

Toshiba Corp stock plunges by most on record as nuclear renaissance turns into a nightmare

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Getty Images Toshiba Corp shares close down 20% following a 12% drop Tuesday after the company said it have to write billions on its U.S. nuclear reactor unit.

Toshiba Corp. plunged by the most on record as the once heralded U.S. nuclear renaissance turns into a nightmare for the Japanese company.

The shares fell by 20 per cent, the most since 1974, according to available data, to close at 312 yen in Tokyo, following a 12 per cent drop Tuesday. Toshiba said it may have to write down billions related to an acquisition made by U.S. unit Westinghouse Electric that was geared toward completing the newest generation of reactors at two U.S. facilities. The projects, overseen by utilities Southern Co. and Scana Corp., are years behind schedule and billions of dollars over budget.

Southern's nuclear expansion in Georgia and Scana's in South Carolina were once viewed as part of a rebirth of the U.S. atomic power industry, which hadn't seen a new reactor licensed in three decades. However, stumbles with those projects, the nuclear disaster in Fukushima and a flood of cheap natural gas that lowered U.S. power prices made new reactors increasingly expensive and risky.

“This is another reminder of how hard it is to predict how much new projects are going to cost,” Kit Konolige, a utilities analyst for Bloomberg Intelligence, said by phone. “That just makes it a higher hurdle for any new nuclear U.S. construction project. ”

Westinghouse’s purchase of contractor CB&I Stone & Webster Inc. resulted in a settlement with the utilities regarding legal disputes over construction delays and cost overruns. However, Westinghouse and CB&I have squabbled in court over how expensive the delays will be and who should pay for them.

CB&I is appealing a court ruling that dismissed a lawsuit over a \$2 billion accounting dispute with Westinghouse. CB&I continues to “vigorously defend” its position and is also moving forward on a process with an independent auditor, spokesman Gentry Brann said in an e-mailed statement. Westinghouse declined to comment.

The cost to insure Toshiba’s bonds traded as high as 440 basis points, up 295 basis points from yesterday, according to a credit trader, who asked not to be identified. That puts the contracts on track for a record jump, based on figures going back to 2004, from data provider CMA.

Won Approval

Toshiba’s rating was cut to BB from BBB- at the Japanese firm Rating and Investment Information Inc., which said the conglomerate is on watch for further downgrade. The writedown would drag the Toshiba’s financial bases down to a “serious condition,” the ratings company said.

Last week, Southern won approval from Georgia regulators to raise the capital costs of Units 3 and 4 at its Plant Vogtle by \$1.3 billion to \$5.68 billion. The action came after Southern agreed to resolve its dispute with Westinghouse and CB&I by paying \$350 million. The parties also agreed that the units would be finished in 2019 and 2020, more than three years behind schedule.

Southern's settlement with Westinghouse and CB&I provides "strong financial protections for customers by assigning significant construction risks to the contractor," spokesman Jacob Hawkins said in an e-mail statement. The company will hold the contractor accountable for achieving the in-service target dates, he said.

"We continue to monitor the financial position of Toshiba, who is the guarantor for Westinghouse under our engineering, procurement and construction contract," Hawkins added.

Revised Schedule

In South Carolina, regulators agreed in November to raise Scana's costs of its project by \$831 million with the company's share of the total expense now at \$7.7 billion due to delays. The utility had also reached a settlement with Westinghouse and CB&I that led to a revised completion schedule for its reactors at V.C. Summer to 2019 and 2020.

"Westinghouse has communicated that they are still working to finalize their evaluation," said Ginny Jones, a spokeswoman for Scana. "We will maintain contact with them and expect to learn more over the next few weeks," Jones said in an e-mail statement.

Toshiba underestimated costs of projects in the U.S., Mamoru Hatazawa, the company's executive officer in charge of the nuclear business, told a briefing in Tokyo. While Toshiba is evaluating the exact reasons, much of the miscalculation centered on the local cost of labor and the amount of materials needed, Hatazawa said.

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