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TOP STORIES

Bernstein Downgrades Sprint, Notes Bankruptcy Risk; Shares Fall

By Joan E. Solsman
Of DOW JONES NEWSWIRES

NEW YORK -- Sprint Nextel Corp. (S) shares fell premarket after the research firm Sanford C. Bernstein called a bankruptcy filing "a very legitimate risk" in downgrading the wireless carrier to underperfrom.

Sprint spokesman Scott Sloat said the company had no comment. Sprint shares fell 4.5% to $2.76 premarket.

In a research note, Bernstein analyst Craig Moffett said Sprint faces two distinct outcomes. First, company upgrades it network, stabilizes Clearwire Corp.'s (CLWR) financial position and delivers compelling 4G offerings; in the other, the company suffocates under its hefty contract with Apple Inc. (AAPL), has a "hobbled" 4G offering and faces a heavy debt burden.

"At this point we simply don't believe there is any analytical framework that provides strong conviction as to whether Sprint can or cannot avoid bankruptcy over the next four years or so," Moffett said.

The analyst added that notwithstanding a rally in Sprint stock recently--the stock has risen 24% so far this year--the firm believes the risk of bankruptcy is rising. He noted that the company's five-year credit default swaps already price in a roughly 50/50 probability of bankruptcy.

"To be clear, we are not predicting a Sprint bankruptcy," Moffett said in the note. "We are merely acknowledging that it is a very legitimate risk." Sprint shares are down 43% from a year earlier.

Sprint has said its deal with Apple to offer the computer maker's immensely popular iPhone will cost it at least $15.5 billion over four years. That limits its ability to turn a profit in that time, but the company is counting on the iPhone to draw in lucrative contract customers to help keep it on pace with larger competitors. Sprint is also offering the most generous data use for the phones than rivals.

The company buys its 4G WiMax network wholesale from Clearwire but has announced plans to build and manage a 4G network of its own over the next two years, at a cost of about $10 billion.

In the note, Bernstein analyst Moffett noted Sprint's debt maturities through 2013 are covered and in 2014 are modest. "But thereafter the company faces a sustained multiyear barrage of large maturities that will need to be addressed," he said.

Among other risks, he noted a next-generation LTE iPhone likely would be disadvantaged on Sprint's network, as well as the execution and financial challenges of upgrading its network.

---By Joan E. Solsman, Dow Jones Newswires; 212-416-2291; joan.solsman@dowjones.com

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