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INTERNATIONAL FINANCING REVIEW

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- › Italy ECM hopes lifted by proposed Intesa/UBI deal, with €1bn rights issue on the cards
- › Here comes the next boom in sustainable finance: ESG derivatives
- › HSBC bets house, and investment bank, on Asia, as it announces 35,000 job cuts

PEOPLE & MARKETS

Natixis ahead of curve with “climate coloured” balance sheet

06

BONDS

Coronavirus puts dampener on Jaguar Land Rover bond plan

08

LOANS

Lenders in Asia grapple with drastic virus fallout

10

BONDS

Sydney Airport’s A\$600m private deal puts ESG bonds on radar

11



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China's response to the coronavirus outbreak shows that the capital markets regulators have finally ripped up their old playbook. In the long run, that will ensure the country's domestic market comes through the crisis stronger.

The pace of primary equity issuance has traditionally been a reliable gauge of sentiment in the A-share market. In a bullish market, the securities regulator allows more companies to sell new shares, confident that there is enough demand to absorb the additional supply. In tougher times, approvals for IPOs and share placements routinely dry up, for fear that deals will put too much pressure on the wider market.

That approach, however, is changing.

The latest set of reforms, announced with immediate effect on February 14, make it easier for listed companies to sell more shares to fund their expansion plans. Though the move was flagged three months ago, the timing is no coincidence: regulators clearly linked the measures to the virus outbreak, saying it would help companies raise capital to restart their operations.

Remarkably, China's capital markets have remained open for business throughout the coronavirus crisis. IPOs are still very much allowed, and investors are still enthusiastic about new listings, even if some companies have been forced to postpone their plans for logistical or operational reasons.

This is the precise opposite from the way China's regulators have handled previous crises, but it fits with recent moves to allow market forces a greater say in domestic equity offerings.

The Star board, the new technology-focused platform introduced in Shanghai last year, ushered in a simplified review process for IPOs and scrapped unofficial limits on pricing. The new follow-on rules – which apply to all listed companies in Shanghai and Shenzhen – are an extension of that.

Allowing bigger deals and deeper discounts will give Chinese companies some welcome flexibility to withstand the fallout from the virus outbreak, and it was no surprise to see dozens of applications last week. This is not just a temporary solution, though. Once the crisis abates, the benefits of a more accessible equity market will be here to stay.

Make it sustainable

ESG derivatives are fast becoming big business for the finance industry. That's hardly surprising given the vertiginous growth in investing and financing linked to companies' approach to environmental, social and governance issues.

But, like all aspects of this rapidly expanding corner of finance, these developments need close monitoring to ensure they actually serve the ESG goals they purport to support.

It is entirely natural that derivatives products should emerge to complement and even encourage the huge mobilisation of investor capital prodding companies towards a more sustainable footing.

It is logical, for example, for banks to substitute ESG-friendly indices for broad benchmarks such as the Euro Stoxx 50 in structured notes they sell to private banking clients.

It also makes perfect sense to create "sustainable" swaps so companies can hedge currency or interest-rate exposures stemming from ESG-linked bonds or loans, although – as with the bonds and loans themselves – swaps and other derivatives should only be offered to companies making genuine attempts to improve their ESG ratings.

ESG may be a helpful marketing angle for investors, bankers and companies looking to ride the wave of enthusiasm around sustainability. But bankers must ensure that any new innovations remain true to the goals of the sustainable finance movement. Otherwise, they risk undermining it.

Green wind

Sydney Airport deserves praise for putting the sustainability-linked format on the radar in the Asia-Pacific bond markets. If the concept is to really take off, however, future issuance will need to be much more transparent.

Australia's biggest airport has established a reputation as a pioneer of sustainable finance, having completed Asia-Pacific's largest syndicated sustainability-linked loan in May 2019.

Last week's bond issue in the US private placement market included a sustainability-linked 20-year tranche that comes with an unusual two-way pricing structure: the coupon will rise or fall depending on Sydney Airport's performance against its sustainability targets.

Sustainability-linked pricing is catching on quickly in the syndicated loan market, where lenders are willing to incentivise good behaviour in order to grow their own green and socially responsible portfolios.

Fixed-income investors, naturally, prefer fixed coupons, and it will take a monumental effort to convince price-sensitive Asian fund managers to pay for performance in this way.

So when it comes to the public markets, a penalty clause has a greater chance of catching on with bond buyers. Italy's Enel last year agreed to a 25bp step-up if it fails to meet certain sustainability targets by the end of 2021, using language that bondholders can easily understand – similar to a ratings trigger or a call option on a perpetual bond.

Because it was a US private placement, however, the details of the pricing grid on Sydney Airport's deal were not disclosed.

Banks and their clients may understandably want to keep their formulae under wraps, but that approach is not going to help scale up sustainable financing to the extent needed to combat climate change.

IFR's ESG Financing Briefing

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Contents

INTERNATIONAL FINANCING REVIEW
FEBRUARY 22 2020 ISSUE 2321

TOP NEWS		04
EQUITIES/BONDS	Trigger Italy ECM hopes lifted by proposed Intesa/UBI deal. Possible €1bn transaction set to end year-long slump in European rights issues.	04
PEOPLE & MARKETS	Looking East HSBC bets house, and investment bank, on Asia. Bank to cut 35,000 jobs and slash GBM's assets by US\$50bn.	04
PEOPLE & MARKETS	And now: Here comes the next boom in sustainable finance: ESG derivatives. Bankers see huge potential in the novel products.	06
PEOPLE & MARKETS	Colour coding Natixis ahead of the curve with 'climate colouring'. French bank analyses its balance sheet in an effort to push ESG transition.	06
	Negative headlines Coronavirus puts dampener on Jaguar bond plan.	08
	Under the weather Lenders in Asia grapple with drastic virus fallout.	10
	Good practice Sydney Airport's A\$600m private deal puts ESG bonds on the radar.	11
	Unfazed Undeterred by the coronavirus epidemic, Aussie ECM roars back into life.	13
PEOPLE & MARKETS	Going Dutch UBS has named Ralph Hamers as next chief executive. ING boss will replace Sergio Ermotti in November.	15
	Upscaling Morgan Stanley is to buy E*Trade Financial for US\$13bn in an all-stock deal that will add US\$56bn of low-cost deposits to its IB balance sheet.	16
	New brooms JP Morgan has appointed Viswas Raghavan and James Casey as co-heads of global investment banking as part of sweeping changes at the bank.	17
	Showing the way HSBC's Mexico turnaround lesson for US problem.	21
	Smoothing the way "Selective equivalence" seen for UK in Brexit negotiations.	22
	Lukewarm appetite Foreigners buy fewest US corporate bonds in six years.	23
BONDS	Thrown off-course ING CEO shock delays AT1 revival.	25
	Debut Cadent Gas targets transition bond. 33 Junk bonds Buyers shrug off fallen angel risk. 46	
EMERGING MARKETS	Big attraction Investors find Riyadh Bank Tier 2 hard to resist.	63
	Singapore Europe powers Vena Energy debut. 64 Argentina Bonds sink on IMF comments. 71	
LOANS	Investor appeal Private credit growth boosts unitranche.	73
	South Africa Investec Bank mulls fundraising options. 78 US Bausch Health eyes refi. 80	
EQUITIES	Fresh attempt GFL is close to relaunching a US\$2bn-plus TSX/NYSE IPO.	87
	India Tax plan threatens REITs. 90 US Passage Bio launches year's fifth biotech IPO. 97	
STRUCTURED EQUITY	Winning format Nextera Energy MCB auction nets US\$2.5bn at 5.279%.	101
	Cashing in Pegasystems achieves aggressive pricing on US\$525m convertible bond. 102	

Italy ECM hopes lifted by UBI deal

■ **Equities/Bonds** Possible €1bn deal set to end two-year long slump in European rights issues

BY TOM REVELL, LUCY RAITANO

The long-awaited consolidation of Italy's banking sector has finally kicked off and could trigger a flurry of activity for ECM bankers as well as their M&A colleagues. It has already set in motion a €1bn rights issue.

INTESA SANPAOLO, Italy's biggest bank, last week made a surprise €4.9bn (US\$5.3bn) takeover bid for **UBI BANCA**, the country's fifth largest. To address potential antitrust concerns, Intesa has agreed to sell up to 500 branches of the enlarged bank to **BPER BANCA**.

Modena-based BPER, Italy's sixth-largest bank, said it will fund the acquisition with a

€1bn rights issue – although that is dependent on Intesa's takeover of UBI going through.

The rights issue would be welcome news for Italian ECM bankers, who have been hoping the beginning of the country's banking consolidation will kick-start new issuance after two grim years.

Mediobanca is underwriting BPER's rights issue and is at the moment sole bookrunner. *Rothschild* is advising BPER.

European banks will now scramble to bag roles on the capital increase, with fierce competition likely given that BPER's rights issue could be one of the largest in Italy this year.

"M&A-driven bank consolidation has been a long time coming in Italy and this is just the beginning," said one senior ECM banker focused on Southern Europe. "This is going to trigger more deals in Italy."

Other bankers were also optimistic about the impact for Italian ECM, after a dramatic drop in FIG-related deals across Europe.

EMEA FIG rights issues were US\$3.7bn last year, down 90% from US\$42.6bn in 2017, which included a €13bn rights issue by Italy's UniCredit.

Between 2010 and 2015, FIG rights issues totalled between US\$20bn and nearly US\$50bn annually across EMEA, according

to Refinitiv data, so ECM bankers are desperate for the two-year dry spell to end.

"The lack of rights issues has been felt across the Street, given that's where the fee potential lies. There has been a dearth of rights issues in general, with FIG perhaps the most noticeable," said Andrew Briscoe, head of EMEA ECM syndicate for Bank of America.

"While the Italian news is encouraging, it's just one data point and we need to see a bit more before we can say FIG rights issues are back."

Italy has contributed a big part of the activity in the past decade, according to Refinitiv data. Total proceeds from EMEA FIG rights issues in the last decade are

HSBC bets house, and investment bank, on Asia

■ **People & Markets** Bank to cut 35,000 jobs and slash GBM's assets by US\$50bn

BY THOMAS BLOTT, STEVE SLATER

HSBC is set to shift assets in its investment bank from its struggling European and US businesses to its faster growing and more profitable Asia and Middle East operations under a major overhaul aimed at lifting returns.

Under the revival plan unveiled last week by interim CEO Noel Quinn, HSBC plans to axe about 35,000 jobs and cut annual costs by US\$4.5bn in an effort to get its return on tangible equity to 10%–12% in 2022. It was 8.4% last year.

The plan includes cutting about US\$100bn of risk-weighted assets from Europe and the US, mostly from the global banking and markets (GBM) business. HSBC said it will reallocate the assets to faster growing areas, notably Asia and the Middle East. Quinn has set

up an RWA optimisation team to find assets to sell or run down.

HSBC will shrink its equities platform as part of the plan. Cash equities sales and research coverage will be scaled down, including coverage of mid-sized firms in Continental Europe, to narrow its focus on international and mid-sized UK clients, and support the equity capital markets business. The bank also plans to cut back in rates and will stop G10 long-term derivatives market-making in the UK.

It will move some fixed-income activity from New York to London to benefit from scale, and shift its structured products business from London to Asia. Middle and back-office functions will be merged in GBM and commercial banking.

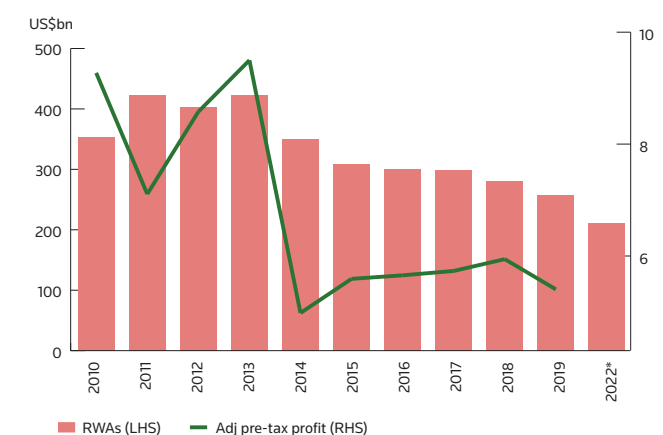
The bank said that in contrast to the cuts in Europe and the US, it will be accelerating investment further east.

"We saw a pressing need to reallocate capital away from underperforming businesses to support the growth of higher returning businesses where we have competitive advantage," chairman Mark

Tucker told reporters on a conference call.

"The board and executives were also acutely aware of the need to improve efficiency, reduce costs and inject pace."

HSBC'S SHRINKING INVESTMENT BANK, AND IT'S SET TO GET SMALLER AGAIN



Source: Company results; *2022 based on company guidance

› Lenders grapple with virus 10 › Sydney Airport ESG bonds 11 › Loan market buoyed by DP World 12

US\$274.1bn, and US\$70.5bn of that has come from Italy – a quarter of the total.

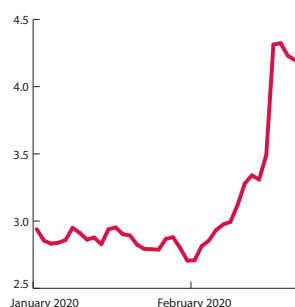
THREAT TO DEAL

But there are mounting risks to the Intesa deal, and subsequently the BPER fundraising.

UBI is looking at alternative merger plans to fend off Intesa's

UBI SHARES SURGE AFTER BID

CLOSING PRICE, €



Source: Refinitiv

approach and it may explore a takeover of Monte dei Paschi as part of its defence, sources said. UBI wants to be an acquirer of weaker rivals, rather than a target, and has hired *Credit Suisse* to outline its defence strategy, the sources said.

“M&A-driven bank consolidation has been a long time coming in Italy and this is just the beginning”

A group of UBI's investors holding 18% of the bank's share capital have also dismissed Intesa's bid as unacceptable.

CONSOLIDATION ON CARDS

Still, it appears Intesa's move for UBI will spark consolidation in Italy in one form or another – and probably FIG activity, including for deals to package

up non-performing loans for sale to private equity buyers.

Indeed, Intesa said that if its bid for UBI succeeds, it plans to sell a €4bn NPL portfolio to limit the ratio of NPL loans on its books.

Intesa also followed its bid for UBI by selling €1.5bn of Additional Tier 1 paper on Thursday, with an unusual dual-tranche structure seen supporting performance.

Intesa's existing AT1s were relatively unmoved after its bid for UBI, but market participants said the new issue may have benefited from increased investor interest in the name on the potential merger, which Intesa said would create the eurozone's seventh-largest bank by assets.

“It is not negative, at worst neutral, and potentially positive,” said a banker at one of the AT1 deal's leads.

A DCM banker away from the deal said the transaction benefited from the fact that Intesa would become a bigger and stronger player if the merger goes through.

Intesa's all-share offer values UBI shares at €4.254 each, a 22% premium to their closing price on Monday.

Bankers said Intesa's move for UBI may have been sparked by an opportunity to bag a bargain by being a first mover in Italy's banking consolidation.

UBI's shares jumped 28% last week. Shares in Intesa Sanpaolo gained 2%, but BPER's share price dipped 7% because of the rights issue plans.

UBI's bonds tightened closer to Intesa's bonds earlier in the week, although they widened on Friday due to the reports of the alternative plans. ■

Investors gave a lukewarm response to the plan, however, and HSBC's London-listed shares fell 6% on the day of the news. Some investors were disappointed not to get certainty on whether Quinn will implement the three-year plan.

Tucker said he will announce a permanent CEO by the end of August, as planned. Quinn was installed as interim CEO last August. He is seen as the leading candidate – if the restructuring proceeds well. But Bloomberg News reported on Thursday that Jean Pierre Mustier, CEO of Italian bank UniCredit, is also a contender for the job and has held talks with HSBC.

JOBS GO

Quinn said he expects headcount to fall to about 200,000 in 2022 from 235,000 now.

The bank has natural turnover of about 25,000 staff a year, so will try to reduce headcount by natural attrition, partly in an effort to save on severance costs.

HSBC estimated that about 30% of its capital is allocated to businesses that are delivering returns below their cost of equity, primarily in Europe and the US.

Some US\$258bn of the bank's RWAs are in GBM, but that is set to be reduced by about US\$50bn by 2022, to account for less than 25% of group assets. It could result in almost half of GBM's assets being in Asia.

“What we're doing with GBM recognises the inherent strength of where it is – it's a very good emerging markets franchise, particularly in Asia and the Middle East,” said Ewen Stevenson, the bank's finance director.

“We're going to build capability in places like Singapore and Hong Kong as we can see continued growth in those areas and we want to shift more of the balance sheet over time and rebalance away from London,” Stevenson said.

HSBC also wants GBM to play to its strength in transaction and trade banking, cash and

liquidity management, and its top three foreign exchange platform.

CORONAVIRUS WARNING

HSBC unveiled the strategic update as it reported a pre-tax loss of US\$3.9bn for the fourth quarter after taking a goodwill charge of US\$7.3bn related to GBM and commercial banking businesses in Europe. Adjusted profit was up 29% at US\$4.3bn, while adjusted revenues rose 9% to US\$13.6bn.

The results highlighted the importance of Asia to the bank – the region accounted for 55% of last year's revenues and 84% of adjusted profits.

The coronavirus outbreak in China does pose short-term problems, however, and the bank warned that there will be an economic impact on its clients that it expects to result in weaker growth in the first half of this year.

HSBC said that pre-tax profit for 2019 dropped by 33% to US\$13.3bn, hit by the fourth-

quarter writedowns. On an adjusted basis, pre-tax profit was up 5% at US\$22.2bn and revenues increased 6% to US\$55.4bn.

GBM's adjusted profit in 2019 fell 9% year-on-year to US\$5.3bn, hurt by an underwhelming performance in Europe.

Global markets' adjusted revenues fell 8% to US\$5.8bn as fixed income, currencies and commodities income dropped 6% and equities revenues declined by 16%. Both areas underperformed the big five US banks, which reported a 9% rise in FICC revenues and a 7% decline in equities in 2019.

In global banking, effectively the advisory and underwriting unit, HSBC's revenues dipped 2% to US\$3.9bn, in line with its US peers.

GBM is far more focused on transaction banking-type products, however, and revenues for securities services increased by 6% to US\$2bn, while global liquidity and cash management increased 7% to US\$2.8bn. ■

The next boom in sustainable finance: ESG derivatives

■ **People & Markets** Bankers see huge potential in sustainable derivatives

BY CHRISTOPHER WHITTALL,
TESSA WALSH

Last year, BNP Paribas began pitching a new type of structured note to private banking clients, with a twist: it would plant a tree for every thousand euros of these ESG-friendly products sold. So far the French bank has planted one million trees after selling €1bn of the notes.

Seeding tracts of woodland twice the size of Manhattan's Central Park to sweeten sales of derivatives products is a novel approach even in this famously creative corner of investment banking. The broader takeaway is clear, though: sustainable derivatives are fast becoming big business for the finance industry.

After making promising inroads in 2019, banks are now

targeting ESG-linked derivatives as one of the greatest potential growth areas this year, tapping into the burgeoning demand for channelling money towards companies focused on environmental, social and governance issues.

ESG experts broadly welcome such developments, while warning against any loosening of standards that could undermine the wider sustainable finance industry.

"Investors are very eager to invest in ESG-linked solutions," said Delphine Queniart, global head of sustainable finance and solutions at BNP Paribas.

"For us it's not about painting every derivative into a green or rainbow colour one. We need to ensure rigour and go back to the fundamentals of what clients are trying to achieve. That's the only way this market will evolve. If

it's superficial, it's going to stagnate quickly."

