European corporate high-yield enters into focus

While the great and the good were in Davos lauding woke capitalism, the capital markets machine rumbled on. Activity has settled into a more normal pattern after a blistering start to the year; corporate high-yield a focus this past week.

Bond issuance amounted to a little over USD100bn, almost identical to the same week of 2019. Bumper issuance in the two previous weeks, though, has pushed aggregate issuance to some USD 460bn YTD, up 48% YoY.

Financials have been hammering the open window all year and continued to push out trades last week. But perhaps more worthy of note, about a quarter of the past week's bond issuance was from sub-investment-grade corporates. Of that, around 40% was from the US/Canada. The China high-yield property onslaught in US dollars continues apace; the stand-out last week Hengda Real Estate's USD 4bn two-tranche blockbuster paying 11.50% and 12.50% yields.

But eight European high-yield corporates also tapped the market for just over USD 7.5bn equivalent, mostly in euros. Sell-side dealers point to a turnaround in sentiment towards Single B names in particular, as immediate front-line risk factors dissipate, emboldening the buy-side to play. This is a contrast to 2019 when the Double B sector was the preferred part of the sub-IG credit spectrum.

A key concern has been the vulnerability of low-rated corporates to tightening monetary policy. The mantra among market participants has been that higher rates will push large swathes of low-end investment-grade companies into junk territory (and thereby an automatic 'sell' for investors with high-grade-only mandates), and send low-end sub-investment-grade companies, unable to cope with higher interest service on heavy debt levels, over the edge into insolvency.

But with central banks remaining highly accommodative owing to sluggish economic growth and muted inflation (which is certain to keep rates low into the medium term), those fears have been dissipating somewhat. Or perhaps better put, investors are focusing less on latent risk concerns and default spikes and more on locking in returns.

Better traction in the high-yield bond market is offering companies better pricing than in the loan market, exemplified by some issuers turning to the bond market to refinance Term Loan B facilities.

Altice France's EUR 2.1bn three-tranche Triple C dual-currency euro/US dollar trade gave the company eight-year money at a weighted average cost on a fully euro-swapped basis of 4% (plus a 5NC2 at 2.25%). The deal fed into efforts to simplify the group's capital structure and push it towards deleveraging targets.

The company said refinancing outstanding debt with proceeds of the new issue will lead to annual interest savings of EUR 36m. It will also extend its debt capital structure from 6 years to 6.6 years and lower the weighted average cost of debt from 5.4% to 5.0%.

This report is published by Scope Insights, a Scope Group subsidiary which is separate from Scope Ratings. The content is an independent view not related to Scope's credit ratings.

Author:

Keith Mullin
+44 (0)7826 517225
k.mullin@scopegroup.com

Investor Relations:

Debbie Hartley
+44 20 3871 2872
d.hartley@scopegroup.com

Media:

André Fischer
+49 30 27891 147
a.fischer@scopegroup.com

Scope Insights

Suite 204
2 Angel Square
London EC1V 1NY

Phone +44 20 3457 0444

Scope Group

Lennéstraße 5
10785 Berlin

Phone +49 30 27891 0
Fax +49 30 27891 100

www.scopegroup.com

Bloomberg: SCOP

Primary bond market white-hot as credit tests new lows

All of last week's European HY issuers achieved good execution:

- Ineos Styrolution's EUR 600m 7NC3 was upsized from EUR 500m and the yield tightened from 2.50%-area to 2.375%.
- Techem's EUR 600m 5.5NC2 was also increased, first to EUR 850m and then to EUR 1.145bn and it priced at the bottom of the 2%-2.25% yield range.
- UK manufacturer Victoria plc got the EUR 170m tap of its 5NC2 senior secured notes away at the top of the 104.75-105 price range.
- Greek infrastructure company Ellaktor's EUR 70m tap of its 6.375% due December 2024 line was upsized from EUR 50m and priced at 102.50 for 5.646% yield.
- Norwegian seafood company Mowi shaved 40bp off initial investor feedback on its EUR 200m 5NC3 green FRN to price at 3mE+160bp on a 3.5x covered book.
- Stena International, the Swedish conglomerate involved in ferry operations, offshore drilling, shipping, property, and finance, upsized its dual-tranche EUR 250m/USD 250m five-year to EUR 315m/USD 350m. Pricing on the euros started out in the mid-4s area and printed at a 3.75% yield, while the dollars tightened from high 6s to 6.125%.
- United Group, the Serbia-based multi-play telecoms and media provider owned by private equity firm BC Partners, tightened pricing on all tranches of its jumbo four-piece EUR 1.845bn acquisition financing. Proceeds will fund the takeover of Vivacom, Bulgaria's largest telecoms company.

