

August 27 – September 2

*This report presents our most-read research reports over the last 7 days, ordered based on readership.*

## DISH's Spectrum + TMUS's Network — DISH + TMUS Merger Credit Implications

North America | Satellite TV, Telecommunications Operators

**What's New?** — On August 25th, a DealReporter story indicated DISH Networks “may seek to buy T-Mobile”. On August 28th, Bloomberg reported “Deutsche Telekom AG is willing to negotiate a sale of its T-Mobile US Inc. unit...if an offer values the business at \$35 a share or more.” This is not the first time the DISH + TMUS story has run. We last wrote about the combination on June 28, 2013. Dish Merger Analysis - Potential Acquirer of T-Mobile USA? In last analysis, we modelled an “equity swap” transaction which had little impact on leverage at either entity. We provide several scenarios, but believe DISH could pursue a leveraging transaction at TMUS. We base this on market conditions and DISH's prior bid for TMUS peer Sprint.

David Phipps | Ashish Nair

## High Yield & Leveraged Loan — Relative Value

North America | Trading Companies

In the High Yield & Leveraged Loan Relative Value publication we provide a snapshot of the high yield market, our top credit views, and a relative value analysis covering high yield, leveraged loans, CDS, and converts.

Manish A. Somaiya | James P Finnerty | David Phipps | Murali Ganti | Jenna Giannelli

## Our Mid-Week High Yield Energy Boost — What Happens in Vegas Doesn't Stay in Vegas: Take-Aways from Our MLP Conference

North America | Exploration & Production

We attended Citi's MLP Conference this past week where we met with a number of midstream and upstream MLP companies. We met with management teams of the following companies: Legacy Reserves (LGCY), MarkWest Energy Partners (MWE), Regency Energy Partners (RGP), Crestwood Midstream Partners (CMLP), Vanguard Natural Resources (VNR), Targa Resource Partners (NGLS), EV Energy Partners (EVEP), Atlas Resource Partners (ARP), Genesis Energy (GEL), SemGroup Corp. / Rose Rock Midstream (SEMG/RRMS), Tesoro Logistics (TLLP), Atlas Pipeline Partners (APL) and BreitBurn Energy (BBEP).

Marisa B Moss | Farah Zakir | Lisa Khanna

## Toys R Us Corp. (TOY) — 2Q14 Consolidated Beat on Better International SSS, Lower SG&A; Delaware Weaker

North America | Retailing - Department Stores, Retailing - Specialty Softlines,

3 September 2014

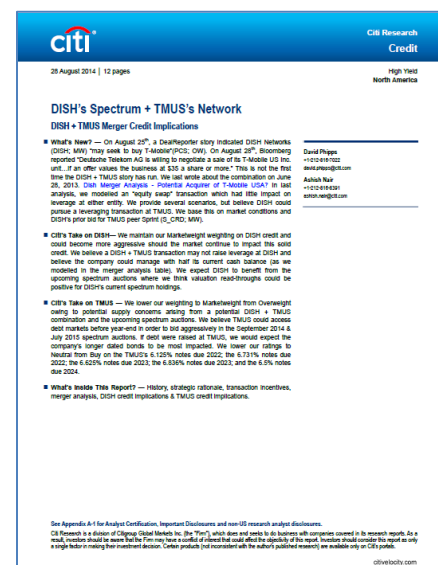
Citi High Yield Research

Credit

North America

## This Week's Most Read Report

DISH's Spectrum + TMUS's Network — DISH + TMUS Merger Credit Implications



## Recent Editions of Citi's Most Read - High Yield

August 6 – August 12

August 13 – August 19

August 20 – August 27

See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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### **Retailing - Specialty**

Citi's Take — Toys R Us reported 2Q14 results better than our expectations on better SSS, notably in the International segment, and lower SG&A vs. our model. Total revenue rose 2.7% YoY, better than our 1.5% expectation. Domestic SSS rose 1.5% YoY, just below our 2.0% estimate, while International SSS rose 2.5%, beating our expectation of flat in the quarter. Adj. EBITDA rose 9.7% YoY to \$81mm, besting our \$73mm estimate, on account of lower SG&A dollars YoY somewhat offset by GM contraction. TOY hasn't yet released a conference call date, but we expect it may be held simultaneously with their analyst day on Sept 10th. We expect detailed Delaware results to be filed late next week or early the following week.