Sustainable investing has been one of the fastest-growing areas in finance. Assets in European sustainable funds increased 56% in 2019 to €668bn, according to Morningstar, while sales of green, social and sustainable bonds rose 43% to US\$222bn, according to Refinitiv data.

OPPORTUNITY KNOCKS

Ever ones for homing in on a popular marketing angle, investment bankers are translating this budding interest into derivatives sales. Equities have been at the centre of this expansion, with banks already selling billions of euros-worth of structured notes based on ESG indices, according to industry executives, and ESG futures volumes rising steeply.

Elsewhere, banks sold the first ESG-friendly derivatives designed to hedge against moves in interest rates and currencies last year. There is also an ongoing industry consultation over the development of ESG-friendly credit derivatives, IFR has reported.

"Every participant in the market – companies, bankers, investors, issuers – see this whole ESG movement in genuine, sincere ways, but also in opportunistic ways," said Mitch Reznick, head of research and sustainable fixed income at Federated Hermes.

"Bankers will naturally come up with new derivatives and products. That's not necessarily a bad thing as long as they're well understood and don't serve to undermine or dilute the overall positive process."

Natixis ahead of curve with 'climate colouring'

■ **People & Markets** French bank analyses its balance sheet in an effort to push ESG transition

BY TESSA WALSH

A proactive approach to managing climate risk on its balance sheet is helping **NATIXIS** prepare for central banks' stress tests and attracting attention from regulators and industrial companies as the push to reduce carbon emissions targets gathers urgency.

The French bank introduced its groundbreaking "Green Weighting Factor" in September. The weightings allocate capital to financing deals based on their climate impact, and effectively colour codes the bank's balance sheet.

Natixis is at the forefront of attempts to make balance sheets more green by creating a new data set to help manage climate risk. The

Green Weighting Factor, which rates all of Natixis' financing activities on a seven-tier scale from brown to green, has transactional and strategic objectives that, the bank says, are already bearing fruit after nearly six months, and have been embedded in all steps of its credit process.

"We're starting to make these colour ratings speak; we're taking those colours and comparing them to risks, profitability metrics and client understanding," said Orith Azoulay, global head of green and sustainable lending at Natixis CIB.

Details will not be released until Natixis announces its new strategic plan in the fourth quarter, but the data being gathered is giving the bank an edge as central bank climate stress testing requirements,

which are currently limited, become more onerous.

A study released last week by consultancy Oliver Wyman - produced in partnership with the International Association of Credit Portfolio Managers - has highlighted banks' lack of preparation for the effects of green regulation and carbon taxes on their lending.

"Climate change has become a financial risk for banks and must be treated as such," the report said.

Central banks - including the Bank of England and the Banque de France - have said they will stress test their financial systems against climate risks as they seek to encourage the transition to net-zero carbon emissions by 2050. The Dutch central bank followed in January with news of

a review of how banks, insurers and pension funds incorporate environmental risks into internal risk models.

The European Banking Authority also said that it will develop a climate stress test and possibly offer banks favourable treatment for lending to green projects in its Action Plan on Sustainable Finance in December after describing the matter as "urgent".

"To me this is the unavoidable preparation work you need to do before you make any decision with regards to incentivising or penalising those activities," said Azoulay.

COLOUR CODED

Almost every transaction that Natixis originates is now

EQUITY POTENTIAL

The mainstay investment banking activity of selling structured notes to retail investors has proven particularly well-suited to ESG. These notes typically provide investors with an annual payout depending on the performance of a basket of stocks, allowing banks to insert an ESG-friendly index in the product instead of a major benchmark like the Euro Stoxx 50.

“We have definitely noticed a strong acceleration in the appetite for ESG-branded indices in retail structured products,” said Arnaud Jobert, head of equity derivatives structuring for EMEA at JP Morgan.

Jobert said JP Morgan has rebuilt a number of its multi-asset indices to incorporate ESG building blocks and also launched new ones, such as products

referencing ESG-focused mutual funds. It has even built an ESG-friendly equity long-short strategy to sell to institutional clients.

“We’ve spent a lot of time investing in data. Data remains a key challenge for ESG, as we need a high level of granularity to see if a product is ESG compliant,” said Jobert.

ESG futures markets are also on the up, with bankers pointing to a broader range of investors, including hedge funds, using the products.

German exchange Eurex said earlier this month that more than 700,000 contracts of its Stoxx Europe 600 ESG-X Index futures had traded with a notional value in excess of €10bn since launch a year ago.

“We’re seeing more investors looking to switch large amounts of exposure to ESG futures. It’s not just traditional ESG funds,” said Isabelle Millat, head of sustainable investment solutions at Societe Generale.

that allow companies to shield themselves against moves in interest rates and currencies.

Take the cross-currency swap that SG provided for Enel, for example, when the Italian energy company hedged currency and interest-rate risk stemming from a US\$1.5bn sustainable bond it sold last year. Like the bond it hedged, the swap will become more expensive if Enel fails to reach its sustainability target.

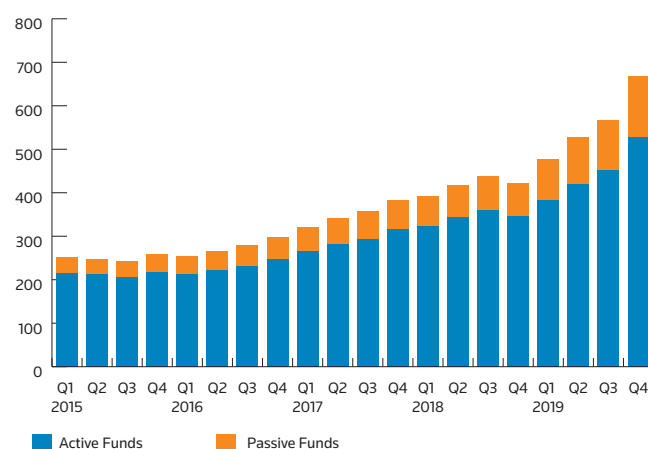
“We’re keen on developing this business. But it’s not a cookie cutter type of solution. You have to define with each client relevant and ambitious ESG goals,” said Millat.

Others agree banks need to be careful about not copy and pasting deals, but instead focusing on individual clients’ approach to sustainability and ensuring the derivatives contract is appropriate. That could mean uptake of ESG products in these markets will be more gradual.

“It’s not something that should become too commoditised,” said BNPP’s Queniat. ■

EUROPEAN SUSTAINABLE FUND ASSETS

(€BN)



Source: Morningstar

CAREFUL HEDGING

Bankers have also been busy pitching ESG derivatives

coloured, with the exception of financial institutions, and this feeds into an adjusted version of risk weighted assets, return on equity and cost of capital.

The colour weightings reduce RWA by up to 50% for green deals while brown deals face higher RWAs of up to 24%, which can make them less profitable, as returns are impacted by higher capital costs.

Colouring is compulsory before deals go to credit committees. The weightings provide an additional decision-making tool that does not necessarily require action, but gives an alternative view of deals that are adjusted for their environmental impact.

That is changing the status quo, said Azoulay. “Now that we are systematically presenting an adjusted vision of capital consumption and derived profitability of each of our

financings to non-financial sectors, the discussion regarding how green or brown a deal is arising very often in credit committees and thus increases the scrutiny of our decision makers.”

The weightings are also helping Natixis to define its own targets and key performance indicators and change the composition of its balance sheet by setting mixed colour targets at the business level and for the corporate and investment bank, which will help with more systematic monitoring.

When the Green Weighting Factor was introduced, the bank’s risk weighted assets were 25% green, 25% neutral and 50% brown. Like many of its peers, Natixis wants to transition brown companies and its balance sheet towards green.

The bank is close to completing the huge task of colouring its balance sheet after

running an impact study on 70% of its exposure, and is working on the remaining 30%, which will ultimately produce a mix of colours reflecting the amounts originated and what is kept on balance sheet.

Natixis is also setting its own KPIs, which are expected to be transformational targets focusing on the pace of change.

The colour mix will then be matched with a two-degree trajectory for global warming that will determine how the weightings will be used to align Natixis’ balance sheet to that scenario.

NOT ALONE

Natixis is not alone in developing methods to allocate capital and increase ESG lending, but other banks are focusing on methods including liquidity cost incentives for green sectors and ESG risk-screening tools that judge clients’ ESG performance.

The bank is committed to sharing its system with fellow signatories to the UN’s Principles of Responsible Banking, which was signed in New York in September, and Natixis’ sustainability bankers are spending around a third of their time explaining it to peers’ funding and sustainability teams and CEOs.

The methodology and calibration of the Green Weighting Factor is attracting interest from regulators in Europe and Asia who are discussing introducing regulatory capital requirements and adjustments based on environmental performance.

Interest from industrial companies on how they are being rated was less expected, and companies have also been asking for detailed examples.

“It’s an incredible change-management tool,” Azoulay said. ■

Kraft downgrade hurts tender trades

■ **Bonds** Investors grow distrustful of liability management deals designed to protect ratings

BY WILLIAM HOFFMAN

The fall of **KRAFT HEINZ** to high-yield is a worst-case scenario for investors who put their faith behind liability management exercises that were expected to save it from such a fate.

In 2019 companies such as Kraft were praised for their ability to issue long-dated debt that funded tender offers for shorter maturities.

This was supposed to give them a runway to grow sales, sell assets and cut dividends as a way to deleverage and ultimately maintain investment grade ratings.

Bondholders gladly participated in those liability management trades based on those expectations.

But with Kraft falling into junk territory last week some investors are regretting such assumptions and questioning

the long-term strategies of Kraft and other issuers on the cusp of junk ratings.

“Was that a prudent move by a company to manage its front-end maturities or was it a move to prepare itself to exist and live as a high-yield company without investment-grade ratings?” asked Jason Shoup, senior portfolio manager at Legal & General Investment Management America.

“We don’t know yet, but Kraft Heinz illustrates that there are examples of the latter out there.”

IG COMMITMENTS

Before Fitch and S&P dropped Kraft’s nearly US\$30bn of debt to BB+ earlier this month, the company priced a US\$3bn three-part bond in September to part-refinance close to US\$10bn in short and medium-term debt.

Despite credit concerns, order books swelled to US\$16.2bn in part because former CFO David Knopf said in an earnings call that the company was committed to its investment-grade ratings and that it had sufficient cashflows to deleverage and pay dividends.

“If you had told those same investors [from September], ‘We might not be committed to investment grade’, the cost at which they extended that debt and created that runway would have been totally different,” Shoup said.

“Any creditor wants to make sure companies are able to do things to enhance their creditworthiness and removing front-end debt tends to do that. But if at the same time that removes an incentive to remain investment grade we’ll have to be very careful about doing that in the future.”

Kraft’s liability management exercises reduced its debt maturities to US\$1bn in each of 2020 and 2021 with another US\$2.1bn maturing in 2022, according to CreditSights.

Ultimately such moves have left the company in a comfortable position to handle short-term maturities as a high-yield credit, Barclays analysts said in a research note.

Kraft generated free cashflow of US\$1.05bn last year and held US\$2.3bn on hand at the end of the year to cover its maturities, the report added.

And Kraft has been reiterating a similar mantra, only without its commitment to an investment grade.

“We believe it’s important to Kraft Heinz shareholders to maintain our dividend during this time of transformation,” Michael Mullen, SVP of corporate affairs, said in

Virus puts dampener on Jaguar bond plan

■ **Bonds** Investors shy away from China-related auto risk

BY DAVID BELL, ELEANOR DUNCAN

JAGUAR LAND ROVER’s first foray into the US dollar bond market in three years looks unlikely to go ahead after the UK carmaker was hit with negative headlines about the effect of the coronavirus on its supply chains.

Jaguar had been on the road since February 10 visiting US bond buyers to sound out appetite for a senior unsecured US dollar bond, according to several investors. The company has also met with European investors.

Feedback for the potential coupon on a US dollar deal was in the 7.5%–8% range, according to two of those investors. The company had been testing appetite for an eight-year non-call life bond.

However, it looks like those plans have been scuppered by news that Jaguar’s supply chain has been hit by the coronavirus

outbreak, which has led to widespread shutdowns and disruption at manufacturing facilities in China and elsewhere.

A US-based investor told IFR that Jaguar’s potential US dollar bond has been postponed because of worries over the impact of the virus on production. Several other investors said they no longer expect a US dollar bond to be launched.

On Tuesday, Jaguar chief executive Ralf Speth told reporters that the company has had to fly parts in suitcases from China to the UK to maintain production – and could run out after two weeks as the impact of the coronavirus hits.

“I wasn’t surprised that Jaguar was marketing a US dollar bond because they have a compelling story to tell: the last couple of quarters have been relatively solid, and JLR is turning a corner in terms of margins,” said a London-based fund manager.

“Equally, I wouldn’t want to try and print an auto deal in a China-related name now. JLR has a ton of liquidity. It would make sense to postpone any deal.”

A Jaguar spokesperson said: “No launch of a transaction was announced at the time of the roadshow. The meetings with US investors were planned as a non-deal roadshow to lay the groundwork for a time when conditions are judged to be favourable.”

If the deal had gone ahead, it would have been Jaguar’s first in US dollars since October 2017, according to IFR data.

AMERICAN DREAM

Jaguar made two successful visits to the European high-yield bond market at the end of 2019. Investor response to Jaguar’s €800m high-yield euro bond in November was so strong that it was able to

increase the size of the deal by adding a second tranche. It tapped those 2026s again in December.

“That euro bond was Jaguar’s first time in the market in a little while. The roadshow was very polished and it had a very compelling story to tell,” said the fund manager.

The company has been indicating that it wanted to raise debt in the US dollar bond market since January. A big chunk of JLR’s revenues are in US dollars, so the company has a structural need for dollar liabilities.

“The US dollar bond roadshow was just an extension [of the euro momentum], but the coronavirus headlines interfered,” said the fund manager. “If you have a good turnaround story to tell, why would you stay on the road and have it dominated by coronavirus – something no one knows the answer to?”

response to questions about investor concerns.

"We also remain committed to reducing leverage over time as we reposition the company for sustainable growth and returns."

Indeed, clinging to an investment-grade rating may have made little sense for Kraft given the buoyant backdrop for junk credits.

With the BBB-BB spread differential hovering at 73bp, near post-financial crisis lows, according to ICE BofA data, the cost of a downgrade to junk has become less painful.

REMAINING COMMITTED

Even so, other companies seem less willing to forgo their investment-grade rating.

ANHEUSER-BUSCH INBEV kicked off the liability management trend last year with a US\$15.5bn deal but, unlike Kraft, seems to be protecting its investment grade ratings.

The bonds have tightened as the company paid down debt through the sale of its

Australian subsidiary for US\$11.3bn and the IPO of its Asia unit that raised US\$5bn.

Still, investors worry about AB InBev's connection to Kraft. Both companies are owned by Brazilian investment firm **3G CAPITAL** and in July Miguel Patricio came from Anheuser-Busch to take the CEO job at Kraft.

There are a host of other cuspy Triple B names that have issued liability management trades in the past year that could be called into question, including Mexican petroleum company **PEMEX**, retailer **MACY'S** and midstream company **EQT**, which recently received its second high-yield rating.

"What we saw last week with Kraft Heinz is a reminder that you need to be able to go in there and do that credit work and understand the incentives of management teams," one investor said.

"In Kraft Heinz's case clearly they were comfortable with a slide in their credit rating." ■

The fund manager said that he saw talk of 7.5%–8% as "relatively tight" for a US bond issue.

Jaguar has an outstanding 6.875% November 2026 euro-denominated bond that was bid at 5.9% on Monday, according to Tradeweb data.

After the chief executive raised Jaguar's supply chain issues on Tuesday, the bond widened sharply – to 6.5%.

According to the fund manager's calculations, that six-year bond would be swapped to US dollars at 8.5%.

"You can get 8.5% for six-year JLR risk in the market now – unless there is really strong appetite for risk, why would anyone want to receive less of a yield for something two years longer?" he said.

CORONAVIRUS IMPACT?

A European high-yield syndicate banker said that he is advising coronavirus-impacted companies not to try their luck in primary for now.

"It comes down to the amount of exposure that a borrower has,

and how direct it is," said the banker. "But it makes sense for certain companies not to look to issue in this market."

For now, the numbers are not looking good for China-related auto companies.

China's auto market, the world's largest, is likely to see sales slide more than 10% in the first half of 2020 because of the epidemic, according to Reuters.

Fiat Chrysler, Hyundai and General Motors have all said that their auto production lines have been – or could be – hit by Chinese factories that have been slow to restart because of the virus.

Components made in China are used in millions of vehicles assembled around the world, and Hubei province – the centre of the virus outbreak – is a major hub for vehicle parts production and shipments.

"It's a coin toss as to whether we'll see headlines in three months saying 'Vaccine Found: World Saved!' or 'Coronavirus Uncontainable: No Hope!'," said the fund manager. ■

Transition costs to vary dramatically

■ **People & Markets** Uneven costs to clean up heavy industry

BY TESSA WALSH

Regulators and governments are turning their focus on decarbonising heavy industrial companies, but the daunting and varying cost of cutting emissions could produce very different results depending where companies and assets are located, according to Fitch.

High emitting companies including steel, cement, ammonia fertilisers and ethylene manufacturers produce about half of all industrial carbon emissions and are particularly vulnerable to rising costs due to higher energy and carbon prices.

Progress has been made on greening power generation by focusing on energy efficiency and the increased use of renewables, as well switching to gas from coal, but the risk and cost of transitioning industrial companies is only just starting to be priced in.

Industry is feeling the pressure of rising carbon prices in the form of higher energy costs, while carbon capture and storage and offsetting mechanisms could take two to five years to be effective, the report said.

"Pressures are most acute in the European steel sector, but fertiliser producers are particularly exposed given their high carbon intensity and exposure to international competition," said David McNeil, associate director of sustainable finance at Fitch.

Steel producers in China, the EU and Japan are particularly exposed due to the cost of adapting carbon-intensive furnaces.

Reducing emissions is difficult and expensive as manufacturers have a limited ability to pass costs on to customers, and strong political pressure could have an uneven impact on companies.

Comparing the technology cost of mitigating emissions against higher energy and carbon prices will help companies to

adapt and invest, and the right capex and technology decisions are critical to curb exposure to higher prices.

"Depending on technology choices and where assets are based, you can have very different compliance costs if the full impact of carbon regulation starts to bite – capex decisions are key," McNeil said.

ThyssenKrupp is exploring switching to hydrogen produced by renewable power as an alternative to fire furnaces, for example, but the costs of this switch in its European operations are estimated at over €10bn, which could double the cost of steel. The investment could be uneconomic without state aid.

Regulation is expected to reduce the cost of capital for low carbon investment over time and the cost of new technology can also be reduced by policy support from governments.

REGULATORY ROLE

The regulatory environment in operating locations can offer some protection against changes in the price of carbon as companies scramble to meet emissions targets.

Countries with a large share of renewables in the grid, such as Sweden and France, are less affected. Access to low-carbon electricity and feedstocks including biomass, cement clinker alternatives and scrap metal will also help.

Large exporters of low margin, trade-sensitive commodities are particularly exposed to rising energy and compliance costs and have less ability to pass them on to customers.

Many are already facing difficult market conditions and margin pressure, and there is growing evidence of "carbon leakage" – a shift in consumption of goods towards more lightly regulated production locations. ■

Lenders grapple with virus fallout

■ **Loans** Novel strategies in focus as syndicated lending in Asia stalls

BY LPC REPORTERS

The uncertain fallout from the coronavirus outbreak in China has paralysed loan syndications across Asia, as lenders struggle to assess the damage to Chinese businesses and borrowers that rely heavily on Chinese demand.