Investors also flocked to investment-grade offerings down the capital structure. Swedish real estate company Samhallsbyggnadsbolaget i Norden saw EUR 2.9bn of demand for its EUR 500m PNC5.25 perpetual hybrid, enabling leads to tighten from 3.25% yield area to 2.624%. Erste Bank Group squeezed the yield on its EUR 500m AT1 to 3.375%, demand of EUR 6.25bn seen during marketing enabling leads to pull pricing in from 4%-area IPTs.

FIG supply for the week totalled EUR 33bn, about half of which was from European issuers (20% of the European haul from CEEMEA names). As in previous weeks, execution was sound. US banks continued to keep deeply subordinated preferred stock channels open: Bank of America priced a USD 1.1bn PNC5 at a 4.30% yield (vs. 4.625% area guidance) and Goldman Sachs got its USD 350m PNC5 done at 4.40% (IPTs were 4.625%-4.75%).

Tier 2s this past week came from Jyske Bank and Moneta Money Bank (Czech Republic), Bank Leumi and Westpac, with Nova Ljubljanska banka mandating leads last week. Sovcombank is in the AT1 pipeline, mandating a potential US dollar Basel III-compliant PNC5.25.

Elsewhere, the ECB quarterly lending survey showed a decline in net demand for loans to enterprises in Q4 2019 (with a net percentage of -8%, down from 1% in Q3 2019) – "the first time," the ECB reported, "this had been seen since the fourth quarter of 2013, whereas banks had expected it to remain stable overall". The Bank noted that decline in net demand was broadly based across a number of larger and smaller euro area countries. Banks expect that demand will continue to decline in Q1 2020 (net percentage of -9%).

In contrast, the Bank said, there was a pronounced increase in net demand for housing loans (net percentage of 25%, up from 15%), as well as an increase in net demand for consumer credit (net percentage of 10%, up from 8%). For the first quarter of 2020, banks expect to see increases in net demand for both housing loans (6%) and consumer credit (15%). Worth noting: banks' lending standards have remained broadly constant, the ECB pointing to demand-side factors, including companies' access to alternative financing options. Like the bond market.

Summary of FIG debt issuance 17 January to 24 January

EUROPEAN BANKING GROUPS

Alfa Bank sold a Dublin-listed RUB 15bn (roughly EUR 220m) five-year senior unsecured bond on 23 January at a yield of 6.75%. Books closed above RUB 23bn. Pricing was at the tight end of 6.80% +/-5bp WPIR final guidance. Initial guidance was 7% area.

Argenta Spaarbank sold its revived EUR 500m seven-year senior non-preferred on 22 January at MS+115bp against demand of EUR 1bn. IPTs were MS+120bp area. The deal was revived from mid-October 2019, when the bank pulled the deal (having set the spread at MS+110bp).

Banca Monte dei Paschi di Siena priced a long five-year EUR 750m senior preferred offering on 21 January at MS+285bp, with books moving above EUR 1.35bn. Pricing was at the tight end of MS+290bp +/-5bp WPIR guidance. IPTs were MS+ low 300s.

Banque Fédérative du Crédit Mutuel sold a GBP 600m due December 2025 senior preferred note on 23 January at G+97bp. Books closed above GBP 1.1bn. Pricing came at the tight end of G+100bp +/-3bp WPIR revised guidance; IP PTs had been G+105bp area.

Belfius Bank sold a no-grow EUR 500m 10-year mortgage covered bond on 21 January at MS+4bp; the final book exceeding EUR 3.3bn at re-offer. Pricing came at the tight end of MS+5bp +/-1bp WPIR revised guidance; initial guidance was MS+9bp area.

Credit Bank of Moscow sold a USD 600m five-year senior unsecured loan participation note on 22 January at a yield of 4.70% (T+312.7bp); the book closing above USD 1.6bn. Yield guidance was 4.875% area (IPTs 5%/low 5s).

Dekabank priced its no-grow EUR 250m 15-year public sector covered bond on 21 January at MS+5bp; books exceeding EUR 550m. Guidance emerged at +8bp.

Deutsche Pfandbriefbank sold a EUR 300m senior preferred FRN on 23 January with a coupon of 3mE+90bp and priced at 101.237 to yield 3mE+55bp. The deal was upsized from EUR 200m originally planned and initially increased to EUR 250m. Yield guidance had been +60bp area.

