Greek sub debt, M&A trades, reverse Yankees catch a bid as investors stay open

Issuers venturing into the bond market are finding receptive audiences; the broad market tone OK if a little skittish around the edges. Jumbo multi-tranche corporate and acquisition financings and some well executed long-end trades were stand-outs last week; the FIG highlight Alpha Bank’s Tier 2.

Greek banks are touted by many as an evolving comeback story. If the Greek sovereign’s late-January EUR 2.5bn 1.875% 15-year (drawing EUR 18.8bn of demand) set a solid backdrop, the banks’ restructuring plans anchored by the Hercules asset protection scheme have created a frisson of additional interest.

Into this environment, Alpha Bank priced its EUR 500m 10NC5 Tier 2 on 6 February with a 4.25% yield, a full 100bp through the wide end of the range of initial price thoughts as EUR 5.5bn in orders from some 340 investors flooded into the book. The bank said the deal added c.105bp to its total capital ratio.

The stellar performance of last year’s Greek bank Tier 2 trades won’t have tarnished Alpha’s chances: the market has pushed National Bank of Greece’s EUR 400m Tier 2 trade of last July above 118, while Piraeus Bank’s identically-sized T2 that priced in June 2019, is above 116, tightly compressing yields while showing investors exceptional returns. Given how tight the Alpha trade priced, it is unlikely to offer the same kind of performance. But it is a sign of how far the market has come in the space of a few months.

It’s worth remembering that NBG had to pay an 8.25% yield on its T2, having gone into marketing with a 9% handle. Piraeus Bank had gone out with 10.25% price thoughts before fixing at 9.25%.

Credit fundamentals don’t really drive these trades; it’s much more about the lurch for yield. Nonetheless, in Scope’s 27 January research report ‘Greek banks’ asset quality will improve in 2020 but complete clean-up not in sight’, Marco Troiano, deputy head of Scope’s financial institutions team, pointed out that Alpha Bank was behind schedule at the 9M stage on its EUR 5.5bn de-risking target for 2019; NPE disposals running at EUR 2.8bn at that stage. The bank is targeting an NPE ratio of less than 10% from 44% currently and a c.9% ROE by the end of its new restructuring programme in 2022.

NPE securitisation is a key plank of its de-risking strategy. Alpha Bank’s EUR 12bn Hercules-assisted Project Galaxy, one of the largest NPE securitisations in Europe since the financial crisis and expected in H1 2020, is not without execution risk, Troiano noted in the research note.

To call or not to call?

Elsewhere, the ever-present story of whether banks will, won’t or should (as a matter of good investor relations) call upcoming AT1s when they hit call dates was once again thrust to the fore; Barclays confirming it wouldn’t be calling the remaining EUR 318.56m of its 4.75% non-cumulative callable PNC15 preference shares (originally issued in March 2005) on 15 March, the first available redemption date.

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There was some – but not much – chatter in the market decrying the non-call. This story has become old. Barclays pointed to the long-standing fact that exercising early redemptions is made with reference to the economic impact on the group, prevailing market conditions and regulatory developments. The bank simply said the case for calling its prefs – which switch to a floating rate of 71bp over three-month Euribor if not called – is not supported in light of these factors. Bearing in mind where 3mE is at present, that presumably would not have been a difficult decision.

Deutsche Bank received questions on its 5 February fixed-income call about the 30 April call on its 2014-issued USD 1.25bn PNC6s 6.25% AT1. The treasurer pointed to economic factors, including replacement costs, as driving call decisions; additional factors being capital demand, future recognition, replacement cost and, in some cases, FX effects arising from the equity treatment of AT1s on the balance sheet. The treasurer acknowledged that the rate on the dollar AT1s is significantly tighter than a new issue. The MS+435.8bp reset spread is significantly below where the market believes the bank can price a replacement, seen as being in the 500bp area.

Elsewhere in the FIG space, Wells Fargo took a chunky USD 7bn out of the market from a EUR 1bn senior unsecured 10-year reverse Yankee and a USD 6bn dual-tranche senior trade in its home market. European FIG issuance was dominated by covered bonds; stand-outs Caffil by dint of its 20-year maturity, the first of the year; Santander UK pushing SONIA to a seven-year point; and Santander UK and Nationwide because they reference SOFR rather than US dollar Libor in their resets.