China has locked down entire cities and restricted travel to limit the spread of the epidemic, with serious implications for Chinese companies and global supply chains. US technology giant Apple warned that it would not meet its revenue guidance for the March quarter because of slower iPhone production and weaker demand in China.

Companies that rely heavily on Chinese tourists are also at risk, as dozens of countries and airlines have imposed travel restrictions.

"Some of our loans brewing before the Lunar New Year holidays are on hold now

because some of our Chinese clients are still on leave and their factories remain shut," said a banker from an international bank.

Lenders are struggling to obtain credit approvals for the worst-affected sectors, which means loans that are already in the market could face delays. The planned syndication of a loan for a REIT with a portfolio of mainland Chinese properties has been pushed back indefinitely.

The impact on the loan market has spread far outside China. **SCAPE AUSTRALIA MANAGEMENT** is said to have extended the deadline on a loan of about A\$1.4bn (US\$968m) for its acquisition of a portfolio of student housing run by Urbanest to allow prospective lenders more time to assess the potential impact to the business, given that a large percentage of the students are from China.

A US\$68.5m five-year loan to refinance a construction loan for

the Waldorf Astoria hotel in Bangkok for Thai high-end real estate developer **DTGO** is also being closely watched.

"A few clients are increasingly opting for club loans instead of syndicated deals or requesting us to pre-fund syndicated loans with delayed roadshows," said one Jakarta-based banker.

Macau's gaming sector is also in the spotlight after the city's government closed all casinos for 15 days earlier this month. Some were allowed to reopen last week, but with strict limits on table numbers and mandatory health checks for punters and staff. Weekly tourist arrivals to the city in early February were down as much as 98% on last year.

MGM CHINA HOLDINGS last week asked lenders to waive the leverage covenants on a HK\$9.75bn (US\$1.24bn) loan for the next 12 months.

"If the situation drags on and affects cashflows, borrowers will

seek waivers and deferred repayments. It is not a given that every borrower will succeed in obtaining the same, but this period will demonstrate to them how much support they can extract from lenders," said a senior loans banker in Singapore.

The new coronavirus disease, named Covid-19, has killed more than 2,100 people and infected over 75,000, mostly in Hubei province in central China. That makes it more deadly than the 2003 outbreak of Severe Acute Respiratory Syndrome, or Sars, caused by another coronavirus, which killed 774 people, including almost 300 in Hong Kong.

WEB PRESENTATIONS

Roadshows and bank meetings for loans from at least three Asian borrowers have been switched to dial-in conferences – a development unheard of in a region where attendees view such events as

Follow-on rules get a following

■ **Equities** China eases restrictions to help listed companies access additional capital

BY KAREN TIAN, FIONA LAU

Dozens of Chinese companies have announced or amended follow-on offerings in the past week, taking advantage of new rules making it easier to raise funds amid the coronavirus outbreak.

Thirteen listed companies have announced plans to sell more shares since the China Securities Regulatory Commission introduced new rules on equity refinancing on February 14, with the goal of enhancing the role of the capital markets in serving the real economy.

At least another 44 have updated existing filings to reflect the new, more flexible issuance rules.

Although most of the reforms had been flagged in a month-

long market consultation last November, the regulator explicitly linked the move to the virus outbreak, saying that the changes would help listed companies fight the epidemic and resume manufacturing.

"Market participants generally welcome the implementation of the new rules at the moment as stock markets are holding up quite well despite the outbreak," said a Beijing-based banker.

As of last Thursday, the Shanghai Composite Index was up 1.76% in the month to-date thanks to government measures to support the economy.

The new rules give listed companies much more flexibility to raise funds from follow-on offerings, removing barriers that had made the

A-share market unattractive for capital-intensive sectors such as technology and healthcare.

Issuers can now sell new shares equal to up to 30% of their existing capital in a follow-on offering, up from the previous 20% and a surprise relaxation from the changes put out to consultation last year.

The floor price for a follow-on offering will be 80% of the 20-day average before the pricing day, down from the previous 90%.

The lock-up period for investors in private placements will be shortened to six to 18 months from 12 to 36 months. Also, up to 35 investors can participate in a private placement, up from five to 10 under previous rules.

"The shorter lock-up period and the size of the discount are

the two most important parts of the new rules," said the banker.

Companies can decide whether to set the price on the day they win board or shareholder approval, or on the first day of the offering as required under the previous rules.

Regulatory approvals will be valid for 12 months, up from the previous six, again giving companies more flexibility to time their capital raisings based on market conditions and their share price performance.

FUNDRAISING RUSH

"If I had a listed company, I would definitely carry out a follow-on now as A-share markets have been really good lately. It's a good chance to do deals," said one analyst.

ASYMCHAM LABORATORIES (TIANJIN), **FUJIAN YUANLI ACTIVE CARBON** and **WUXI LONGSHENG TECHNOLOGY** were first to react to the new rules by announcing amended follow-on plans on February 16.

an opportunity to establish or enhance their relationships with borrowers.

TRANS RETAIL INDONESIA, a unit of Indonesian conglomerate Trans Corp, held a webinar last Wednesday, rather than a bank meeting, as part of its pitch to potential lenders for a US\$740m-equivalent five-year dual-currency loan. More than 150 bankers participated in the webinar.

China's state-owned **BEIJING CONSTRUCTION ENGINEERING GROUP** held a conference call on February 7 for a US\$100m three-year loan, while **VIETNAM TECHNOLOGICAL & COMMERCIAL JOINT STOCK BANK** (Techcombank) is doing the same on March 2 for a US\$300m three-year debut loan.

"In my nearly two decades in this industry, I have not come across any instance of a roadshow being conducted in this way," said a senior loans banker in Hong Kong. "The coronavirus is really hitting everyone hard."

SARS EXPERIENCE

Back in 2003, Sars dented appetite for loans in the

property and hospitality sectors in Hong Kong and Singapore. Hong Kong, in particular, bore the brunt and loan volumes tumbled 44% year-on-year for the first half of the year to just US\$7.3bn, according to Refinitiv LPC data.

Blue-chip property borrowers, however, retained the support of their banks. Some of the biggest loans in Hong Kong in 2003 were from Sun Hung Kai Properties, NWS Holdings, Hang Lung Properties and Hongkong Land, among others.

This year's coronavirus outbreak has hurt the banking hubs of Hong Kong and Singapore in equal measure. Volumes are expected to take a hit as lenders become selective, especially when it comes to debut borrowers.

That does not bode well for a region that is already reeling from the trade war between China and the US that has been raging for nearly two years. Loan volumes from Asia (ex-Japan) in 2019 dropped 4.25% year-on-year to US\$464.24bn despite Hong Kong posting an all-time record of US\$137.48bn. ■

Asymchem managed to attract Hillhouse Capital Management as a strategic investor for Rmb2.3bn (US\$331m) as the company can now sell shares at a deeper discount. The pharmaceutical research and development services provider originally planned to sell shares to up to 10 investors.

ChiNext-listed Yuanli Active Carbon and Longsheng Tech also quickly amended their respective Rmb883m and Rmb230m proposals.

They increased the proposed offerings to 30% of their existing capital from 20%, raised the number of proposed investors to 35 from five, decreased the floor price of the offerings to 80% of the 20-day average before the pricing day, from 90%, and amended the lock-up period to six months from 12 months.

The market reacted positively, with shares in all three companies hitting the 10%

cap on one-day gains last Monday.

Among the 50-plus companies that have since issued new, or updated, filings, **BANK OF NINGBO** is also seeking shareholder approval to amend the terms of a planned Rmb8bn private placement.

The bank, which counts OCBC Bank Singapore as its second-largest shareholder, passed a CSRC hearing for the deal in October but has not opened it up to subscription yet.

It is proposing to increase the number of potential investors to up to 35 and to decrease the floor price to 80% of the 20-day average trading price.

As of February 13, 109 companies with a combined Rmb234bn target were in the queue for a CSRC review of their planned private share placements. Of these, 24 have cleared CSRC hearings, 82 are under review, and three are on hold. ■

Sydney Airport puts ESG bonds on radar

■ Bonds Australian airport sells debut sustainable issue

BY JOHN WEAVERS

SYDNEY AIRPORT raised A\$600m (US\$402m) equivalent from a multi-tranche US private placement that included the first sustainability-linked bond issue outside of Europe.

The A\$100m 20-year tranche comes with an innovative two-way pricing structure, whereby interest rate payments will rise or fall depending on Sydney Airport's sustainability performance, as assessed by independent third party Sustainalytics.

Sydney Airport told IFR that its climate resilience, electrification and airspace and airfield efficiency programmes will facilitate continued progress across the metrics identified by Sustainalytics.

"Our sustainability-linked tranche reinforces our commitment to sustainability leadership and provides additional motivation to drive further improvement in our sustainability performance," said Sydney Airport CFO Greg Botham.

NAB, MUFG and Scotiabank were agents on the deal.

A banker close to the transaction said sustainability-linked pricing aimed to drive behavioural changes in companies by incentivising good practices and disincentivising poor behaviour.

Variable pricing is rare in the bond market, but interest has been growing since Italian energy company Enel launched a US dollar benchmark last September. In Enel's case, the coupon will step up by 25bp if it fails to increase renewable energy to at least 55% of its installed capacity by the end of 2021.

Sustainability-linked instruments are seen by many as complementary to traditional ESG bonds and of particular benefit to issuers that would otherwise not be able to sell traditional green bonds, although some in the market see the structure as a backdoor way for companies that can never be environmentally

friendly to burnish their ESG credentials.

"Once the structure is understood, it is just a matter of bringing buyers and sellers together," said Geoff Schmidt, general manager of corporate finance for North America at NAB. "This tranche was driven by two investors but there are many more interested in ESG-linked deals."

Matthew Carr, MUFG's head of DCM for Australia and New Zealand, said the deal was "an outstanding outcome providing a direct link between the airport's sustainability performance and its funding costs".

Last May, Sydney Airport raised A\$1.4bn through a multi-tranche sustainability-linked loan, the largest such syndicated financing for the airport sector globally, comprising A\$570m three-year, A\$530m four-year and A\$300m five-year portions.

The proceeds of the new bonds will be used to repay all drawn bank debt, unlock additional liquidity to cover future debt maturities and fund planned investment, according to the airport.

RECEPTIVE MARKET

In addition to the A\$100m of 20-year sustainability-linked bonds, Sydney Airport raised A\$220m and A\$120m from standard 20-year and 30-year bond tranches.

The busiest airport in Australia also sold US\$50m and €50m of 15-year bonds, with all five tranches having four-month settlement periods that close in June.

This was Sydney Airport's third transaction in the US private placement market, following A\$380m and A\$400m trades in 2014 and 2018.

Though pricing details were not released, Sydney Airport stressed that the new bonds benefited from a more than 150bp decline in Australian dollar base rates since its previous US private placement in October 2018. ■

Loan market buoyed by DP World

■ **Loans** Citigroup and Deutsche Bank underwrite US\$8bn loan that will be sold to relationship banks

BY SANDRINE BRADLEY

Appetite for a US\$8.1bn loan backing the privatisation of the UAE's global port operator **DP WORLD** is expected to be strong as the Middle East gears up its first multi-billion dollar syndicated loan of 2020.

The facility, underwritten by *Citigroup* and *Deutsche Bank*, comprises three acquisition finance facilities with tenors of up to three years and a US\$3bn five-year term loan.

It will be syndicated to a group of DP World's relationship banks, which include Abu Dhabi Commercial Bank, MUFG, Emirates NBD, First Abu Dhabi Bank and HSBC.

"DP World has an established bank group. There will be appetite for this. It will be the first significant transaction in

the region this year," a banker said.

A second banker said: "DP World is a very important client. There will be pressure on us all for them to achieve what they want."

Dubai has announced that one of its state companies, **PORT AND FREE ZONE WORLD**, part of state investment vehicle Dubai World, will buy publicly listed shares of DP World in a deal with a US\$13.9bn valuation.

Dubai World agreed an historic US\$25bn debt restructuring in 2011 after Dubai was hit by the global financial crisis.

The new debt includes US\$2.7bn for the purchase of the listed shares and the refinancing of some debt maturities, and US\$5.15bn that DP World will borrow to fund a

dividend to Dubai World, the sole shareholder of PFZW, to repay, at par, all remaining debt it owes to commercial banks following the debt restructuring.

Under the terms of the 2011 restructuring, creditors placed restrictions on Dubai World's subsidiaries, which DP World was able to side-step as a listed company. By repaying these creditors, DP World will be freed of these restrictions.

Up to US\$300m of the loan will also be used for the potential redemption of DP World's convertible bonds and for general corporate purposes.

TAKE OUT

DP World said it would look to refinance some of the debt in the capital markets with longer maturities, with options

including the senior unsecured bond or hybrid bond markets.

"DP World is a very important client. There will be pressure on us all for them to achieve what they want"

DP World's planned de-listing will add leverage to the company, which prompted Moody's and Fitch to take action following the offer - placing DP World's Baa1 rating under review and its BBB+ rating on watch negative, respectively.

"The sizeable dividend payment to Dubai World breaks our current assumption that DP World's credit profile is unaffected by the debt burden at the level of Dubai World," Moody's said.

Mexico brings twist to LatAm ESG deals

■ **Emerging Markets** Mexico takes another stab at ESG debt after controversial Mexico City bonds

BY PAUL KILBY, TESSA WALSH

MEXICO may soon bring its own twist to a rising tide of Latin American sovereigns tapping the bond market for environmental, social and governance needs.

Just over a year since its controversial restructuring of green bonds issued by Mexico City Airport, the Mexican government is taking another stab at the evolving asset class.

It will meet European investors this week to unveil its new framework for sovereign bonds linked to sustainable development goals amid expectations that an SDG-linked deal will follow.

Mexico may not be the first Latin American country to bring a bond issue linked to sustainability goals - Single B rated Ecuador surprisingly

has that honour, albeit through a small zero-coupon structure.

But Mexico has added some unique hurdles designed to ensure that specific sustainability goals are met, said bankers on the deal.

The idea is that proceeds will be used to fund eligible social and green expenditure under a framework aligned with the United Nation's own SDG goals and independently checked by ESG specialist Vigeo Eiris.

"It embeds the work that the Mexican government has done on mapping their budgets against the SDGs," said Orith Azoulay, global head of the CIB green and sustainable hub at *Natixis*, sole structuring adviser and lead along with *BNP Paribas* and *Credit Agricole*.

"You will also see an opinion from the United Nations on the

alignment with SDGs of the whole framework and the eligibility criteria, which is a new feature and which we think sends a strong message."

The philosophy behind the SDG framework is to have countries design their own criteria but have demonstrable targets that require some effort.

That is important at a time when the asset class is coming under increasing scrutiny for its lack of clear definable goals on deals and for not holding borrowers' feet sufficiently to the fire when it comes to their ESG strategies.

SOCIAL PRIORITIES

"The eligibility criteria prioritise vulnerable populations living in landlocked or disadvantaged areas, focusing their use of proceeds to where the SDG gaps are the most acute - so that's new," said Azoulay.

Such social priorities fit well with the policies of Mexico's populist president Andres Manuel Lopez Obrador, better known as AMLO, who was swept to power on an anti-corruption platform and promises to help the down-trodden.

AMLO famously halted the construction of a new Mexico City airport after declaring that the US\$13bn project - started under the prior administration - was corrupt.

The holders of the green bonds that financed the project were in turn forced to restructure the debt, leaving the rating agencies withdrawing their green evaluations amid increasing discontent among investors.

It is hoped that this time things will be different, at least in terms of how the government approaches its SDG agenda.

There are, however, covenants that prevent further dividends being made to Dubai World from PFZW until DP World's net leverage falls below four times.

PFZW said it and DP World were committed to a progressive deleveraging strategy.

"PFZW and DP World will target below four times net debt/adjusted Ebitda by the end of 2022 and a strong investment-grade rating for DP World in the medium term," PFZW said in a statement.

CAUTIOUS

While appetite for the deal among core relationship banks is likely to be strong, lenders outside the group remain cautious.

"DP World is a financially strong global business with a huge network around the world, but realistically every day of the week this is Dubai

risk for me," said a third banker. "It would be very tough for us to do this; it comes with too much baggage."

Once the delisting is complete, DP World will become the borrower and guarantor of the US\$8.1bn of net debt on top of its existing debt.

"I am sure that DP World has done its due diligence and will not be in a position where the added leverage makes it lose its investment-grade rating," the second banker said.

DP World's strategy to transform itself to a global supply chain services provider has seen it make a series of acquisitions in recent years, including Unifeeder, P&O Ferries, Continental Warehousing and Topaz Energy and Marine. This month it acquired a 51% stake in TIS Container Terminal in the Port of Yuzhny, Ukraine. ■

Social needs are now outflanking green projects in Mexico, where the new government is thought to be putting the transition to clean energy on hold as it seeks to rejuvenate state-owned oil company Pemex.

Green projects are viewed as "fifi" said one banker, referring to a Mexican term popularised by AMLO to mean "hoity-toity".

"The current administration doesn't have much incentive to buy into something green, but it does have an incentive to buy into something social," he said.

MOVING THE NEEDLE

By approaching European investors first, Mexico is going to the market that is most receptive and likely to move the needle most on pricing, given the relative abundance of accounts dedicated to buying ESG deals.

"You really want to target the darkest green investors you can find to really cheap funding costs," said the banker. "But that does have to come with a

commitment to have a framework that investors feel comfortable with."

That seems to have been the case with Chile, which was the first Latin American sovereign to issue green bonds, both in euros and US dollars.

"In the four out of six green bonds issued by the republic, we have observed negative or zero new issue premiums," said Andres Perez, Chile's head of international finance.

"[But] the negative new issue premium was more negative in the euro [deals] than the US tranches in 2019."

While Chile's choice of a green bond issue makes sense given the number of green projects in that country, SDG bonds might be the way forward for other sovereigns in Latin America, where protests have brought social issues to the fore.

"Some of the other sovereigns don't have enough green projects and want a broader umbrella of sustainability," said a second banker. ■

Aussie ECM roars back to life

■ **Equities** Five deals raise a combined A\$2.6bn in a week

BY CANDY CHAN

Undeterred by the coronavirus epidemic that has cast a shadow over the global economy, equity capital markets in Australia have been unusually active, and there may be more to come.

Last week, five primary and secondary follow-ons raised a combined A\$2.6bn

(US\$1.7bn), headlined by a A\$1.05bn Wesfarmers block trade in food and liquor retailer **COLES GROUP**.

"Market sentiment is strong, at least in the secondary market. The good reception shows investors are not too bothered by the virus," said a person close to one of the deals. "I'll expect more blocks and placements to come in the next couple of months."

As usual in the mature Australian market, many follow-on offerings are driven by mergers and acquisitions, which often happen during reporting months such as February, said another person close to the deals.

One example is a A\$500m equity raising by **ORICA**, an Australian supplier of explosives to mining and other industries, to fund the acquisition of Latin American peer Exsa.

Meanwhile **CHARTER HALL RETAIL REIT** has raised A\$90m from a placement to increase its stake in a portfolio of BP petrol stations in Australia.

Last week also saw **BENDIGO AND ADELAIDE BANK** raise A\$250m from a placement to strengthen its balance sheet and **VIVA ENERGY** sell its entire stake in Viva Energy REIT for A\$734m.

There were also smaller equity raisings from software service company **CITADEL** and healthcare company **RESAPP HEALTH**.