DZ Hyp sold a no-grow EUR 750m four-year mortgage covered bond on 21 January at MS-2bp (equivalent to 31.6bp over Bunds). The final book was well above EUR2bn. Pricing came at the tight end of MS-1bp +/-1bp revised guidance; initial guidance was MS+1bp.

Erste Bank Group priced a no-grow EUR 500m 5.125%-trigger perpetual non-call April 2027 AT1 on 22 January at a yield of 3.375%, equivalent to MS+343.3bp. Final books were above EUR 5bn, although demand had reached EUR 6.25bn during marketing. IPTs had been 4% area.

FCA Bank sold a EUR 850m three-year senior unsecured bond on 21 January at MS+55bp on a final book of around EUR 3bn. Pricing came at the bottom of the MS+55bp-60bp guidance range. IPTs were MS+75bp-80bp.

Jyske Bank priced its EUR 200m 11NC6 Tier 2 on 21 January at MS+145bp to a EUR 550m final book. Pricing was at the tight end of MS+145bp-150bp guidance. IPTs had been MS+165bp area.

KBC Bank priced a EUR 500m 10-year senior unsecured offering on 21 January at MS+65bp, against EUR 1.9bn book. IPTs were MS+85bp area.

Landesbank Baden-Württemberg priced a GBP 500m five-year green senior non-preferred note on 22 January at G+108bp guidance; the final book standing above GBP 985m. IPTs were G+115bp area.

Lloyds Bank sold a EUR 750m 15-year senior unsecured offering on 21 January at MS+55bp, with demand exceeding EUR 2.1bn. Pricing came at the tight end of MS+55bp-60bp guidance. IPTs were MS+70bp-75bp.

Moneta Money Bank sold a CZK2.6bn (roughly EUR 103m) 10NC5 Tier 2 on 21 January at a 3.79% yield, equivalent to a spread of 175bp over governments (the same level as IPTs).

Münchener Hypothekenbank priced a EUR 250m 8-year senior non-preferred on 24 January at MS+54bp guidance.

Nationwide Building Society priced a USD 1bn in three-year senior preferred notes on 21 January at T+52bp, the bottom of T+55bp +/-3bp guidance. IPTs were T+65bp-70bp.
On 17 January, Nationwide priced its GBP 500m three-year senior non-preferreds at G+65bp, with books rising above GBP 1.2bn. Size came at the top of the GBP 300m-GBP 500m range, the spread having tightened from the initial G+75bp-80bp IPT range.

NordLB Luxembourg priced its no-grow EUR 300m five-year green covered bonds on 20 January at MS+23bp to demand at reoffer of above EUR 1.1bn. Initial guidance emerged at MS+28bp area, and the deal priced at the bottom of the MS+24bp +/-1bp revised guidance. Demand was above EUR 500m.

Nova Ljubljanska banka mandated leads on 23 January to arrange roadshows ahead of potential euro sub-benchmark 10NC5 Tier 2.

Oberbank priced its no-grow EUR 250m 10-year soft-bullet mortgage covered bond on 21 January at MS+7bp, building demand of EUR 625m. Pricing came at the tight end of MS+8bp +/-1bp revised guidance; initial guidance was MS+10bp.

UK insurer **Phoenix Group Holdings** sold a USD 750m PNC5 RT1 on 22 January at a yield of 5.625% to rapturous demand of more than USD 8.5bn. IPTs were 6% area. Proceeds will go towards Phoenix's acquisition of ReAssure Group from Swiss Re.

Nykredit Realkredit priced a EUR 250m tap on 20 January of its outstanding EUR 500m three-year senior non-preferred bond at MS+55bp. Book coverage was 2x. Guidance was MS+60bp area.

Societe Generale priced a EUR 1.5bn offering of seven-year senior non-preferred notes on 20 January at MS+80bp; demand reaching above EUR 3.75bn. IPTs had been MS+100bp area.

Sovcombank mandated leads on 22 January to arrange roadshows ahead of a potential US dollar Basel III-compliant PNC5.25 AT1.

UBS Group priced a EUR 1.5bn 6NC5 senior unsecured offering on 22 January at MS+55bp; demanding exceeding EUR 5bn. Guidance had been MS+60bp area and IPTs MS+80bp area.