Jenna Giannelli

### **Her 5 Seconds of Winter are Over — Claire's (CLE) 2Q14 Results Beat Expectations**

North America | Retailing - Department Stores, Retailing - Specialty Softlines, Retailing - Specialty

CLE reported 2Q14 results well ahead of our above-consensus expectations. Consolidated SSS declined 0.6%, besting our down 2.0% estimate. Adj. EBITDA of \$64.5mm was well ahead of our \$57mm estimate and street estimates in the low \$50mm range. Revenue grew 3.0% YoY to \$378mm on account of new store sales, the benefit of FX, higher shipments to franchisees and higher non-U.S. sales. This was somewhat offset by 80bp of YoY GM contraction, better than our 100bp estimate. The beat was led by an impressive 2.5% rise in European SSS somewhat offset by a 2.9% domestic decline. Note domestic comps reflected considerable improvement vs. the prior three quarters when comps had fallen 5.6%, 12% and 7.2% YoY in each 3Q13, 4Q13 and 1Q14, respectively. CLE noted 3Q to-date SSS were trending flat, better than our original -1.0% estimate.

Jenna Giannelli

### **Just Call Me Lady Luck — Initiating Coverage on HY Gaming Sector**

North America | Gaming

In this report we introduce coverage of the HY Gaming sector. We offer detailed gaming industry trends and updates, discuss relative value across the sector, provide top trade ideas and offer detailed company overviews with financial models and estimates for each BYD, ISLE, MGM, MNTG, PNK, PENN, STACAS, TRIBAL, and WYNN. We introduce a Marketweight view on the HY Gaming Sector given our expectation for stable credit fundamentals in FY14 and improving economic indicators, offset by challenging regional industry trends and tight sector yields. We recommend investors focus on bottoms-up security selection, owning bonds that have compression opportunity or offer the best risk adjusted return potential with at or above-market yields.

Jenna Giannelli

### **Vital Signs: High Yield Healthcare Update — Hospital Sector Earnings Recap for Quarter Ended 6/30/14**

North America | Health Care Facilities

Investor Sentiment Remains Bullish — Investors remain bullish on the hospital sector as contributions from the ACA continue to support fundamentals. With an improving macro-economy, lower levels of uninsured (particularly in Medicaid expansion states), and recovering volumes, EV multiples continue to trade at peak levels. As the midterm elections approach, we maintain our thesis that more states will expand Medicaid, lending further support to sector fundamentals.

Murali Ganti

### **Schaeffler Group (SHAEFF) — In-Line 2Q; Industrial Segment**

## **Stabilizes; Guidance Affirmed**

### **North America | Auto Parts & Equipment**

Citi's Take: Schaeffler reported an in-line quarter with higher sales & FCF (excluding certain items) offset by a slight decline in EBITDA margins (-60bp y-o-y to 17.9%). Revenue expanded 5.5% y-o-y owing to strength in Automotive (+6.6% y-o-y) and a revival of growth (albeit +2.5% y-o-y) in Industrial, driven by broad based regional improvement (ex- South America). Adj. EBIT margin equated to 12.7%, in-line with management's 12-13% FY14 margin guidance (1H14 EBIT margin was 13.2%). Looking ahead, Schaeffler continues to expect top-line improvement of >7%, 12-13% EBIT margins, and positive FCF for FY14 despite "emerging geopolitical and market related uncertainties". SHAEFF 5Y EUR CDS is 5bp tighter at 185bp today.

**Manish A. Somaiya | Ishan Singh | Sapan Shah**

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# Appendix A-1

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Citi Research US High Yield Issue Coverage	24%	63%	12%
<i>% of companies in each rating category that are investment banking clients</i>	78%	78%	59%

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