CASHING IN

Strong share prices have prompted some shareholders to

cash in. The ASX All Ordinaries index is up 6.3% in the year to-date and 16.3% over the past year.

Since they were spun off from Wesfarmers last year, Coles shares have risen by more than a third to a record high of A\$17.25 on February 11, leading the Perth-based conglomerate to offload a third of its stake a week later.

Similarly, Viva Energy REIT's shares hit a three-month high at A\$2.92 last Monday. Three days later, parent Viva Energy sold its entire 35.5% stake in the REIT.

Two Charter Hall entities acquired a combined 10% and the other 25.5% went to institutional investors through a block trade. Viva Energy said the divestment would enable future capital management activities, such as share buybacks.

Wesfarmers sold 65.4m shares or 4.9% of the outstanding in Coles at A\$16.08, a 4% discount to the pre-deal close. The stock slid to A\$16.04 the following day, before rising to A\$16.15 on Thursday.

Wesfarmers remains the second-largest shareholder in Coles with a 10.1% interest, which gives it the right to nominate a director to the Coles board.

Wesfarmers managing director Rob Scott said the partial sale had locked in a strong return for shareholders while maintaining the strategic alignment and collaboration between the two companies and enabling mutually beneficial growth initiatives.

Coles posted earnings before interest and tax of A\$725m for the half year to January 5, up slightly from A\$722m a year earlier.

Macquarie Capital and UBS were the joint bookrunners on the Coles block trade. ■

China issuers head off refi crunch

■ **Emerging Markets** Property developers among those turning to short-dated paper

BY DANIEL STANTON, CAROL CHAN

Several Chinese companies, especially from the property sector, are turning to the offshore bond market to avert a refinancing crunch as the coronavirus crisis continues.

Issuers with bonds coming due in the first half of 2020 are most at risk from the uncertain market environment, as the virus outbreak makes it hard to predict the impact on their business or their access to funding. Adding to their difficulties are delays in obtaining offshore bond quotas from the National Development and Reform Commission.

“Some are still working from home so there are some delays in obtaining approval signatures”

“The approval process seems to be taking longer,” said a banker from a Chinese bank. “There are officials in the office and we can reach them – however, I heard that some are still working from home so there are some delays in obtaining approval signatures.”

That has led some Chinese companies to sell US dollar bonds with maturities of less than one year, which do not require NDRC approval. Since the Lunar New Year holiday, seven issuers have sold such bonds, including five from the property sector.

ZHENRO PROPERTIES’ US\$200m 363-day offering on Wednesday was priced 52.5bp inside initial guidance at 5.6% and drew a huge US\$3bn order book.

Some may simply be using the structure so that they can take advantage of good market conditions that may have weakened by the time they have a fresh quota for longer-term funding, but others may have an urgent need for funds.

“I think more issuers, especially property developers, may seek to issue 363-day bonds to meet their liquidity needs, given the uncertainties in obtaining NDRC approval and the negative impact on their cashflows due to the coronavirus outbreak,” said the banker at a Chinese bank.

Another source from a European bank said that issuers were only issuing 363-day notes when they had genuine funding needs and sticking to sensible US\$200m–\$250m deal sizes.

“I’ve approached some developers advising them to issue 363-day bonds to take advantage of the low funding cost, but some of them refused and expressed concern over the refinancing pressure when the bonds are due,” he said. “It shows that issuers remain self-disciplined.”

BOND RUSH

Six Chinese property companies sold US dollar bonds last week, resuming a rush to market despite the travel restrictions that remain in place in mainland China. Issuers included **YANGO GROUP**, **MODERN LAND (CHINA)**, **CHINA SOUTH CITY** and Zhenro Properties, all Single B credits, proving that the offshore market remains open for low-rated borrowers.

Fitch has identified 10 Chinese companies that face high or moderate refinancing risks in the first half of the year.

Five are classed as high risk, and four of those are property developers: Yida China Holdings, which Fitch rates CCC; and Hydoo International Holding, Xinhua Zhongbao, Guorui Properties, all of which Fitch rates B–. The other, Hilong Holding (B+), which makes oil and gas drilling equipment, told Fitch it had enough cash and undrawn credit facilities to repay a US\$165m bond issue due in June, according to the rating agency.

“These companies will be likely to look to issue new debt to refinance their maturities, but if this is not possible they will endeavour to dispose of assets to maintain liquidity,” wrote Fitch.

The Chinese government has ordered homebuilders to close sales offices and stop construction in certain cities to contain the outbreak. China Evergrande Group, one of the country’s biggest developers, which also has one of the biggest offshore debt piles in the sector, cut the prices of its properties by 25% this month, though it did not give specific reasons for the discounts.

Fitch wrote that smaller homebuilders that find it difficult to access funding will be the most affected by refinancing pressures.

The upcoming maturity of a US\$300m bond issue on April 19 is not Yida’s only problem: the US dollar bonds dropped four points to 68/72 on Friday after it disclosed that executive director Chen Donghui had been detained by the Public Security Bureau. No further details were announced.

Hydoo has a US\$45m bond issue due on May 9, Xinhua Zhongbao has US\$648m of bonds due March 1, and Guorui has US\$30m of bonds due March 21 and a US\$100m issue due June 7.

ONSHORE STRESS

Fitch also identified five issuers with moderate refinancing risks in the first half of the year: Yunnan Provincial Energy Investment Group, China Grand Automotive Services Holdings, Century Sunshine Group Holdings, and property companies Hong Yang Group and Oceanwide Holdings.

Yunnan Energy has Rmb7bn (US\$1bn) of onshore bond maturities in the first half exceeding its forecast cash balance at the end of 2019,

according to Fitch, but the rating agency says the refinancing risk is manageable because most of it is short-term commercial paper, which is easier to roll over than long-dated paper.

Developers Hong Yang and Oceanwide have first half maturities of US\$250m and Rmb1.7bn, respectively.

“It shows that issuers remain self-disciplined”

Earlier this month, research provider CreditSights wrote that the onshore repo market could indicate which developers faced funding stress.

Bondholders can sell securities and buy them back at a higher price as a form of short-term lending. The stock exchange repo market is open to participants including non-bank financial institutions, corporates and retail investors, and has a shorter settlement period than the wholesale repo market, making it quicker to react to market sentiment.

The stock exchange repo market imposes a haircut on the value of the bonds pledged as collateral, determined partly by the China Securities Depository and Clearing Corp based on credit ratings and bond covenants, and partly by historical trading prices.

Corporate bond repos start at 0.70–0.95 times the value of the collateral, so CreditSights argues that if a particular issuer’s pledge ratio is cut to 0.5 times or lower it indicates that the CSDC or onshore investors have concerns about funding stress.

Property developers Tahoe Group, Sunshine 100, Modern Land, Jingrui, Fantasia, Xinhua Zhongbao and Greenland Group all have pledge ratios below 0.5 times, it wrote. ■

People & Markets



16 US presidential candidate Michael Bloomberg supports a financial transactions tax, but critics say it's just to win left-leaning voters



17 Viswas Raghavan is named co-head of global investment banking at JP Morgan alongside James Casey



21 Mexico is a rare bright spot for HSBC, with rising profits and returns - eight years after a scandal there rocked the bank

FRONT STORY LEADERSHIP

UBS goes Dutch with Hamers

ING boss will replace Ermotti as UBS CEO in November

UBS has picked Ralph Hamers, chief executive of Dutch bank ING, to take over as chief executive later this year from Sergio Ermotti at the helm of Switzerland's biggest bank.

Hamers started at ING as a structured finance banker 29 years ago and the Dutch national has been praised for making ING one of the most digitally advanced banks and steering it to profitability and repaying a government bailout during his six years as CEO. He is 53 years old.

Ermotti has run UBS for almost nine years. The former investment banker won plaudits for turning around its fortunes, shrinking the investment bank and making it the world's biggest wealth manager by assets under management.

UBS and ING made the surprise announcement late on Wednesday, after ING had mysteriously pulled a bond sale – sparking rumours and prompting a 4% skid in its share price.

Hamers will take over from Ermotti on November 1. He will leave ING at the end of June and join the UBS board on September 1.

UBS chairman Axel Weber said Hamers was the right person, the right cultural fit and had experience running a similar sized bank, with all the regulatory issues that are involved. UBS's market value is US\$51bn and ING's is US\$42bn, ranking them as Europe's sixth and seventh largest banks, respectively.

"Under his leadership ING implemented a fundamental shift in its operating model and is considered one of the best examples of digital innovation in the banking sector," Weber told reporters on a conference call.

Weber said the search for a new CEO began 15 months ago and Ermotti had been involved in the assessment of internal and external candidates.

PAY JUMP

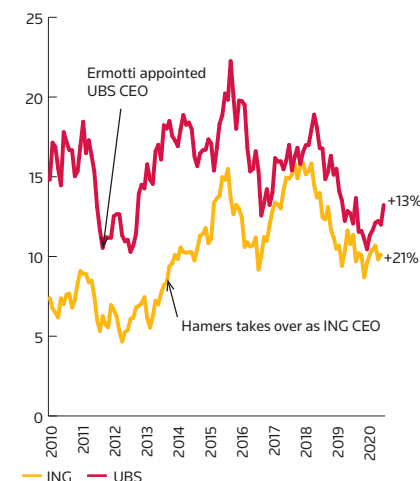
Hamers started at ING in 1991 as a relationship manager in structured finance in its global clients division. He was appointed head of the media finance group and deputy general manager for global lending risk management.

"I grew up on the corporate and investment banking side of ING," Hamers said, when asked if he lacked experience in wealth management and investment banking.

He was appointed CEO in October 2013 and implemented a shift in strategy that centred on digital innovation, which is seen as a key attraction for UBS.

Hamers is set for a huge pay rise from his move. Pay is capped at Dutch banks and Hamers was paid €1.75m (US\$1.9m) in 2018. Ermotti received US\$14.4m.

UBS SHARES UP 13% UNDER SERGIO ERMOTTI, ING SHARES UP 21% UNDER RALPH HAMERS



Source: Eikon data. UBS shares in SFr, ING in €

Asked if the chance to increase his pay seven-fold was a factor, Hamers told reporters: "It's a professional challenge that is very attractive."

Weber said pay was not a factor in UBS's choice. "It's not about money. It's about passing the baton on to the next generation... If he performs well, he will get paid well," Weber said.

"UBS UNRECOGNISABLE"

Ermotti has been UBS CEO since September 2011, shortly after the 59-year-old Swiss national joined the bank to run its business in EMEA.

Ermotti began his career at Merrill Lynch in 1987 and moved up the ranks in equity derivatives and capital markets, becoming co-head of equities. He joined UniCredit in 2005 and ran its corporate and investment bank.

Weber said Ermotti had led the bank's bounce back from a tough period and overhauled its culture, and will leave it with good growth prospects. "The firm is unrecognisable today from where the company was when we inherited it," said Weber. Weber became chairman in 2012 and is expected to remain until 2022.

UBS missed its profit and cost targets for 2019, however, and cut its profitability goals. It is also facing a €4.5bn fine in a French tax fraud case, which it is fighting and will go to court this summer.

UBS follows its arch-rival Credit Suisse in announcing a change at the top this month. It replaced Tidjane Thiam as CEO with Thomas Gottstein after a spying scandal.

UBS shares are up 13% from when Ermotti took over, after surging as high as SFr22.25 in 2015. ING shares are up 21% from when Hamers took over as CEO.

Steve Slater

“It’s a professional challenge that is very attractive”

NEW UBS CEO RALPH HAMERS, DOWNPLAYING AN EXPECTED SEVEN-FOLD PAY INCREASE, P15

Morgan Stanley grabs E*Trade for US\$13bn

MORGAN STANLEY has agreed to buy **E*TRADE FINANCIAL** for US\$13bn in an all-stock deal that will add about US\$56bn of low-cost deposits to the investment bank’s balance sheet, a 30% increase providing a significant funding benefit.

“This continues the decade-long transition of our firm to a more balance sheet-light business mix, emphasising more durable sources of revenue,” said Morgan Stanley chief executive James Gorman.

Under the terms of the agreement, E*Trade shareholders will receive 1.0432 Morgan Stanley shares for each E*Trade share, valuing E*Trade at US\$58.74 a share.

The combination will ramp up the scale of Morgan Stanley’s wealth management franchise, adding E*Trade’s five million

client accounts with more than US\$360bn of retail assets, to Morgan Stanley’s existing three million client relationships and US\$2.7trn of client assets.

Gorman called the deal a leap forward in the bank’s wealth management strategy.

“The combination adds an iconic brand in the direct-to-consumer channel to our leading adviser-driven model,” Gorman said. The merger helps position Morgan Stanley as a top player across financial advisory, self-directed wealth management and workplace wealth management, Gorman said.

SHIFTING MIX

Morgan Stanley last year bought Solium Capital, the Canadian employee stock plans manager in

a bid to build its wealth management brand with young affluent workers.

“This is a clear indication that the Solium integration is going very well and this is a strong channel for customer acquisition and a logical extension of wealth management capabilities,” said UBS bank analyst Brennan Hawken.

“We like this deal at a high level (both strategically and financially) and think it makes a lot of sense,” Hawken said.

The deal also continues an effort to shift the bank’s earnings mix away from investment banking towards wealth management. After E*Trade is fully integrated, the combined wealth and investment management businesses will

The Bloomberg Way: Wall Street reform plan set out

A plan by US presidential candidate and former New York City Mayor Michael Bloomberg was panned as pandering to left-leaning democratic voters by a KBW analyst, who warned it could still represent danger to the financial services industry.

“Our initial read of Michael Bloomberg’s financial services policy proposal is a cynical one,” Keefe Bruyette & Woods political analyst Brian Gardner said in a note.

“In today’s Democratic Party, it is almost impossible to get traction at the national level without supporting anti-Wall Street policies.”

Bloomberg’s financial services policy proposal included a tax of 0.1% on transactions in stocks, bonds and payments on derivative contracts.

He also proposed strengthening the “Volcker Rule” ban on proprietary trading.

Bloomberg, the multi-billionaire who founded Bloomberg LP, a news and data

company, released the proposals a day before he debated with rivals for the Democratic nomination to challenge Donald Trump in November.

“Our sense is that these proposals are primarily intended to blunt progressive attacks, especially with Bloomberg joining the debate stage for the first time,” said Isaac Boltansky, director of policy research at Compass Point Research and Trading.

Boltansky said the FTT concept has become a political pot of gold that candidates use to pay for other expensive policies such as student debt cancellation or healthcare.

“We struggle to see the rhetoric turning into reality, given a combination of political and practical considerations,” Boltansky said.

The financial transaction tax mimics legislation proposed by rival Democratic candidate Bernie Sanders in 2018, which the

Congressional budget office said could raise US\$777bn in 10 years. The legislation, which included a 0.1% tax on the purchase of most securities and on transactions involving derivatives, died in Congress.

Bloomberg’s proposal was in contrast to some of his previous positions. And the make-over may be working. Bloomberg was ranked second among the Democrat candidates in some polls last week, behind Sanders.

Gardner said the proposal represents risk to the financial industry, at least regarding the FTT.

“The fact that Bloomberg endorsed it means that it has become a more mainstream idea within Democratic circles, so it is likely to stay in headlines beyond the 2020 election. In our view, it will become a more constant headline risk for investors,” Gardner said.

Bank lobby groups pushed back immediately. SIFMA CEO Kenneth Bentsen

Who’s moving where...



Mohamed Kallala (left) is moving to run **NATIXIS’** global markets division from his current role as head of investment banking at the French bank, starting on March 1. He replaces *Luc Francois*, who is leaving Natixis. *Alain Gallois* will take Kallala’s position as

head of investment banking. Gallois is head of CIB for Asia-Pacific, and his role will be taken by *Bruno Le Saint*, currently head of CIB banking in the region. Gallois and Le Saint will start on April 1.



JP MORGAN has hired *Tim Huang* as head of corporate banking for China in its corporate banking and wholesale payments business. Huang is based in Shanghai and is a replacement for *Julia Wu*, who recently left the bank. He joins from Bank of America, where he spent 16

years. *Nancy Cheng* has also joined from Citigroup as head of new economy for APAC corporate banking, based in Hong Kong. And *Alan Lin* has joined from Standard Chartered as APAC head of core cash management for wholesale payments, based in Singapore.

contribute about 57% of the bank's pre-tax profits. That is up from 51% last year and 26% a decade ago.

E*Trade CEO Mike Pizzi will join Morgan Stanley and continue to run the E*Trade business and lead the integration effort, reporting to Gorman. Morgan Stanley will also take one of E*Trade's independent directors on to its board.

For E*Trade, the deal comes as the retail brokerage sector struggles to remain profitable after cutting trading fees.

"With zero commissions on trading fees, retail brokers are more reliant on net interest income from accompanying bank sweeps and wealth management revenues," said Fitch analyst Christopher Wolfe in a note. "This further supports the strategic rationale for this tie-up."

Philip Scipio

said an FTT would hit middle-class savers, including pension funds, 401(k)s and IRAs.

"At a time when market development, efficiency and competition are driving the cost of investing toward zero, it makes little sense to increase the cost through what is essentially a sales tax," Bentsen said in a statement. "Further, the threat such a tax poses to the efficiency of the US capital markets is real."

FREDDIE+FANNIE

Among Bloomberg's other outlined proposals was a plan to merge US housing giants Fannie Mae and Freddie Mac, which have been operating under conservatorship for more than a decade.

"This might be the most interesting proposal since, to our knowledge, no other campaign has floated the idea," Gardner said.

The merger, however, is unlikely because this Congress "has failed to legislate on GSEs since they were placed in conservatorship".

Philip Scipio

JP Morgan shakes up IB leadership

JP MORGAN has appointed Viswas Raghavan and James Casey as co-heads of global investment banking as part of sweeping changes to leadership in the business.

Carlos Hernandez, head of investment banking, is moving to a new position as executive chair of global investment banking and appointed Raghavan and Casey to take his place.

The other changes cascade below them, and include the appointment of Kevin Foley to replace Casey as head of global debt capital markets.

JP Morgan is also creating an executive committee of global chairs of investment banking aimed at giving some senior "rainmakers" more time to spend with clients. The changes also aim to promote a raft of bankers across asset classes and regions, according to a memo to staff from Hernandez, which was seen by IFR.

London-based Raghavan and New York-based Casey will report to Hernandez. Raghavan will retain his position as head of Europe, Middle East and Africa, and in that role will continue to report to Daniel Pinto, head of the corporate and investment bank, and Mary Erdoes, head of asset and wealth management.

Raghavan and Casey announced the following regional heads, according to a memo they sent to staff:

- Fernando Rivas will become head of North America investment banking;
- Dorothee Blessing and Conor Hillery will become co-heads of EMEA investment banking;
- Filippo Gori will continue as head of banking for Asia-Pacific; and
- Martin Marron will continue as head of Latin America and Canada investment banking.

Raghavan and Casey named the following product heads:

- Foley as head of global DCM;

- Achintya Mangla and Mike Millman will become co-heads of global equity capital markets;
- Anu Aiyengar and Dirk Albersmeier will become co-heads of global mergers and acquisitions;
- Andy O'Brien will continue as head of global loan capital strategy; and
- Huw Richards will continue as global head of digital investment banking.

Bregje de Best and Brad Tully, co-heads of global corporate and private side sales, will also join the investment banking management team.

"NEXT GENERATION"

Hernandez's memo said there would be 10 new executive chairs, joining eight existing people in that position. The new members include Hernan Cristerna and Chris Ventresca as global chairs of M&A and Liz Myers, who will join Kevin Willsey as global chairs of ECM.