Corporate action

Away from the FIG sector, corporates were front and centre of bond activity; the highlights LVMH's USD 10.2bn-equivalent seven-tranche acquisition financing in euros and sterling, and IBM and Comcast's multi-headed jumbo reverse Yankees.

LVMH's trade was nicely oversubscribed and pricing across all tranches came well through initial price thoughts. All maturity bases were covered: as well as a two-year FRN, the luxury goods group sold 3, 4, 6, 7, 8 and 11-year fixed-rate tranches across the two currencies as part of its EUR 14.7bn acquisition of Tiffany (whose shareholders approved the deal last week).

IBM's USD 4.1bn-equivalent euro three-tranche and Comcast's USD 5bn-equivalent five-tranche euro and sterling reverse Yankees (Comcast's trade will refinance debt taken out to fund its USD 39bn acquisition of Sky) also found good execution. In particular, both companies found solid support for their 20-year legs as this point in the euro curve reportedly offers dollar issuers excellent funding.

Long tenors in the dollar market included Stanley Black & Decker's 40NC5 senior tranche (4% yield); a Prologis 30-year (3.054%) and a 30-year EM Yankee from Indian Railway Finance Corp (at 3.95%). The green bond market, meanwhile, saw another green hybrid – from Nordic telecom Telia (a 7x covered EUR 500m 61.25NC6.25 at a 1.50% yield) – and a SEK 1bn 3.25-year green FRN from Santander Consumer Bank AS, the Norway-based bank, to finance retail loan and lease contracts for electric vehicles.

Summary of FIG debt issuance 3 February to 7 February

EUROPEAN BANKING GROUPS

Alpha Bank priced its EUR 500m 10NC5 Tier 2 on 6 February at a yield of 4.25%, equivalent to MS+450.4bp. Pricing came through 4.50%-4.75% guidance as orders of around EUR 5.5bn – 11x coverage – came into the book, enabling the deal to price at the upper end of the expected EUR 400m-EUR 500m size range. IPTs were 5.00%-5.25%.

La Banque Postale Home Loan SFH priced a EUR 750m 15-year covered bond backed by prime French residential mortgages at MS+7bp. Guidance had gone out at MS+9bp area. The response was a little lacklustre; demand reached EUR 1bn, which dealers put down to fatigue given the flow of long-dated French covereds.

Caisse Française de Financement Local (Caffil) sold the year's first 20-year covered bond, a no-grow EUR 750m public sector deal, on 4 February at MS+5bp. The final book was above EUR 1.6bn. Initial guidance emerged at MS+10bp area; notes priced at the tight end of MS+6bp +/-1bp WPIR revised guidance.

Hamburger Sparkasse sold a no-grow EUR 500m eight-year mortgage covered bond on 4 February at MS flat (flat to fair value); demand reaching above EUR 800m from over 30 accounts. Guidance had been MS+2bp area.

Intermediate Capital Group sold a EUR 500m seven-year senior unsecured note on 7 February at MS+185bp, building 2x book coverage. Pricing came at the bottom of the MS+185bp-190bp guidance range. IPTs had been MS+200bp-210bp.

Luzerner Kantonalbank priced a CHF 360m PNC7 5.125%-trigger AT1 on 6 February with a 1.50% yield. On 3 February, the bank announced it will be calling early its CHF 130m 2.25% AT1 originally issued in 2015. Investors will be repaid on 6 March.

Nationwide Building Society priced a USD 1bn three-year covered bond on 5 February at MS+27bp, pulling in demand of USD 1.6bn but keeping pricing at the wide end of MS+27bp +/-1bp guidance. IPTs were MS+30bp area.

Santander Consumer Bank AG offered an attractive spread of MS+7bp on its EUR 500m 10-year mortgage Pfandbrief on 5 February. Books reached EUR2.25bn. Initial guidance was MS+13bp area but notes priced at the tight end of MS+9bp +/-2bp revised guidance.

Santander Consumer Bank AS, the Norway-based Nordic bank, sold a SEK 1bn 3.25-year senior unsecured green FRN on 5 February at 3m Stibor+60bp.

Santander UK priced a dual-tranche dual-currency sterling and US dollar covered bond on 4 February backed by prime UK residential mortgages. The deal was split into a USD 1.25bn three-year 144a at MS+28bp (guidance was +30bp); and a GBP 1bn seven-year FRN at SONIA+55bp (guidance was +60bp area). The dollar book closed above USD 1.7bn; the sterling book above GBP 1.8bn.

