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Default fears hit JC Penney bonds

By Barney Jopson and Vivianne Rodrigues in New York

Fears of JC Penney defaulting on its debt have escalated after worries over the department store's future were exacerbated by an analyst's prediction that its share price would plunge to $1.

The premium on JC Penney five-year credit default swaps – a form of insurance that reflects market views of a company's creditworthiness – on Tuesday jumped to 1,659 basis points, up 185bp from the end of last week, according to Markit data.

The unusually sharp rise to such levels implies a chance of default over 60 per cent, analysts said.

JC Penney bonds have been under pressure since its sales began to tumble under former chief executive Ron Johnson.

Since he was replaced by Mike Ullman in April this year, the new chief has struggled to restore market confidence.

A bond sell-off has accelerated in the past two weeks with a growing number of investors now betting the company may be forced to restructure some of its debt obligations.

Last week, JC Penney was forced to quash rumours that it had hired bankruptcy lawyers, a notion that it described as "unequivocally false" and blamed unnamed investors who it said were "trying to manipulate the market for their personal gain".

The Texas-based chain's reputation took another hit on Monday when Mary Ross-Gilbert, analyst at Imperial Capital, lowered her one-year price target for the company's shares to $1 from $5.

JC Penney shares fell 8.3 per cent on Monday but recovered slightly on Tuesday morning, climbing 2.9 per cent to $6.60.

Ms Ross-Gilbert said in her report: "While we think [JC Penney] can be turned around, we are becoming increasingly concerned that without a deep-pocketed long-term investor providing financial and 'halo' support, the company may strategically file for bankruptcy protection to conserve cash while it continues to execute a turnround."

Mr Ullman is reversing his predecessor's much-criticised decision to scrap discounting and some clothing brands but JC Penney has said its like-for-like sales continued to fall year-on-year into September, although less sharply than in previous months.

JC Penney repeated its assertion earlier this month that it expected to have more than $2bn of liquidity at the end of its financial year in January.

"When combined with the reported improvements in our business trends, the need for 'financial restructuring' is purely speculative and not grounded in fact," it said.

Adrian Miller, director of fixed income strategy at GMP Securities, said: "Obviously, it is in everyone's best interests, at least for retail and long-only fund managers, that the company honours its debt commitments.

"But at this stage and with spreads trading at these levels, regular investors have probably already abandoned the trade. This now seems to be a market for distress-debt accounts and hedge funds."