The other seven new executive chairs are Ben Berinstein, Mark Feldman, John Gammage, Harry Hampson, Lawrence Henry, Eric Stein and Noah Wintroub.

"The executive committee will provide dedicated senior coverage to our top clients around the globe and will play a key role in mentoring our next generation of bankers," Hernandez said in the memo.

Raghavan joined JP Morgan in 2000 from Lehman Brothers, where he was head of equity-linked capital markets for Europe and Asia. His previous roles at JP Morgan included heading ECM globally and running DCM and ECM for Europe and Asia-Pacific. He has been EMEA chief executive since October 2017.

Casey started running JP Morgan's corporate debt businesses in 2012, after joining the bank in leveraged finance and subsequently running high-yield capital markets and leverage finance. Before joining JP Morgan he worked at Drexel Burnham Lambert, Kidder, Peabody & Co, Paine Webber, and CS First Boston.

Steve Slater

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Veteran banker Jean-Eudes Renier is taking on a new role as chairman of **BANK OF AMERICA'S** industrials investment banking unit as part of a leadership reshuffle. Renier will drop management responsibilities to focus on building relationships with key

clients. Greg Kelly, who ran the team with Renier, will become sole head of global industrials investment banking, based in New York. Justin Anstee will become head of industrials for EMEA, while Diego Fortunati will take the helm of EMEA industrials M&A.



MUFG BANK has hired Colin Richmond-Wells as head of transaction banking for Oceania. Based in Sydney, he will have oversight of MUFG's transaction banking business in Australia and New Zealand, which includes cash management and trade finance.

Richmond-Wells was most recently with HSBC, where he was the London-based head of client management for global liquidity and cash management. He joined HSBC in Sydney in 2007. He previously worked at Citigroup and National Australia Bank.



Bellwether

Bellwether: *n.* From the practice of placing a bell around the neck of a castrated ram so that it might lead its flock

ADDITIONAL TIER 1 securities have trigger levels, but they usually have more to do with capital ratios than chief executives.

Not so when it comes to ING, which pulled its AT1 after discovering its CEO Ralph Hamers was about to decamp to UBS.

The Swiss bank then had to spend Wednesday night hastily arranging plans to announce the replacement for Sergio Ermotti, rather scuppering its hopes for a calm succession.

The result was a press conference hosted by UBS chairman Axel Weber, accompanied by Ermotti and Hamers. They looked like a middle-aged boy band announcing a split due to creative differences.

Ermotti looked sad, mumbling that “all nice dreams come to an end” while at the same time expressing “deep satisfaction” about his achievements.

It was hard not to feel sympathy for Hamers. Having just won the promotion of a lifetime, he’d probably imagined a slightly more high-profile unveiling – like entering stage left in a cloud of dry ice, to the strains of Hammer Time (you can’t touch this). That will have to wait until the autumn.

DEUTSCHE BANK IS returning to Las Vegas. No, it’s not buying another casino, rather its corporate banking arm is sponsoring the annual structured finance conference in Sin City. “Deutsche Bank is proud to sponsor SFVegas 2020,” the bank said.

Who knows how much it paid for the sponsorship, but it’s likely to be less than Abu Dhabi paid Etihad Airways to sponsor Man City, and certainly less than Deutsche stumped up for the Cosmopolitan, a 3,000-room hotel and gambling resort the German bank ended up owning (and having to finish building) after a property loan went sour.

The irony of Deutsche not just owning, but also building an actual casino has meant the German bank has been the butt of jokes ever since.

Perhaps that’s why it’s now sponsoring SFVegas in a ploy so that a Google search involving “Deutsche Bank” and “Vegas” will produce the phrase “structured finance” rather than the sort of embarrassing results you’d expect to see in The Hangover film franchise.

When Bellwether saw that Deutsche was inviting delegates to the “Deutsche Bank Booth Happy Hour”, we briefly hoped that Deutsche’s what-goes-on-in-Vegas-stays-in-Vegas days were not entirely behind it – especially when we spotted that the happy hour kicks off at the frighteningly early time of 3.05pm.

Alas, delegates turning up hoping for mid-afternoon shots were instructed to “ask to see our TAS app and learn about partnering with us on your Structured Services and Loan Agency needs”. Can’t wait.

TITANS OF FINANCE lined up to cheer Donald Trump’s decision to pardon Michael Milken.

“Mike’s pardon is spectacular for our industry, the thousands of people who either worked with him or were clients at Drexel, and society at large,” said Rich Handler, chief executive of Jefferies, after former junk bond king Milken was pardoned.

Spectacular for society? Even Milken couldn’t repackage and sell that line.

Despite feeling the love of the finance industry, Milken has no plans to reciprocate by applying to have his ban from working in the finance industry lifted, as he’s too busy with his philanthropic activities, including medical research. That’s a smart move – rather than having another shot at redemption in finance, he’s leaving his reputation to medical science.

HSBC’S STRATEGY PRESENTATION could have been an opportunity for Mark Tucker to remove the sword of Damocles from above the head of Noel Quinn. Instead, he chose to sharpen it and wave it around. Of course, it could have been worse – he could have given Quinn the chairman’s dreaded vote of confidence. ■

Who’s moving where...

■ **UBS** has appointed *Martin Yule* as Asia-Pacific head of research to replace *Damien Horth*, who is due to take a new role as head of new business initiatives. Both report to Daniel Dowd, head of investment bank research. The appointments are

effective March 1. Yule joined UBS in 2016 and has served as deputy head of APAC research. He spent most of his career at Morgan Stanley. Horth joined UBS in 2002 and was named APAC research head in 2010.

■ *Bryan Pascoe* has left **HSBC**, where he was most recently head of client coverage for its commercial banking arm after previous stints as group treasurer and head of debt capital markets. Pascoe left after a restructuring of client coverage in commercial banking

and no direct replacement has been appointed. Pascoe had spent more than 20 years at HSBC and held a number of senior positions in global banking and markets, before becoming treasurer in May 2015 until December 2016.

■ **CITIGROUP** has appointed *Miguel Gabian* as head of its Spain and Portugal markets and securities services businesses. Gabian joined Citi in 1997 and was most recently head of corporate sales and solutions for Spain and Portugal, and has gained origination and

structuring experience and partnered with the banking, capital markets and advisory business on recent deals. Before joining Citi Gabian worked for JP Morgan for three years as a bond trader.

JP Morgan investor day to offer a master class

JP MORGAN will raise the curtain on its banking operations this week with its annual investor day and will try to show it's moving further ahead of rivals and deserves a premium valuation.

"JP Morgan's investment bank appears to be far outperforming peers on nearly every metric and in nearly every business," said Wells Fargo bank analyst Mike Mayo.

He is expecting the key takeaway from the presentation to be that JP Morgan is better positioned for the next decade and that its valuation is justified.

"We believe JP Morgan can become the type of national champion that gets owned by a wider swathe of portfolio managers," Mayo said.

Given that the bank has already provided a full-year outlook, most analysts are not expecting new targets. The investor day will take place on Tuesday.

"We expect this year's event to be less of a needle-moving event versus years past," said KBW analyst Brian Kleinhanzl. But he is expecting the company to provide greater details regarding business line performance.

Rival Goldman Sachs held its first ever investor day last month. Despite efforts to

tamp down expectations, the bank had to clear a high bar and many investors walked away underwhelmed.

JP Morgan will walk into its investor day as the largest US bank and most profitable investment bank with little to prove.

"An area where JP Morgan could surprise relative to consensus is the company's expense outlook," Kleinhanzl said.

KBW is forecasting modest efficiency ratio improvement in 2021, but management could be more aggressive about lowering the expense base in a slow-growth environment. That would be on trend, with banks globally getting more aggressive about expenses as revenue flattens or declines.

Considering that JP Morgan is viewed by many to be the best-run big bank globally, CEO Jamie Dimon could use the investor day to make the case that the bank is undervalued.

"We think the event will showcase why JP Morgan deserves a premium multiple," said UBS analyst Saul Martinez. But the bar is high to trigger additional multiple expansion or lead to higher earnings estimates in the coming years, he said.

Martinez is focused on the bank's capital return plans.

After last year's Comprehensive Capital Analysis and Review, which dictates how much banks can return to shareholders, JP Morgan returned 112% of earnings, or about US\$37.4bn. That level is not sustainable and the bank will suggest that capital returns will normalise. Martinez is expecting net capital returns to decline to 95% in the 2020/21 cycle.

Investors are also expected to quiz Dimon about succession plans, as they have done for several years.

In 2018, Dimon said he would be likely to retire in five years. Earlier this year he gave the same answer and analysts expect it will not be an issue at investor day.

Dimon has previously said the bank's board has a plan and Dimon himself criticised rival Wells Fargo for its succession planning after CEO Tim Sloan stepped down, suggesting that JP Morgan does in fact have a plan.

The challenge is how the bank can clarify its succession process without alienating top-tier management, while giving Dimon flexibility to promote and nurture talent, Mayo said.
Philip Scipio

Trump pardons junk bond king Milken

US President Donald Trump last week pardoned Michael Milken, once considered Wall Street's "junk bond king", along with six others, and commuted the sentences of another four people.

Milken was indicted in 1989 in an insider trading probe. After pleading guilty to securities violations, he paid US\$1.1bn and served about two years in prison.

Since then he has headed the non-profit Milken Institute, focusing on a wide span of research, including curing cancer, public health, ageing, California and financial markets.

Each year the titans of finance flock to the Milken Institute Global Conference, where fund managers and marketers woo prospective investors and philanthropies to make pitches for funding.

"We have Mike Milken, who's gone around and done an incredible job for the world with all of his research on cancer," Trump told reporters in Washington. "He paid a big price, paid a very tough price."

Trump also came under fire for commuting the sentence of Rod Blagojevich, the ex-Illinois governor convicted of trying to peddle Barack Obama's vacated US Senate seat.
Jeff Mason, Steve A Holland

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■ **BNP PARIBAS** has promoted *Simon Olenka* to head of the UK and Middle East in its securities services division, which provides custodian and post-trade and asset servicing products. Olenka replaces *Patrick Hayes*, who has been appointed global head of alternative

investors, a role focused on hedge funds and private capital investors. Hayes is based in Dublin. Olenka joined BNP Paribas in 2018 as UK head of client delivery. He is based in London.

■ Brazil's **BANCO SAFRA** has created a new division to manage alternative proprietary investments. Safra has hired *Andre Laloni*, former director at development bank BNDES and former chief financial officer at state lender Caixa Economica Federal as

the head of the new division. The proprietary alternative investment division will look for private equity deals and other illiquid investments, sources told Reuters.

■ **BLACKROCK** has appointed two executives to oversee its operations in Continental Europe to expand in the region. *Stephane Lapiquonne* and *Christian Hyldahl* will jointly lead efforts in Continental Europe.

■ Britain's **METRO BANK** has named interim CEO *Dan Frumkin* to the role permanently. Frumkin joined Metro Bank in September as chief transformation officer and stepped in when Craig Donaldson quit as CEO earlier this year.

“This continues the decade-long transition of our firm to a more balance sheet-light business mix”

MORGAN STANLEY CEO JAMES GORMAN, P16

Capital markets week ahead: Aston Martin, SBI Cards, Honeywell

FILLING THE TANK Aston Martin releases earnings on Thursday, with the struggling carmaker set to use the occasion to set out its stall for a £500m rights issue. The cash call comes less than 18 months after its IPO, which will go down as one of the biggest flops in recent years. While Kuwaiti funds and private equity shop Investindustrial pocketed £1.1bn, anyone that bought in is now sitting on losses of 80%.

It will be hoping that investors take some comfort from a recent white knight deal with Canadian fashion billionaire Lawrence Stroll and JCB chairman and Brexit cheerleader Anthony Bamford, who injected £180m into the company in a private placement last month. But, with losses mounting, and its plans for expansion looking rather ambitious, the deal could be a tough sell.



TAKING CREDIT The eagerly awaited listing of SBI Cards, the joint venture between State Bank of India and The Carlyle Group, kicks off on Friday, when banks open books to potential anchor investors. The deal is expected to raise up to Rs100bn (US\$1.4bn) and is the first IPO of a credit card company in India and the biggest listing in the country in two-and-a-half years. Books open to other investors next week.

YANKEE DOODLE Honeywell will become the latest US corporate to visit the euro bond market in search of cheap financing. The manufacturing and engineering conglomerate is looking to sell two tranches of bonds. It comes after four reverse Yankees last week – from General Motors, Dow Chemical, Whirlpool and VF, which makes clothing under the under The North Face and Timberland brands.

KEEPING IT LOCAL After six years of false starts and delays, the UK Municipal Bonds Agency is finally expected to make its bond market debut. It is raising up to £300m on behalf of Lancashire County Council. If all goes to plan, the agency hopes to bring another deal – an expected £250m 10-year issue backed by multiple local authorities – as early as next month.



MIND THE GAP Transport for London, which operates train, tube, bus and river services in the capital, meets investors to market a £300m green bond, revisiting the format that it first used in 2015. The deal comes two weeks after fellow transport provider Societe du Grand Paris issued a €2.5bn 50-year green bond, the longest syndicated benchmark in the format.

GAS ON THE FIRE Cadent Gas, which runs pipelines supplying more than 10 million UK households, hits the road to market a transition bond to investors. It's the latest issuer to opt for the format, which is something of a Wild West because of the lack of oversight. Deals from Hong Kong power producer Castle Peak Power, Italian utility Snam and Brazilian beef producer Marfrig have all attracted controversy.

SHUFFLING THE CARDS JP Morgan holds its annual investor day on Tuesday, with chief executive Jamie Dimon set to outline his medium-term plans for the bank. The strategy update comes after the bank announced sweeping changes to the leadership of its corporate and investment bank last week, naming Viswas Raghavan and James Casey as co-heads of global investment banking.

THE REAL DEAL Credito Real, a Mexican lender focused on clients overlooked by traditional banks, returns to the Swiss bond

market two years after making its debut in the currency. In 2018, it became the first Latin American private sector entity to issue a sub-investment-grade bond in the Swiss market. It is meeting investors on Tuesday and Wednesday, with a Reg S deal expected to follow.

MONEY GROWS ON TREES Sequoia Economic Infrastructure Income Fund hopes to raise £250m from an open offer, placing and offer for subscription that closes on Thursday. It will use the funds to repay the balance on its £280m revolving credit facility, which it recently said was fully deployed. Any excess proceeds will be pumped into the company's near-term pipeline of more than £380m of targets.

MAYBE, MAYBE NOT The structured finance world converges on Sin City for the annual SFVegas conference, which runs until Wednesday. More than 8,000 attendees are expected, with keynotes from SEC director Jessica Kane and Democratic senator Kyrsten Sinema. Delegates will be disappointed to learn that former UK prime minister Theresa May has disappeared from the list of speakers.



LAST WEEK IN NUMBERS

35,000 - Jobs to be cut as part of HSBC's latest efforts to improve its disappointing return on equity

4.50% - Coupon on BNP Paribas' perp non-call 10, the lowest for a European bank in US dollar market

42 - New annual low for Argentina's 7.125% century bond after IMF warned of tough talks ahead

HSBC's Mexico turnaround lesson for US problem

HSBC may have disappointed investors for not going far enough with its latest revival plan, but the bank has been able to hail a turnaround in a business that was on its knees eight years ago: Mexico.

Executives said the previous scandal-hit Mexican business could even provide lessons on how it can turn around the fortunes of its problematic US business.

Europe's biggest bank looks set to pump more capital and resources to Mexico as part of its plan to shift US\$100bn of risk-weighted assets from underperforming areas such as its investment bank in Europe and the US to higher returning areas (see Top News story).

"That business (Mexico) has extremely strong growth momentum still in it. So we want to provide (for) that," HSBC interim CEO Noel Quinn told analysts.

"Many people said we wouldn't be able to turn around the Mexico retail business five, six years ago (and) were advising us to sell that at that point in time," Quinn said.

But he said they were wrong: HSBC's profit in Mexico jumped 38% last year, revenues were up 12% and return on

tangible equity was 15.3% - one of the few countries easily above Quinn's RoTE target of 10%-12% for 2022.

HSBC made a pre-tax profit of US\$716m in Mexico last year, ranking it as the bank's third most profitable country after Hong Kong and mainland China and more than 20 times the US\$32m the business made in 2015.

While the Mexican retail business has driven the recovery - and is now one of its three "scale and attractive" retail markets alongside Hong Kong and Britain - its investment bank is also growing in the country.

The Mexican global banking and markets business chipped in a profit of US\$217m last year, putting it on a par with Singapore. That GBM profit was up 37% from two years ago, and has swung from a US\$70m loss in the business in 2015.

The turnaround is a far cry from December 2012, when US authorities fined HSBC a record US\$1.92bn for anti-money laundering failures that left Mexican drug smugglers regarding it as the "place to launder money" and HSBC's CEO in 2012 calling it "shameful".

That scandal also heaped pressure on HSBC in the US, and its business there continues to struggle.

"We have to achieve that same outcome [from Mexico] in the US, not just because of the US business, because of what it means to be in the US for our broader HSBC strategy," Quinn said.

Quinn said he "looked hard" at selling the US retail business, but chose not to.

"If I wanted an easy headline and I wanted an easier day-to-day, I'd have just made the decision to sell the US retail business," Quinn said. But he said that wasn't the best option, as it provides funding benefits that help other areas, such as transaction banking.

HSBC plans to cut costs in the US by 10%-15%, axe 30% of its branches and narrow its retail strategy to target international and more affluent customers, which it reckons is a market of 40m people.

"I don't believe you have to be a full-service national bank in the US in order to make money. But we have to prove that over time," Quinn said.

Steve Slater

EU banks face €178bn MREL shortfall

European banks need to fill a €178bn shortfall in debt that can absorb losses to meet new rules designed to make lenders more resilient and prevent the need for taxpayer bailouts.

Europe's banking watchdog last week said 117 of the EU's biggest 222 banks, or more than half, have a shortfall in their minimum requirement for own funds and eligible liabilities, or MREL.

The European Banking Authority said 65 of the 117 banks with funding needs may not need to issue completely new types of debt instruments, however, and could meet their needs by adjusting and rolling over existing debt that is similar but doesn't qualify as MREL.

The EBA said €67bn of the estimated €178bn MREL shortfall could be met by these "other marketable securities" - or OMS. The OMS are similar to MREL-eligible debt but are not eligible for various reasons, including location, law of issuance or maturity.

"While this does not come without friction, it does highlight that MREL has a greater impact on some banks than on others, depending on their existing funding profiles," the EBA said.

The EBA also encouraged banks to act now to fill their shortfalls.

"In the light of these shortfalls, the EBA would encourage European resolution groups to take advantage of the current positive market conditions to issue and build up resources," it said.

There is a long phase-in period for MREL rules, which require banks to hold a certain amount of debt that converts into equity or can absorb losses if the bank hits trouble. Each bank's MREL level is set individually, based on their risk level. Bigger and more complex lenders have higher MREL requirements.

MREL is the European version of global TLAC rules, and for debt or equity to count

towards MREL it must meet specific conditions.

The EBA report said seven out of 16 global systemically important banks in the EU had an MREL shortfall, which amounted to €51bn. Some €29bn of this shortfall could be met in OMS, highlighting the greater options the biggest banks have.

Of the next 79 biggest banks, 49 had funding needs, totalling €104bn. The EBA estimated that 61 of the 127 smaller banks had an MREL funding shortfall, amounting to €23bn.

