however, all ended 2007 with quick ratios well below 1-to-1, according to Sageworks' analysis. A ratio above 1-to-1 is considered healthy.

The high ratio for many companies may help explain why, when the National Association for Business Economics recently surveyed U.S. businesses, two-thirds of respondents said tightening credit conditions had not affected them.

"In general, U.S. companies are in better shape than in the past," said Kent Croft, chief investment officer of Croft Funds Corp. "They have lowered their debt and have improved productivity and their inventories."

"The proof of that will be in the earnings over the next few quarters," he added.

In a note issued on Tuesday, research company Credit Sights highlighted that Cummins Inc, Deere & Co and CNH Global NV have improved their credit profile, but singled out a small rogue's gallery consisting of Eaton Corp, Brunswick Corp and Ingersoll-Rand Co Ltd for having done the opposite.

CASH, ANYONE?

Some investors say that underleveraged large companies with good credit ratings will have few problems raising cash this year, regardless of the credit crunch.

"For the large, more established companies there's still an awful lot of money out there," said Wayne Titche, co-manager of the AHA Diversified Equity Fund.

Titche highlighted Parker Hannifin Corp as an example of one underlevered large company he said will have no trouble securing credit lines.

Other investors say that U.S. companies may choose not to invest much money during a downturn, which some have looked for as a way to counter the effects of a consumer-driven recession. But there have already been signs U.S. manufacturers are cutting back on spending -- and the need for debt.

The Institute for Supply Management's Manufacturing index, slid to 47.7 in December, its weakest level since 2003. A reading below 50 indicates contraction.

"The hope that corporate capital expenditures could potentially offset a weak U.S. consumer is now in question," said Liz Ann Sonders, senior vice president and chief investment strategist for Charles Schwab Corp.