NON-EUROPEAN GROUPS

Armenia's **Ardshinbank** (via Dilijan Finance) priced its revived USD 300m five-year senior unsecured offering on 21 January with a 6.50% coupon, equivalent to a spread over Treasuries of 491.7bp. The coupon was set at the bottom of 6.50%-6.75% guidance. The deal, postponed in November 2019M, ended up with a 1.5x covered book.

Banco Bradesco priced a USD 1.6bn dual-tranche senior unsecured bond on 22 January split into a USD 800m three-year at 2.85% yield (T+132bp) and a USD 800m five-year at 3.20% yield (T+162.3bp). Pricing on the 3s was at the tight end of 2.90% +/-0.05% guidance (IPTs had been 3.15% area); pricing on the 5s was the bottom of 3.25% +/-0.05% guidance (IPTs 3.50% area).

Bancolombia sold a USD 950m five-year senior unsecured offering on 23 January at T+160bp, the tight end of T+165bp +/-5bp guidance. IPTs were T+190bp area.

Bank Leumi le-Israel priced a USD 750m 11NC6 Tier 2 on 22 January at T+170bp, building demand of more than USD4bn. Pricing came through T+175bp area guidance; IPTs had been T+200bp.

Bank of America priced a USD 1.1bn PNC5 preferred stock offering on 21 January at a 4.30% yield. Guidance emerged at 4.625% area, the deal launched at 4.375% but re-launched at the print 4.30% yield.

Bank of New York Mellon sold a USD 1bn senior offering slit into a USD 750m three-year priced at T+35bp guidance and a USD 250m tap of an outstanding due October 2024 offering priced at T+43bp (through +45bp guidance). IPTs for the 3s were T+high 40s and +55bp area for the tap.

Canadian Imperial Bank of Commerce priced a USD 1bn five-year senior unsecured offering on 21 January at T+68bp, the tight end of T+70bp +/-2bp guidance. IPTs were T+low 80s area.

Capital One Bank sold a dual-tranche USD 2bn fixed-to-floating offering on 23 January split into a USD 1.25bn 3NC2 priced at T+50bp guidance (IPTs were T+65bp area) and a USD750m 6NC3 priced at T+73bp (the tight end of T+75bp +/-2bp guidance; IPTs were T+90bp). The back end references SOFR.

Citigroup sold a USD 2.25bn 11NC10 fixed-to-floating bond on 22 January at T+90bp guidance. The floating rate is referenced to SOFR. IPTs had been T+105bp area.

GFH Financial Group (Gulf Finance House) priced a USD 300m five-year Sukuk at a profit rate of 7.50%, equivalent to a spread of MS+590bp. Books closed at USD 650m. Pricing came at the mid 7s IPTs.

Goldman Sachs priced a USD 350m PNC5 preferred stock offering on 23 January at a 4.40% yield. IPTs were 4.625%-4.75%.

Macquarie Group sold a EUR 500m seven-year senior unsecured offering on 23 January at MS+77bp. Books reached EUR 1.45bn. Pricing came at the tight end of MS+80bp +/-3bp WPIR guidance. IPTs were MS+100bp area.

Qatar Islamic Bank priced its USD 650m five-year Sukuk on 21 January at a profit rate of 3mL+135bp.

Royal Bank of Canada priced a GBP 1.25bn five-year FRN at SONIA+47bp guidance on 23 January. Books were above GBP 2.1bn at final guidance. IPTS were +52bp area. Two days earlier, RBC priced a GBP 350m five-year senior unsecured offering at G+83bp; books closing above GBP 490m. IPTs had been G+90bp area.

Samba Financial Group priced a no-grow USD 500m seven-year senior unsecured note on 23 January at MS+130bp to demand above USD 2.3bn. IPTs were MS+160bp area.

State Street priced a USD 750m 10-year senior unsecured note on 21 January at T+68bp, the bottom of T+70bp +/-2bp guidance. Initial price thoughts were T+85bp area.

Toronto-Dominion Bank priced a USD 1bn three-year FRN at SOFR+48bp on 22 January. Pricing was at the tight end of SOFR+50bp +/-2bp guidance. IPTs were SOFR+low 60s.

Westpac Banking Corp sold a well over-subscribed USD 1.5bn 10NC5 Tier 2 on 23 January at T+ 135bp guidance. IPTs were T+ low 150s.

(Source for raw bond data: Bond Radar (www.bondradar.com); bank and media sources

Scope Insights GmbH

Lennéstraße 5
D-10785 Berlin

Phone +49 30 27891 0
Fax +49 30 27891 100

Managing Director: Florian Schoeller
Commercial Register: District Court Berlin-Charlottenburg HRB 202433 B