The EBA assessed 266 banks, but 22 were excluded because they had not made MREL decisions yet and another 22 were excluded due to data quality issues. The data were from the end of 2018, submitted by June 2019.

The EBA said it plans to monitor progress by the banks in closing their MREL shortfalls.

Steve Slater

“In today’s Democratic Party, it is almost impossible to get traction at the national level without supporting anti-Wall Street policies”

KBW ANALYST BRIAN GARDNER, P16

‘Selective equivalence’ seen for UK in Brexit

Britain and the EU are likely to agree “selective equivalence” in a few key sectors that would be reviewed one or two years later as a way to smooth the path for financial services firms after Brexit, a think-tank said last week.

Policymakers and regulators are trying to agree how regulation of banks and the financial industry will work once Britain’s transition period ends and the country leaves the European Union in January 2021. The EU is expected to grant “equivalence” to the UK in certain areas, which will allow UK-based firms access to EU financial markets, but that is not assured, and there is a risk that talks collapse.

New Financial said that the issues are complex, opaque, unpredictable and politicised.

“Most likely, is that the EU and UK agree ‘selective equivalence’ in a few key sectors probably on a time-limited basis to be reviewed in one or two years,” New Financial said in its report entitled “A Reality Check on Equivalence”.

It said the most critical sectors for both sides are reaching equivalence for stock exchanges and central counterparty clearinghouses, though it could extend to areas such as capital requirements.

New Financial said two other potential outcomes – though less likely – are that the

EU and UK agree a comprehensive equivalence deal on an open-ended basis; or the UK does not get any equivalence because politics “poison” the negotiations.

Equivalence would not eliminate disruption on the financial industry from Brexit, although it will reduce the damage, the report said.

UK financial services firms will still need to have a presence in the EU to service clients and do business in the bloc, because lots of areas will not be covered by equivalence agreements. “But it should give firms more discretion over how much they move,” the report said.

“The big variable is broker-dealer equivalence for big investment banks, which has not been granted to any country yet: would the UK consider it a step too far in terms of future alignment with the EU and would the EU be prepared to offer it to such a large part of financial activity?”

“COMPLEX PATCHWORK”

The debate over equivalence has heated up and will be a crucial part of technical talks around Brexit in the coming months.

Britain is keen to diverge from EU rules in some areas and not be a “rule-taker” in financial services. But the more it diverges, the less likely it is that the EU will grant equivalence.

While it should be “relatively straightforward” for Britain to complete equivalence assessments by the end of June to have them in place by January 1, the process of the EU granting equivalence is unilateral and “opaque, lengthy and unpredictable”, New Financial said.

“Most people in the industry think the prospect of achieving anything other than equivalence in a few key sectors is quite remote,” it said.

The report said getting equivalence will not make the UK a rule-taker, however, which could help in finding common ground.

“The US has equivalence in 23 areas but few would consider it to be a rule-taker,” the report said.

Equivalence is not a single regime covering all the regulatory framework of a country or industry. It is a “complex patchwork of micro-regulation”, the report said. It counted 39 equivalence regimes across the main pieces of EU banking and finance legislation.

Equivalence will offer a far less comprehensive framework for accessing the EU than the single market, and can also be withdrawn at short notice, with as little as 30 days’ notice, without consultation. Steve Slater

Oaktree sets up China NPL unit

OAKTREE CAPITAL has become the first US investor to set up a wholly owned subsidiary in China to invest in the country’s distressed debt market, moving swiftly after US firms won greater access to non-performing loans under the phase one trade agreement between the two countries.

Oaktree (Beijing) Investment Management Co was established with registered capital of US\$5.42m, according to a statement from Beijing’s financial regulatory department. Oaktree declined to comment.

Its foray into the Chinese bad loan market follows last month’s phase one deal, which will allow US asset management companies to acquire NPLs directly from banks for the first time.

Previously, US investors have been restricted to buying bad loans on a bulk basis, defined as three or more bad loans, indirectly through the country’s state-owned asset management companies.

The phase one trade agreement said US investors would now be able to apply for provincial licences to acquire NPLs directly from banks and would be treated on the same terms as Chinese investors when national licences are rolled out.

Though details are still sketchy (the China Banking and Insurance Regulatory Commission is expected to issue more detailed rules shortly), several US investors told IFR they welcomed the development, saying that bypassing the AMCs would lower overall transaction costs and increase transparency.

“The cost of capital varies between the different AMCs and from one year to the next, but I would say that, on average, when purchasing an NPL portfolio from them, you can expect to see a mark-up of 6%–7%, which obviously eats into our returns,” said one investor.

“There have been cases where I’ve seen fees as low as 1%, which is usually when we’ve asked the AMCs to purchase a portfolio we’ve put

together on our behalf, but in those cases we don’t know for sure we’ll be able to buy it as the AMC has to put the portfolio up for auction. These new rules remove that uncertainty.”

LOCAL COMPETITION

According to research from PwC, NPLs and stressed assets in China’s banking system total about US\$1.5trn, although opportunities for foreign investors to purchase NPLs to-date have been few and far between.

The big four AMCs – China Cinda Asset Management, China Huarong Asset Management, China Orient Asset Management and China Great Wall Asset Management – dominate the NPL market and foreign investors have historically faced stiff competition from domestic investors in the secondary market.

PwC recorded just 14 deals last year in China involving foreign investors, equivalent to around US\$1.1bn in total, although this was up from 13 the previous year, or roughly US\$900m. Thomas Blott

Foreigners buy fewest US corporate bonds in six years

Foreign investors showed lukewarm appetite for US corporate bonds in 2019, as they favoured lower-yielding though safer agency mortgage-backed securities, US Treasury Department data released last week showed.

Private and government accounts overseas bought US\$15.44bn of US corporate bonds last year, their lowest annual purchase in six years.

Still, their net purchases in 2019 marked the seventh consecutive year where these investors bought more corporate debt than they sold, the Treasury data showed.

Foreign demand for US bonds has been stoked as an alternative to some US\$12trn in negative-yielding debt, mainly in Europe and Japan due to their central banks' negative rate policies.

As the trade spat between China and the United States on the global economy hung over investors for much of 2019, overseas investors preferred the safety and liquidity of agency MBS and Treasuries, even though they sacrificed some yield to hold them.

The coronavirus breakout and its impact on manufacturers that rely on supplies from China, together with negative headlines such as more US retailers filing for bankruptcy protection, is unlikely to keep a lid on foreign appetite for corporate bonds, analysts said.

"Foreigners are going to be less willing to put up with these risks," said Tom Simons, senior money market economist at Jefferies.

Overseas governments and money managers, while dodging the risks of

corporate bonds, binged on US\$300bn in agency MBS, a record annual amount.

PRIVATE BUYING

Two forces played opposing roles in the US\$15.44bn of foreign purchases of corporate bonds in 2019.

Foreign-based private fund managers made US\$21.26bn in net purchases of corporate bonds last year, down from US\$60.97bn the year before.

Meanwhile, foreign governments and central banks were net sellers, reducing their holdings of corporate debt by US\$5.82bn, more than the US\$4.02bn in 2018.

Richard Leong

Market pushes to harmonise sustainable finance

The **INTERNATIONAL CAPITAL MARKET ASSOCIATION** last week set out what a credible climate transition strategy should look like for corporates and how such strategies should be benchmarked.

Members of ICMA's recently launched Climate Transition Finance Working Group met last week in London to discuss what transition finance means for corporates and investors.

"The purpose of the meeting was to reach an initial consensus on where the group is going and how it is going to work together," said Nicholas Pfaff, a managing director at ICMA.

The group's coordinators include Axa Investment Managers, HSBC and JP Morgan Chase. BNP Paribas, Bank of America, Credit Agricole, Natixis, Pimco, Airbus and the World Bank are also members.

Transition bonds and loans, along with sustainability-linked instruments, are a growing subset of sustainable finance.

ICMA's working group was formed in November 2019 in response to investor interest. The group is expected to issue a progress report on its initial efforts during ICMA's Green Principles general meeting in New York in May.

ICMA also recently launched a second working group focusing on sustainability/KPI-linked products. That group is also expected to present its progress in May.

The sustainability/KPI-linked working group launched this year is examining products where the use of proceeds are for general corporate purposes but are linked to specific targets or key performance indicators.

NAME GAME

A major hurdle facing sustainable finance is confusion over labels and the limitations those can have on issuers.

Generally there are two types of accepted sustainable finance instruments: use of proceeds and sustainability-linked transactions.

Use of proceeds deals have proceeds that go towards specific projects or assets. They include green, social, transition, climate, and impact bonds or loans.

Sustainability-linked deals raise funds to be used for general corporate purposes but measured by KPIs or against the United Nations Sustainable Development Goals.

"There is nothing today that is universally adopted and harmonious in terms of a standard across these newly labelled bond issuances - SDG bonds, sustainability-linked bonds, pink bonds, etc," said Marisa Drew, CEO of Credit Suisse's Impact Advisory and Finance Department.

Credit Suisse is working on its own research group on the transition bond space in partnership with the Climate Bond Initiative.

In September the bank announced its initiative with CBI into what they are calling the sustainable transition bond - or STB - market.

"I think the investor community is getting fatigued by this [lack of standardisation] and is saying they want some rigor to the market," Drew said.

"Nobody wants to accommodate green-washing. Yet we acknowledge that there is

demand to go beyond the green market today."

Credit Suisse and CBI's partnership is in early stages. Much like ICMA's working group, it is working to create the initial underpinnings for a unified framework.

Though both Credit Suisse and ICMA are working on separate research groups - CBI is participating in ICMA's group - both said they were willing to work together.

"We want to work with other interested parties like ICMA, other banks, issuers, scientists, researchers to seek their input and views," Drew said.

MARKET OPPORTUNITY

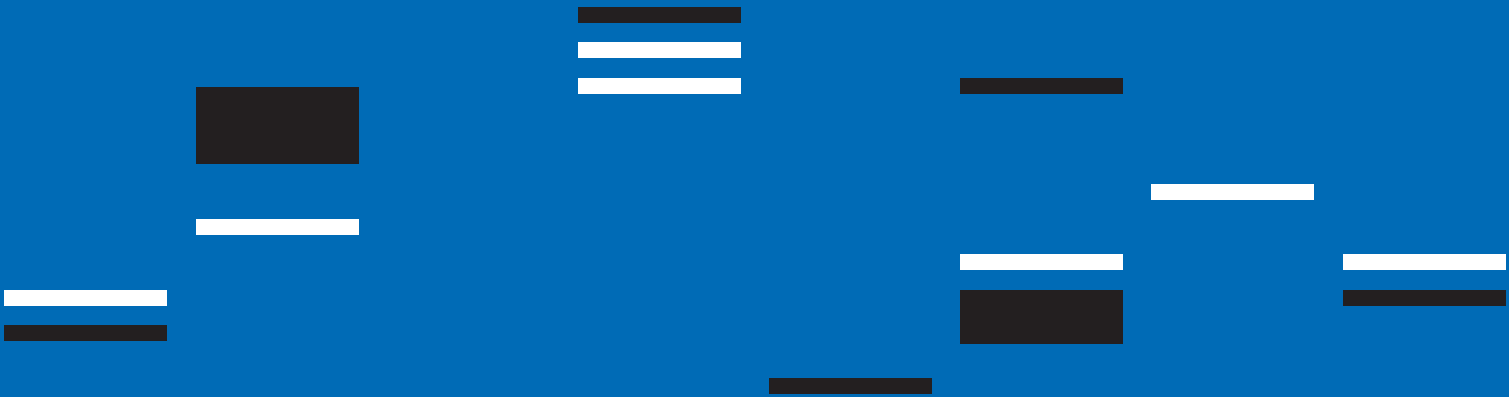
Despite past controversy surrounding much of the transition bond space, issuers are still examining transition and sustainability instruments to advance their sustainability goals.

Earlier this week, the CFO of Brazilian pulp and paper company Suzano told IFR it was looking to issue a KPI-linked instrument, while UK-based gas company Cadent Gas is readying its first transition bond.

Clarifying standards for green, transition, and sustainability-linked instruments could convince more issuers into the space with less fear of criticism.

"I think that sustainability-linked, KPI-linked, are part of the answer to ensuring that sustainable finance goes mainstream," said Pfaff.

Miluska Berrospi



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FRONT STORY FINANCIALS

ING CEO shock delays AT1 revival

Chief executive quits for UBS

Deal dashed after looking on course for record price

A seemingly smooth-sailing Additional Tier 1 for **ING GROEP** abruptly hit the rocks last week, with the Dutch lender pulling the trade before news of its chief executive's exit emerged, but the episode is not expected to curb demand when the deal is revived.

The Dutch bank looked set to achieve a record low coupon for an Additional Tier 1 US dollar deal on Wednesday, but its hopes were unexpectedly dashed.

"Information has come to the issuer that needs to be studied"

Leads *Credit Suisse*, *Goldman Sachs*, *ING*, *Morgan Stanley*, *TD* and *UniCredit* began marketing the deal in Asia hours at initial price thoughts of the low 5% area.

After the European open, guidance was set at the 4.625% area and the size at US\$1bn on the back of more than US\$11bn of orders.

It therefore looked on course to be the tightest US dollar AT1 from a European bank, snatching the record from BNP Paribas, which less than 24 hours earlier had priced a US\$1.75bn deal at 4.5%.

But ING shocked the market when it announced hours later that it was pulling the trade.

"Information has come to the issuer that needs to be studied," it said in a statement. "Being a prudent bank, ING has decided not to proceed with today's trade."

The bank's share price fell sharply after the announcement, from €10.44 to €9.94, according to Refinitiv.

Market participants were left to speculate on the cause of the postponement, until it was revealed on Wednesday night that ING's CEO Ralph Hamers is leaving the bank for UBS.

"Yesterday, there was a situation in which there was information that we thought made it prudent to pause the

issue at that moment in time," Hamers said in a conference call on Thursday.

REVIVAL?

Market participants were sympathetic towards the issuer, saying that the trade was scuppered by factors outside their control.

"It was much better than the market feared, and it was prudent for them to take that path," said a syndicate banker. "I think investors will appreciate [that they postponed the deal]."

ING declined to comment on its plans for the deal and when or if they will attempt to revive it.

But bankers and investors alike said that Hamers' departure should not prevent the bank from returning to the market and issuing a successful deal on similar terms.

The same factors that drove such a big book – the hunt for yield and elevated interest in US dollar AT1s, which have lagged performance in euro AT1s in recent weeks – should still be in their favour.

"It's not as if they pulled the deal from a position of weakness," said a DCM banker away from the deal. "I think they did the right thing."

It is standard practice when an issuer returns to the market with a deal that was

pulled due to a lack of interest or adverse market conditions to raise the price as a sweetener to investors.

Market participants do not expect ING to have to pay up, or at least not significantly, due to the exceptional circumstances behind the postponement.

"I don't think there's any residual risk for them, and I don't think they need to sweeten it really"

"Unless there is some newsflow that is negative for the credit, I think you just look at how the market has moved since you tried to do the deal – if the market is unchanged, you probably start at the same level," said the DCM banker.

"I don't think there's any residual risk for them, and I don't think they need to sweeten it really. Maybe they don't take the last eighth, but if they get another US\$11bn book, they can probably move the transaction as they wish."

However, some said increased uncertainty over the bank's direction could make a difference.

"Whether investors will expect a higher coupon or not is more a function of their assessment of the impact the change at the top might have on the bank," said an investor.

"I guess it will take some time until the dust settles, so there will probably be no major shift in the strategy short term."

"All in I'd say that the market will get over it. Nevertheless, it has been interesting to see that uncertainty carries a price, as observable in price moves of both ING stock and AT1."

A second investor agreed.

"I'd guess they will look to come back ASAP to pre-fund their upcoming call," he said.

"The only question remains on who the new CEO might be, but that is probably not important enough to hold off issuing."

Tom Revell

ING SHARES HIT AFTER DEAL POSTPONEMENT
SHARE PRICE (€)



Source: Refinitiv Eikon

EBRD wins over investors with Sonia shift

» Risk-free rate coupon calculation gets tweaked

The **EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT** won a warm endorsement from investors for a refinement of Sonia coupon calculations, attracting more than £1.85bn of demand for the first benchmark packaging the “shift” version of the overnight rate.

Lead managed by *Barclays, HSBC, NatWest Markets* and *RBC*, the £750m three-year could signal a new convention for the Bank of England-compiled rate, which is to replace Libor in the UK by the end of 2021.

Its methodology will also work with the expected introduction of a Sonia index – unlike the “lag” calculation of all previous Sonia bonds.

“It’s another shift in the Libor transition,” one lead said. “It’s a step forward in trying to develop the index, which the Fed is now publishing and the Bank of England won’t be far behind in. The methodology is more facilitating for an index being published for calculation purposes.”

The new calculation would simplify and facilitate multi-currency agreements and would match the weighting of Sonia rates in other market segments, such as deposits, swaps and repos.

“It’s going to be very important to have a Sonia index and we’ve been calling for one since we realised there were rounding issues on our first Sonia transaction,” said Isabelle Laurent, deputy treasurer and head of funding at EBRD, who termed an index “logical” and “the best way to operate”.

“It’s hard to see how we grow and sustain the market without one.”

Sonia has already seen significant take-up in most areas of the sterling bond market, with around £57bn raised using the standard five business day “Observation Period Lag” methodology.

Most recently Goldman Sachs launched the first Sonia-linked CMBS, while the long-awaited UK Municipal Bond Agency debut will also be indexed to the rate. Last month, investors asked the UK DMO to consider issuing Sonia-linked Gilt.

ROUNDING ERRORS

Although also compounded daily, shift Sonia coupons differ from the current market standard. The variation seeks to better reflect bank holidays and other events during the look-back.

The supranational discovered scope for rounding errors under the lag approach when it calculated the coupon on its first Sonia trade last year.

As Sonia is very stable, unlike SOFR, these have not tended to produce significant errors – though they can undermine settlement of transactions in Sonia bonds since differences of even a few pence will prevent deals from being matched.

The introduction of shift Sonia echoes the development of SOFR. The US risk-free rate has spawned both “payment delay” and “backward shift” versions.

EBRD cited the Alternative Reference Rates Committee’s preference for “observation period shift” compounding of SOFR in the new issue’s announcement.

The New York Fed said it will begin publishing SOFR averages and a SOFR index from March 2. Risk-free rate indices are also in prospect in Canada and Switzerland, according to sources.

SCALED BACK

Leads tightened 2bp during execution to land at Sonia plus 25bp. Fair value was 25bp–26bp, one said.

EBRD had intended to issue £500m as it is not a sterling lender and other benchmark markets currently provide more attractive funding. However, it upped the deal to £750m “because people had done so much work and were having to be scaled back”, Laurent said.

“We tried to marry our size requirements and being fair to investors,” she said, noting that even at its increased size the deal only represented 40% of the order book.

The book exceeded that for the largest (£800m) of EBRD’s three previous Sonia outings, all of which were sold last year. It was also the second largest ever SSA Sonia order book. The new issue also achieved the highest number of orders for any EBRD Sonia bond.

“The deal benefited from first-mover advantage but also from the ongoing appetite for sterling, which is strong,” said the lead.

“Clearly, whenever you’re introducing something new there is extra work required at the marketing stage, which is why we went out with the trade a bit early,” he said.

NO RESTRUCTURING

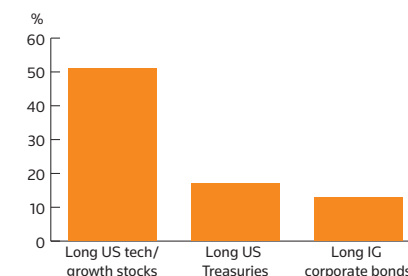
Despite the rate’s traction, issuers will not be required to restructure lag Sonia deals into shift transactions, Laurent said.