SE Banken sold a EUR 1bn seven-year senior non-preferred note on 4 February at MS+58bp, generating demand of above EUR 2bn. Pricing came at the tight end of MS+60bp +/-2bp guidance; IPTs had been MS+75bp/80bp.

NON-EUROPEAN GROUPS

ANZ New Zealand priced a 3.7x covered senior unsecured note on 6 February split into a USD 750m three-year at T+48bp (the tight end of T+50bp +/-2bp guidance; IPTs T+65bp area) and a USD 750m 10-year at T+93bp (the tight end of T+95bp +/-2bp guidance; IPTs T+115bp area).

Kuwait's **Boubyan Bank** mandated leads on February to arrange roadshows in Dubai and London ahead of a benchmark US dollar Reg S senior unsecured Sukuk.

Citizens Bank priced a USD 300m 10-year senior unsecured note on 3 February at T+100bp. Pricing came at the tight end of T+100bp-105bp guidance; IPTs were T+115bp-120bp.

Credivalores-Crediservicios, a NBFI in Colombia providing consumer credit and micro-insurance to under-banked segments of the population, sold a USD 300m 5NC3 senior unsecured note on 3 February with a 9% yield.

Discover Bank sold a USD 500m 10-year senior unsecured on 3 February at T+120bp. IPTs were T+135bp area.

First Republic Bank sold a USD 500m 4NC3 fixed-to-floating senior on 5 February at T+48bp, with a SOFR back end. Pricing was at the tight end of T+50bp +/-2bp guidance. IPTs were T+65bp area.

Goldman Sachs priced a USD 2bn 10-year senior unsecured bond on 5 February at T+95bp, the tight end of T+97bp +/-2bp guidance. IPTs were T+115bp.

Goldman Sachs BDC, the direct lending unit of GSAM focused on middle-market and private companies, priced a USD 360m five-year note on 6 February to pay down debt under its revolving credit facility. Notes priced at T+230bp (vs T+240bp area IPTs) and the deal was upsized from USD 330m.

Huatai Securities, via Pioneer Reward Ltd, priced a USD 400m three-year FRN on 5 February at 3mL+95bp final guidance. Books closed at over USD 4.7bn. Initial guidance was 3mL+125bp area.

Hyundai Capital priced a USD 2bn three-tranche trade on 5 February split into a USD 1bn three-year at T+95bp (the middle of the T+95bp +/-5bp launch range; guidance was T+100bp +/-5bp; IPTs were T+120bp-125bp); a USD 500m five-year at T+122.5bp (tight end of T+125bp +/-2.5bp guidance; IPTs T+145bp-150bp); and a USD 500m seven-year at T+147.5bp (tight end of T+150bp +/-2.5bp guidance; IPTs T+65bp-170bp).

India Infoline Finance appointed leads on 5 February to arrange roadshows in Europe, Middle East and Asia ahead of a potential benchmark Reg S senior unsecured note.

KeyCorp priced a USD 800m seven-year senior unsecured note on 3 February at T+82bp, the tight end of T+85bp +/-3bp guidance. IPTs has been T+100bp area.

Qatar National Bank priced a USD 1bn seven-year senior unsecured note on 5 February at MS+128bp; books closing at over USD 3bn. IPTs had gone out at MS+155bp area, tightened to guidance of MS+135bp area.

Synovus Financial Corp priced a USD 400m (upsized from USD 300m) 3NC2 fixed-to-floating senior unsecured note on 5 February at T+85bp, against T+85bp-90bp guidance and T+105bp-110bp IPTs.

Wells Fargo priced a EUR 1bn 10-year reverse Yankee at MS+67bp on 7 February, gathering orders of EUR 1.8bn. IPT had been MS+90bp area. On 4 February, Wells sold a jumbo USD 6bn dual-tranche senior unsecured split into a USD 3bn 6NC5 at T+75bp, and a USD 3bn 11NC10 at T+98bp. The shorter tranche priced in the middle of the T+75 +/-2bp guidance range (IPTs were T+90bp-95bp); the longer tranche priced at the tight end of T+100bp +/-2bp guidance (IPTs T+115bp-120bp).

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

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