“While it’s not ideal that lags won’t work with any future index to address rounding issues, these are de minimis differences because Sonia is so stable. However, that’s not a good reason not to address the issues.” Julian Lewis, Helene Durand

WEEK IN NUMBERS

51%

■ THE PERCENTAGE OF RESPONDENTS TO A MONTHLY BANK OF AMERICA INVESTOR SURVEY WHO SAID THAT LONG US TECH/ GROWTH STOCKS IS THE MOST CROWDED TRADE. IT WAS FOLLOWED BY LONG US TREASURIES AT 17% AND LONG IG CORPORATE BONDS AT 13%

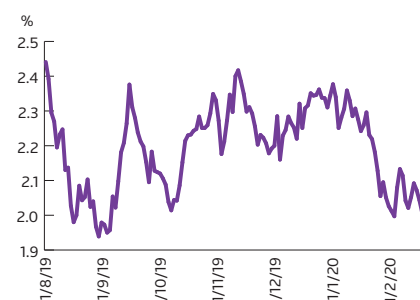


4.50%

■ THE COUPON THAT BNP PARIBAS SECURED FOR A US\$1.75bn PERP NON-CALL 10, THE LOWEST RATE FOR A EUROPEAN BANK AT1 IN THE US DOLLAR MARKET. ING GROEP POTENTIALLY COULD HAVE BEATEN THE RECORD THE FOLLOWING DAY BUT PULLED ITS DEAL AFTER ITS CEO JOINED UBS

1.92%

■ THE YIELD ON 30-YEAR TREASURIES, WHICH FELL TO ITS LOWEST LEVEL SINCE SEPTEMBER AFTER APPLE WARNED THAT IT WOULD MISS SALES GUIDANCE DUE TO MANUFACTURING SLOWDOWNS CAUSED BY THE CORONAVIRUS



€1.997bn

■ THE AMOUNT OF CORPORATE BONDS THE ECB BOUGHT (NET) IN THE WEEK TO FEBRUARY 14 AS PART OF ITS CSPP COMPARED WITH €1.442bn THE WEEK EARLIER

In total, it has bought €15.191bn

SSAR

US DOLLARS

LARGEST EVER ISDB SUKUK ISSUE ATTRACTS RECORD DEMAND

ISLAMIC DEVELOPMENT BANK sold its biggest ever sukuk transaction in the US dollar market last Wednesday – a US\$2bn February 2025 trade.

Even though SSAs are enjoying a benign euro market, IsDB chose to raise funds in dollars because all of its development projects are in the currency. Issuing in euros and then swapping into dollars would have been less cost-effective.

The development bank was also able to take advantage of the relative scarcity of supply in the dollar market, said a lead.

Marketing began on Tuesday at mid-swaps plus high 40s. Indications of interest had topped US\$1.15bn at the first update. Final guidance was later refined to plus 40bp–43bp.

Books closed north of US\$2.1bn, enabling leads to price at the tight end. The banker saw fair value at plus 42bp–43bp but stated it was hard to gauge, “as IsDB bonds tend to

be illiquid in the secondary market, since central banks are the main holders and do not tend to trade them”.

Leads also looked at EIB – IsDB tends to price about 35bp back of the European supranational.

EIB has a US\$4bn March 2025 Global bond, issued in January, that was bid at 8bp over swaps, according to Tradeweb.

The banker also mentioned JBIC, which has February 2025 and May 2025 notes. They were quoted at about plus 36bp on Tradeweb.

The banker said demand was “the strongest ever seen for a five-year IsDB sukuk”.

It got books of about US\$1.4bn for both its US\$1.3bn September 2023 and US\$1.5bn October 2024 sukuk offerings, which were priced in 2018 and 2019, respectively.

Allocations on IsDB trades usually see 80% going to central banks and the rest to bank treasuries. Most of the central banks taking part in the issuer’s dollar deals are based in Asia.

IsDB taps the markets twice in US dollars every year. It is expected to raise US\$5.5bn in 2020. A euro deal is likely to be next before it returns to the dollar market, according to the banker. The development bank will probably raise the equivalent of US\$500m in the single currency.

Citigroup, Dublin Islamic Bank, HSBC, Islamic Corporation for the Development of the Private Sector, LBBW, Natixis and Standard Chartered Bank were the lead managers.

FMS RETURNS

FMS WERTMANAGEMENT was the other issuer in the US dollar market, ending more than a year’s absence with an oversubscribed Reg S offering.

The German agency, guaranteed by the Federal Republic’s Financial Market Stabilisation Fund, issued a US\$500m three-year in line with guidance at mid-swaps plus 6bp. Lead managed by Bank of America, Barclays and HSBC, the no-grow transaction drew orders in excess of US\$680m.

FMS last appeared in the US currency with a US\$2bn benchmark in January 2019. The five-year Global attracted US\$3.4bn of demand and was tightened 2bp in marketing to 9bp over.

The bond was trading at 11.5bp over bid on Wednesday morning, according to Tradeweb.

CEDB KEEPS TO TIGHT PRINT STRATEGY

COUNCIL OF EUROPE DEVELOPMENT BANK kept to its strategy of modestly sized deals priced at a razor-thin margin over secondary levels for its third transaction of the year, a US\$1bn

ALL INTERNATIONAL GREEN BONDS

BOOKRUNNERS: 1/1/2020 TO DATE

Managing bank or group	No of issues	Total US\$(m)	Share (%)
1 BNP Paribas	11	2,440.42	10.0
2 Credit Agricole	11	2,097.07	8.6
3 Barclays	10	2,087.01	8.6
4 Santander	9	1,816.89	7.5
5 SG	5	1,812.20	7.5
6 JP Morgan	8	1,419.41	5.8
7 HSBC	10	1,015.30	4.2
8 BofA	6	782.74	3.2
9 UniCredit	4	706.08	2.9
10 Morgan Stanley	4	697.73	2.9
Total	48	24,316.29	

Excludes social bonds and mixed use of proceeds.

Source: Refinitiv

SDC code: JG1

ALL INTERNATIONAL BONDS (ALL CURRENCIES)

BOOKRUNNERS: 1/1/2020 TO DATE

Managing bank or group	No of issues	Total US\$(m)	Share (%)
1 JP Morgan	216	63,644.24	7.9
2 Citigroup	198	52,968.80	6.6
3 Barclays	196	51,588.00	6.4
4 BofA	168	42,699.59	5.3
5 Goldman Sachs	140	40,218.57	5.0
6 HSBC	174	39,342.47	4.9
7 Deutsche Bank	154	35,694.02	4.4
8 BNP Paribas	127	35,424.57	4.4
9 Morgan Stanley	101	31,502.67	3.9
10 SG	77	24,594.00	3.1
Total	937	803,926.99	

Including Euro, foreign, global issues. Excluding equity-related debt, US Global ABS/MBS.

Source: Refinitiv

SDC code: J1

ALL BONDS IN EUROS

BOOKRUNNERS: 1/1/2020 TO DATE

Managing bank or group	No of issues	Total €(m)	Share (%)
1 JP Morgan	71	24,378.27	8.0
2 BNP Paribas	81	21,904.64	7.2
3 Barclays	76	19,607.89	6.4
4 HSBC	67	18,975.92	6.2
5 SG	53	18,246.28	6.0
6 Deutsche Bank	65	16,399.42	5.4
7 Credit Agricole	51	14,897.70	4.9
8 UniCredit	63	14,558.77	4.8
9 Citigroup	48	13,072.58	4.3
10 BofA	42	12,328.46	4.1
Total	306	304,226.68	

Including Euro-preferreds. Excluding equity-related debt, US Global ABS/MBS.

Source: Refinitiv

SDC code: N1

EUROPEAN SOVEREIGN BOND AUCTION RESULTS WEEK ENDING FEBRUARY 21 2020

Pricing date	Issuer	Size	Coupon (%)	Maturity	Average Yield (%)	Bid-to-cover
Feb 18 2020	Germany	€4.064bn	0.00	Mar 11 2022	-0.66	1.47
Feb 19 2020	Germany	€975m	1.25	Aug 15 2048	0.07	1.07
Feb 20 2020	Spain	€3.165bn	0.00	Jan 31 2025	-0.22	1.57
Feb 20 2020	Spain	€1.388bn	0.50	Apr 30 2030	0.235	2.28
Feb 20 2020	France	€3.292bn	0.00	Feb 25 2023	-0.59	2.29
Feb 20 2020	France (i)	€548m	0.10	Mar 1 2025	-1.16	3.53
Feb 20 2020	France	€2.575bn	0.00	Mar 25 2025	-0.50	2.26
Feb 20 2020	France	€2.88bn	0.25	Nov 25 2026	-0.40	1.52
Feb 20 2020	France (€i)	€490m	0.10	Mar 1 2029	-1.21	4.89
Feb 20 2020	France (€i)	€459m	0.10	Jul 25 2036	-0.97	4.12
Feb 20 2020	UK	£3.25bn	1.50	Jul 22 2026	0.435	1.74

Source: IFR

trade that added to the modest volumes in the currency last week.

Demand for the five-year, rated Aa1/AAA/AA+, through BNP Paribas, Bank of America, Deutsche Bank and TD passed US\$1.3bn, a solid result albeit a more modest one than what other issuers have been able to garner in the currency.

"This is not the type of deal that's going to get a US\$5bn or US\$10bn book given that it's a US\$1bn no-grow pricing through fair value," a banker said.

While some issuers have started marketing with some new issue concession built in and then revised the level tighter using the momentum in the book, the strategy can backfire, which is why leads started marketing at the 9bp area over mid-swaps.

"If you start wide, then that gives investors the opportunity to floor you and then you can't move the level," the banker said. "If you're only doing US\$1bn and know the level you want, you have the ability of starting tighter."

At the 9bp area over, the transaction was marketed through fair value based on CEDB's curve but at a modest premium over where Triple A rated EIB was trading. At the

final 8bp however, CEDB priced more or less flat to EIB's secondary levels and was the joint tightest reoffer spread for a five-year SSA US dollar benchmark year-to-date.

"It's tight but they're rare," another banker said. "Also, you have to remember that we're operating in a completely different spread context over US Treasuries."

At 8bp over, this was equivalent to 6.7bp over Treasuries, the tightest spread to the reference Treasury in this tenor from a non-sovereign issuer year-to-date. In contrast, CEDB's US\$1bn five-year priced a year ago came at 15.5bp over.

"It was a big point of discussion last year but people have got used to it," the second banker said. "You might not get the liquidity you would get in the US Treasury market but investors can still make the carry and there's also the initial performance that you get when bonds tighten."

Unlike its Triple A peers for which the cost of issuing US dollars does not necessarily stack up versus borrowing in the single currency, pricing for CEDB's dollar trade was more or less in line with euros.

Bankers say the relative unattractiveness of the currency is what has kept some issuers at bay, albeit those with a bigger

programme need to print in dollars regardless of cost.

Still, that is not to say that issuance will grind to a complete halt.

The **BANK OF ENGLAND** is one of the candidates tipped to keep the primary market ticking over. The borrower usually makes its annual visit to the US dollar market in February or early March with a US\$2bn three-year but has yet to emerge in 2020.

Canada's **CPPIB CAPITAL INC** has mandated Barclays, Goldman Sachs, JP Morgan and RBC for a five-year US dollar benchmark that could emerge as early as this week.

EUROS

MADRID STEALS SOVEREIGN'S ESG THUNDER

With the Kingdom of Spain's debut green bond not scheduled to emerge until the second half of this year, the **AUTONOMOUS COMMUNITY OF MADRID** has cemented its position as the country's leading issuer of socially responsible debt.

The sub-sovereign lifted the already upbeat mood in public sector ESG bonds

ALL US DOLLAR FIXED-RATE GLOBALS

BOOKRUNNERS: 1/1/2020 TO DATE

Managing bank or group	No of issues	Total US\$(m)	Share (%)
1 Citigroup	27	10,669.04	10.7
2 JP Morgan	20	7,053.42	7.1
3 Barclays	13	6,368.81	6.4
4 Goldman Sachs	17	6,069.25	6.1
5 TD Securities	11	6,029.66	6.1
6 BofA	20	5,786.84	5.8
7 Morgan Stanley	12	4,994.29	5.0
8 RBC	11	4,267.09	4.3
9 Deutsche Bank	9	3,914.17	3.9
10 Nomura	6	3,634.18	3.7
Total	57	99,321.97	

Excluding equity-related debt, ABS/MBS.

Source: Refinitiv

SDC code: O5

ALL AGENCY BONDS IN EUROS

BOOKRUNNERS: 1/1/2020 TO DATE

Managing bank or group	No of issues	Total €(m)	Share (%)
1 HSBC	10	3,827.67	12.9
2 Barclays	9	3,750.77	12.6
3 JP Morgan	7	3,638.02	12.3
4 BofA	5	2,956.79	10.0
5 Commerzbank	4	2,351.36	7.9
6 Credit Agricole	8	2,026.31	6.8
7 Deutsche Bank	3	1,924.71	6.5
8 Natixis	7	1,615.10	5.4
9 SG	5	1,566.56	5.3
10 BNP Paribas	6	1,524.00	5.1
Total	30	29,686.28	

Excluding equity-related debt. Including publicly owned institutions.

Source: Refinitiv

SDC code: N6

ALL INTERNATIONAL US\$ BONDS

BOOKRUNNERS: 1/1/2020 TO DATE

Managing bank or group	No of issues	Total US\$(m)	Share (%)
1 Citigroup	140	34,792.63	9.0
2 JP Morgan	137	32,994.04	8.5
3 BofA	116	26,621.67	6.9
4 Goldman Sachs	99	25,079.82	6.5
5 Morgan Stanley	73	23,182.71	6.0
6 Barclays	97	21,814.01	5.6
7 Deutsche Bank	78	13,491.65	3.5
8 RBC	52	12,474.43	3.2
9 Wells Fargo	57	12,330.51	3.2
10 Credit Suisse	78	11,979.01	3.1
Total	433	387,230.54	

Including Euro, foreign and global issues. Excluding equity-related debt, US Global ABS/MBS.

Source: Refinitiv

SDC code: O1

ALL SUPRANATIONAL BONDS IN EUROS

BOOKRUNNERS: 1/1/2020 TO DATE

Managing bank or group	No of issues	Total €(m)	Share (%)
1 Goldman Sachs	5	3,232.60	13.1
2 Deutsche Bank	6	3,003.72	12.1
3 BofA	3	2,534.24	10.2
4 UniCredit	3	2,498.62	10.1
5 JP Morgan	4	2,401.32	9.7
6 SG	5	2,281.46	9.2
7 BNP Paribas	4	2,035.03	8.2
8 Credit Agricole	3	1,763.08	7.1
9 HSBC	2	1,513.69	6.1
10 Barclays	2	880.27	3.6
Total	15	24,725.83	

Excluding ABS/MBS.

Source: Refinitiv

SDC code: N5

ALL SOVEREIGN BONDS IN EUROS

BOOKRUNNERS: 1/1/2020 TO DATE

Managing bank or group	No of issues	Total €(m)	Share (%)
1 JP Morgan	12	8,666.56	11.6
2 Citigroup	9	6,838.46	9.1
3 BNP Paribas	10	6,630.79	8.8
4 SG	6	5,899.53	7.9
5 Goldman Sachs	8	5,306.30	7.1
6 HSBC	7	4,978.31	6.6
7 Credit Agricole	3	3,594.89	4.8
8 Nomura	3	3,447.15	4.6
9 UniCredit	4	3,186.76	4.3
10 BofA	8	3,167.84	4.2
Total	26	74,944.88	

Excluding ABS/MBS.

Source: Refinitiv

SDC code: N4

MUNICIPAL, CITY, STATE, PROVINCE ISSUES IN EUROS

BOOKRUNNERS: 1/1/2020 TO DATE

Managing bank or group	No of issues	Total €(m)	Share (%)
1 UniCredit	8	2,165.43	20.4
2 DGZ-DekaBank	6	959.35	9.1
3 Nord/LB	6	938.68	8.9
4 Barclays	3	624.86	5.9
5 LBBW	4	578.69	5.5
6 HSBC	4	576.52	5.4
7 DZ Bank	5	512.11	4.8
8 Deutsche Bank	4	484.12	4.6
9 JP Morgan	1	424.77	4.0
10 Hessen-Thuringen	3	398.03	3.8
Total	17	10,598.91	

Excluding ABS/MBS.

Source: Refinitiv

SDC code: N7

with an oversubscribed sustainable last Tuesday.

The 10-year, Madrid's fourth in the format, attracted more than €7.25bn of demand from over 230 investors - a reception more akin to major SSA issuers.

The record order book - almost twice the previous largest for a Spanish region - enabled lead managers *Banco Sabadell*, *BBVA*, *Bankia*, *Deutsche Bank*, *HSBC* and *Santander* to tighten the €1.25bn deal by 6bp in marketing to 14bp over the April 2030 Bono - flat to or even inside Madrid's curve, according to a lead manager.

"It's unbelievable. This is the kind of stuff you'd expect to see from a Spain book, not a region," the lead manager said.

"I thought the timing was right and expected a good reception from investors, but the extraordinary outcome was a great surprise," said Rodrigo Robledo Tobar, director general for financial policy and treasury.

"We have changed investors' impression of Madrid and repriced our whole curve," he added, noting that the "really impressive" bond had tightened a further 2bp in secondary trading and other Madrid bonds were also trading tighter.

80% of sales were outside Spain, with Germany/Austria (20%), France (13%), the UK (11%) and the Benelux region (11%) all strongly represented. This compares to less than 65% international placement on Madrid's previous €1.25bn sustainable 10-year in February 2019.

The increase reflects a concerted foreign marketing effort that emphasised the region's strong debt/GDP ratio and the constitutional guarantee underpinning its debt, Robledo Tobar said.

"Investors were really pleased by the positive things the region is doing. They changed their minds in the way they value the credit of Madrid."

By investor category, real-money buyers - fund managers (45%) and insurance and pension fund accounts (14%) - dominated the new issue's distribution.

Dedicated ESG investors accounted for 51% of sales.

ESG STRENGTH

The deal continued strong recent sales of ESG debt, including from other Spanish public sector names.

In particular, the issue followed ADIF-Alta Velocidad's well-received €600m green 10-year at the start of the month. Lead managers priced that deal at 23bp over the same April 2030 Bono with €3.7bn-plus orders, having tightened 7bp in marketing.

Madrid's most recent issue was also a €1.25bn sustainable 10-year in February 2019, and orders of €2.6bn brought a 5bp tightening to 21bp over.

The region, Spain's only public sector issuer besides the sovereign with the capacity for €1bn new issues and subsequent taps to further liquidity, is now halfway through its €4.2bn 2020 funding programme.

It has a further €1.15bn of capacity under its €2.4bn sustainable bond framework, which allows for private placements and loans as well as further syndicated bonds.

"The framework has given us momentum, with most of the SRI accounts entering since the very beginning. It allows us to price at good levels," said Robledo Tobar.

SPAIN'S SIGNALS

Spain's green bond plans were clarified in an interview last month.

"We have decided that it's time to declare our intention to become a regular issuer in this market," Pablo de Ramon-Laca, head of funding and debt management, since promoted at the Spanish Treasury, told IFR.

"A sovereign green bond is a powerful signal to the world that we mean business," he added.

Besides its existing investor base, Spain hopes to access dedicated green bond accounts - "a very demanding set of investors that will not settle for anything other than green".

A much rumoured conventional 30-year could also follow, while the kingdom auctioned a new five-year and tapped its April 2030 Bono last Thursday, raising a little more than €4.5bn in the process. Market sources have seen these choices as the Tesoro leaving space for a new 2050 syndication.

▶ BELGIUM WRAPS UP 2020 EURO SYNDICATIONS WITH 20-YEAR

The **KINGDOM OF BELGIUM** pulled off its second syndicated power play in a month, drawing bids of more than €27bn for a new 20-year government bond.

Lead managers *Citigroup*, *JP Morgan*, *Natixis*, *Nomura* and *Societe Generale* tightened the €5bn deal 1bp in marketing to mid-swaps plus 11bp.

The June 2040 offering (OLO #90) follows the sovereign's €6bn 10-year last month. While the two offerings were similar in many ways, real money buying was higher in this issue, according to Maric Post, director treasury and capital markets at the Belgian Debt Agency.

"The higher yield clearly attracts those types of investors," Post said.

In contrast, distribution of the 10-year was focused on bank treasuries.

Fair value on the new issue was somewhat disputed. While the issuer and leads put it at

8bp over on the basis of the sovereign's most recent deals in this part of the curve, its many older bonds in this area led some to see it wider.

"The 2041s and 2045s are showing a very high cash price. That distorts the asset swap and would lead some investors to see fair value higher," said a syndicate source away from the deal, which they termed "a good, solid trade".

"We enjoyed a good, quite helpful dialogue around the spread. That shows that we were testing the envelope on where investors saw value, achieving price tension and getting down to the last basis point," said a lead manager, who noted that the leads' "sensible" approach was to interpolate between the sovereign's recent 2037 and 2047 bonds.

He acknowledged, though, that this involved "a wider timespan" than the nearer but older bonds. "People were looking at fair value in a lot of different ways," he said.

EARLY CLARITY

Belgium responded to the fair value debate by setting the plus 11bp spread early.

"It was very important for investors to have clarity over where we saw value and wanted to land," Post said.

This "seemed to resonate extremely well with investors - it was clear that 11bp was the number where consensus was forming", the lead said.

As a result, real money accounts came in earlier than usual. Fund managers, pension funds and insurance companies all took a higher proportion than in the 10-year, while hedge funds and bank treasuries' share was lower.

"We were very pleased with the nature of the final order book. Fixing the spread saw a groundswell of high-quality accounts coming in and justifying the €5bn size," the lead said.

Despite the book's size, the sovereign was not tempted to tighten further in view of the fair value debate.

"Because of this uncertainty felt within the investor community and also given absolute rates, we felt that was really the level to go for," said the lead.

Tightening of 1bp "was probably not quite as much as they'd have hoped, but as a sensitive issuer they don't need to push too hard," said the source away from the deal, who noted "quite a bit of fast money in these sovereign syndications".

The lead countered that the deal was "appropriately priced and still got a sufficiently strong book. It doesn't help to force [pricing] in and then have the bond trade wider in secondary".

Similarly, the sovereign opted not to increase the deal's size. Instead, it settled for the €5bn it sought originally.

Belgium has now completed its syndications for the year.

"We do our 10-year flagship at the start of the year, whereas we can time the second syndication a little bit. But the market was there and we decided to go for that," Post said.

Including €437m of sales last week under its Optional Reverse Inquiry (ORI) facility for dealers, the sovereign has completed close to 40% of its 2020 funding programme. The remainder will be sourced through OLO auctions, plus EMTN and/or Schuldschein placements, if these are able to offer pricing through the OLO curve, Post said.

TAP TAKERS

At the other end of the maturity spectrum, Germany's **KfW** issued a €1bn tap of its April 2024 bond. The no-grow transaction attracted orders in excess of €2bn, excluding trading interest from the joint lead managers.

Leads *Commerzbank*, *Goldman Sachs* and *HSBC* priced the bonds in line with guidance at mid-swaps less 13bp, equivalent to 18.1bp over Bunds.

"Sub 20bp versus Bunds, I can't remember the last time KfW printed sub 20bp versus Bunds," a lead said.

"Still, it went well. We had books over €2bn for a €1bn capped trade. It's gone as you would expect in the current market. I did think that with the sub 20bp spread versus Bunds, we might see some reluctance from investors but we did get a €2bn-plus book."

► KOMMUNINVEST, SNCF SUSTAIN EURO GREEN SURGE

With a €7.25bn book for Madrid's latest sustainable bond underlining strong interest from both dedicated ESG and broader investors for socially responsible debt in the single currency, two public sector issuers are poised for debut green benchmarks.

Sweden's **KOMMUNINVEST**, an established green issuer in its domestic currency and US dollars, has mandated *Barclays*, *BNP Paribas*, *Danske Bank*, *JP Morgan* and *Swedbank* and is plotting its first green euro trade, which will also be its debut in the single currency. Investor calls will begin on February 25.

A stronger market position, additional members and increased municipal funding needs led the issuer to add the euro as a strategic currency in October last year.

"They don't want to be locked down in two currencies to get their funding," said a lead syndicate banker.

"Also, the expectation is that the investor base will be much more diverse in euros than the one they would have in dollars where it tends to be central banks mainly."

The depth of demand for public sector bonds has been plain to see since the start of the year, with issuers breaking order book records regularly while funding costs are attractive.

"If you look at the difference in pricing between euro and dollar markets, it's much closer than it used to be historically," a DCM banker said.

"Once you factor in swap charges, you can see that the euro is a competitive funding currency for a lot of issuers."

Kommunalbanken, for example, returned to the single currency after an absence of over two years last October.

"Euros represents depth, diversity, attractive pricing and a more dedicated green/SRI investor base," the DCM banker said.

That will not be the key reference pricing point. Instead, banks will be pointing to KommunalKredit.

"It's the most natural comp," another DCM banker said. "It's 0% risk-weighted, ECB repo-eligible, a Nordic name, non-PSPP eligible. The other one is KBN, but they're not 0% risk-weighted and are not ECB repo-eligible."

As part of its sustainability strategy, the issuer's preference "is to conduct investor calls rather than physical investor meetings in relation to this mandate", the agency said.

"They really are putting their money where their mouth is and believe in the strategy of not flying around the world promoting green," the second DCM banker said.

"I don't see any downside for them, especially as a lot of the accounts are going to be green."

Also from the Nordics, **MUNICIPALITY FINANCE** published the first social bond framework by any Nordic institution on February 12 and said it planned to fund the social finance portfolio by issuing social bonds in the future.

THE SAME BUT DIFFERENT

Investors will also soon have the ability of buying paper from **SNCF SA**, the 100% French state-owned issuer in charge of the financing of the new SNCF Group that became fully integrated at the start of the year.

It mandated *BNP Paribas* and *Credit Agricole* to organise a series of fixed income investor meetings across Europe from March 2.

An inaugural euro benchmark under SNCF SA's new green bond framework may follow. This will carry "a long-dated maturity", the Aa3/AA-/A+ (Moody's/S&P/Fitch) rated issuer said.

"It's still 100% government owned, like Deutsche Bahn, but many still treat it as SSA," the second DCM banker said.

"It's partly due to legacy. Most of the feedback points to investors still treating it as SSA but we've had accounts saying it doesn't have EPIC status and that they can't buy it and treat it more as a corporate."

SNCF SA plans to raise around €4bn in 2020, €2bn–€4bn in 2021 and €1bn–€3bn thereafter in euros, US dollars and in green bond core financial markets, with liquid benchmark issues especially in long term maturities.

"They've done some work to explain the new entity but they will definitely use the roadshow to do the bulk of the explanation and explain their thoughts and pricing."

Away from debut greens but nonetheless notable, **ONTARIO TEACHERS' FINANCE TRUST**, fully guaranteed by Ontario Teachers' Pension Plan Board, rated Aa1/AA+/AAA (Moody's/S&P/DBRS), is planning a debut euro.

It has mandated *Barclays*, *BNP Paribas*, *Bank of America* and *JP Morgan* for investors meetings.

Among all these names, there is one familiar face in the pipeline.

The **EUROPEAN STABILITY MECHANISM** sent out an RFP on February 19 for a deal to be executed the week of February 24.

► TCorp MAKES EURO DEBUT, TCV FOLLOWS

NEW SOUTH WALES TREASURY CORP, rated Aaa/AAA (Moody's/S&P), made its debut in the euro market on February 14 with a €60m sale of 0.609% 30-year Eurobonds arranged by *Merrill Lynch* and *UBS*.

TCorp met global investors last year after updating its previously dormant US\$10bn EMTN programme on June 4.

Before the latest trade the state funding arm had only sold one offshore bond issue since the EMTN programme was established in December 2012 – a Rmb1bn (then US\$163.5m) 2.75% one-year note offering in November 2014.

The first Dim Sum bond issue from an Australian state was seen as a largely symbolic trade, underlining growing trade and currency links with China.

TCorp has several other modest-sized long-dated foreign currency bond issues outstanding from before 2012, including £44.4m of February 2039s, ¥15bn (US\$139m) of April 2039s and SFr130m (US\$133m) of April 2041s, but nothing approaching benchmark size.

Instead, TCorp – like all other Australian state treasurers – has focused on the local market, which provides high levels of liquidity and a deep and dependable investor base, including bank balance sheets eager to purchase rare Level 1 high-quality liquid assets for Basel III purposes.

"This transaction represented a great opportunity to issue into a tenor to

complement our strategy of lengthening the debt profile while diversifying the investor base. In Europe, there is more appetite for this type of debt,” said Fiona Trigona, TCorp’s head of funding and balance sheet.

Following closely behind TCorp’s inaugural euro trade, fellow semi government and identically rated **TREASURY CORP OF VICTORIA** issued €110m of 0.6% 30-year bonds last Monday through a private placement.

NON-CORE CURRENCIES

AUSTRALIAN PUBLIC SECTOR RUSH

NORTHERN TERRITORY TREASURY CORP, rated Aa3 (Moody’s), became the third state government to open a new bond line last week with Friday’s A\$700m (US\$455m) syndicated sale of 2.0% April 21 2031s.

ANZ, NAB and UBS were joint lead managers for the issue, which was priced at 101.00 to yield 1.90%, at the wide end of EFP (10-year futures) plus 89bp–93bp guidance and 89.4bp over the April 2031 ACGB.

Pricing compares with the 50bp EFP margin paid by Treasury Corporation of Victoria three days earlier for its slightly shorter A\$2.25bn November 2030 bond issue.

Northern Territory is the lowest-rated Australian state, according to Moody’s, which sees New South Wales and Victoria as Aaa credits, Queensland, South Australia and Western Australia as Aa1 credits, and rates Tasmania Aa2.

For its part, **TREASURY CORPORATION OF VICTORIA** had already raised A\$2.25bn from last Tuesday’s short 11-year bond sale, the largest issuance in the local market so far this year.

ANZ, Citigroup, Deutsche Bank and UBS were joint lead managers for the 1.5% November 20 2030s, which was priced at 99.654 to yield 1.535%, within 49bp–52bp guidance at 50bp over EFP (10-year futures contract), equivalent to the May 2030 ACGB plus 49.9bp.

Australian investors took 82%, Asia ex Japan 10%, Europe 6% and Japan 2%. Asset managers bought 54%, bank balance sheets 27%, bank trading 9%, official institutions 8% and hedge funds 2%.

TCV previously issued a A\$1.1bn short four-year (1.0% November 20 2023) bond on January 14, which priced 29bp wide of three-year futures and 28.4bp over the April 2023 ACGB.

Local bank balance sheets dominated allocations for last Wednesday’s A\$1.5bn sale of 4.75-year (November 21 2024), 144A-eligible floating-rate notes from **QUEENSLAND TREASURY CORP**.

Australian investors bought 96% of the notes and Asia the remaining 4%. Bank balance sheet received 86% of the rare Level 1 high-quality liquid asset that helps banks meet their Basel III stress tests. Official institutions took 8%, trading desks 3%, asset managers/insurance companies 2% and others 1%.

ANZ and CBA were joint lead managers for QTC’s first syndicated offering of the calendar year, which was priced at the tight end of three-month BBSW plus 23.5bp–25.5bp guidance.

The central government was also in on the act, with the **AUSTRALIAN OFFICE OF FINANCIAL MANAGEMENT** tapping its 2.75% May 21 2041 Treasury bond for A\$2bn to take the size of the line up to A\$6.6bn.

The reopening, the AOFM’s first syndicated sale of nominal bonds in 18 months, attracted a final order book of A\$6.1bn as joint lead managers CBA, JP Morgan and UBS priced the increase at a yield of 1.535% and within the 49bp–51bp guidance range at EFP (10-year futures) plus 49.5bp.

The AOFM raised A\$3.6bn from the initial sale of the bond on July 17 2018, which yielded more than twice as much (3.09%) and priced 42bp wide of EFP.

Subsequent tenders took the issue size up to A\$4.6bn before last Wednesday’s addition.

CORPORATES

US DOLLARS

AMGEN SLICES DEBT COSTS WITH NEW US\$5bn BOND

Biopharmaceutical company **AMGEN** was in the market last Tuesday with a US\$5bn five-part bond to refinance high-coupon debt and extend maturities.

Amgen (rated Baa1/A-/BBB+) added to its debt load last year with a US\$13.4bn cash acquisition of Celgene’s oral psoriasis drug Otezla, and is looking to make its nearly US\$30bn debt stack more manageable to pay off.

S&P downgraded Amgen to the lowest rung of Single A last year due to the acquisition and an aggressive share buyback policy.

“While we project that Amgen will continue to generate strong cashflows and can quickly reduce debt leverage, we also believe that the company is comfortable with leverage at current levels,” S&P wrote in the report.

“We therefore expect the company to allocate free cashflow for dividends, acquisitions and share repurchases.”

Amgen has US\$2.95bn of bonds coming due this year and US\$10.5bn of maturing debt through 2022.

Combined with a sizeable US\$3bn–\$5bn share repurchase plan for 2020, the company’s free cashflow (US\$11.3bn in 2019) would be stretched to pay for it all.

“They could have paid off these obligations as they matured, but from our perspective we don’t really see the management team in a position where they want to take down their leverage at this point,” one portfolio manager said.

“So refinancing looked like the most realistic option and it looks like an opportunistic option given where all-in yields are today.”

The 30-year Treasury was trading below 2% on Tuesday, with average credit spreads still low at 102bp over Treasuries, just 12bp off a post-financial crisis low of 90bp, according to ICE BofA data.

Amgen launched a US\$500m five-year at 55bp over Treasuries, a US\$750m seven-year at 75bp over, a US\$1.25bn 10-year at 90bp over, a US\$1.25bn 20-year at 117bp over and a US\$1.25bn 30-year at 137bp over.

Bookrunners Barclays, Citigroup, Goldman Sachs and Morgan Stanley tightened pricing by 15bp–25bp through price progression.

The 30-year came inside where Amgen’s 4.563% 2048s had been trading - around 140bp over Treasuries with a dollar price of 120.60, according to MarketAxess data - and the 3.375% coupon was even lower than on some of the short-term debt the company plans to redeem as part of the transaction.

Amgen’s stated use of proceeds is to redeem in full or in part its 3.45% 2020s, 4.10% 2021s, 1.85% 2021s and 3.875% 2021s, according to the filing.

The company is expected to increase sales in the wake of the Otezla acquisition as it should be a “meaningful contributor to revenues”, Fitch noted in a report upgrading its rating to BBB+ from BBB last year.

“They have a comfort with their current credit profile, but at the same time if the correct opportunity came along we wouldn’t be surprised to see the company’s management team willing to stretch the balance sheet to get an acquisition done,” said the investor.

FIRSTENERGY BONDS COME INSIDE CURVE DESPITE ESG CONCERNS

FIRSTENERGY enjoyed strong price progression and negative concessions on a US\$1.75bn bond issue last Tuesday as high-grade investors snapped up the electricity utility despite its heavy coal exposure, pending liabilities and comparatively low ratings.

The Ohio-based company (Baa3/BBB-/BBB) may be one of the lowest rated electricity utilities in the high-grade space but it still priced its issue inside those of several peers amid strong demand for corporate credit and the buy-side's ongoing hunt for yield.

An order book close to US\$7bn allowed leads to squeeze spreads by 25bp–35bp before landing a US\$300m five-year tranche at 70bp over Treasuries, a US\$600m 10-year at 110bp and a US\$850m 30-year at 140bp.

At those levels, the utility left buyers taking negative concessions of minus 7bp–10bp to the holdco's existing curve, where its 3.9% 2027s and 4.85% 2047s were respectively trading at a G-spread of 100bp and Treasuries plus 146bp, according to IFR calculations.

"The fact that a firm can come out at the lowest rung of investment-grade and get these deals placed with spreads that are not much wider than the benchmark is pretty good for the issuer and shows strong demand," said Collin Martin, managing director of fixed income strategies at the Schwab Center for Financial Research.

The 30-year tranche was priced 2bp inside where Texas-based CenterPoint Energy's Baa2/BBB rated 3.7% 2049s were trading. And the new 10-year came flat to the secondary level of DTE Energy's 2.95% 2030s, rated Baa2/BBB, according to MarketAxess data.

SCORING WELL

When rating environmental, social and governance issues, FirstEnergy took the 10th spot among its 33 US utility peers with an ESG score of 63.46 out of 100, according to Refinitiv data.

It also scores positively compared with other vertically integrated utilities with heavy coal exposure – namely PPL, American Electric Power and Duke Energy, according to a CreditSights note.

That said, FirstEnergy still faces clean-up costs at its West Virginia Blue Run coal ash

pond, the largest in the country, after a judge deemed it financially responsible when it was spun off from its bankrupt opco.

It is hoped that it can mitigate those liabilities thanks to the US\$1bn–\$2bn held at the former opco, **FIRSTENERGY SOLUTIONS**, which garnered such funds thanks in part to an Ohio bailout package.

"It's ultimately a question of whether that risk is being priced into the securities themselves," one investor said.

"If you look at the spread premiums relative to some of the other utility exposures that have been priced in the last week, and even in the market today, there is definitely a premium there."

While FirstEnergy came flat or tight to similarly rated peers, for those investors looking at the utility sector it did offer a decent pick-up to recently issued, albeit Single A, names.

COMMONWEALTH EDISON (A1/A/A) priced a US\$350m 2.2% 10-year note issue at 68bp over Treasuries and US\$650m of 3% 30-year notes at 100bp over on the same day as FirstEnergy.

Likewise, **DTE ELECTRIC** priced 10 and 30-year Aa3/A/A+ rated securitised notes the previous week at 68bp and 90bp over.

GOING UP: OTIS DEBUTS US\$5.3bn BOND

Elevator company **OTIS WORLDWIDE**, which is the second spin-off in as many weeks from **UNITED TECHNOLOGIES**, was in the market on Wednesday with a debut US\$5.3bn six-part deal.

United Technologies, in its plan to become a leading aerospace and defence company, is shedding assets to help pay for its US\$30bn acquisition of navigations systems maker Rockwell Collins and its merger with defence contractor Raytheon.

Earlier this month, United Technologies' air conditioning and refrigeration unit Carrier Global raised US\$9.25bn in a six-part

bond. Otis followed that offering with a six-part issuance of its own.

It sold a US\$500m three-year floater at three-month Libor plus 45bp, while the rest of the tranches were fixed.

Bookrunners *Citigroup*, *Bank of America* and *Goldman Sachs* priced the US\$1.3bn five-year at 65bp over Treasuries, the US\$500m at 80bp over, the US\$1.5bn 10-year at 100bp over, the US\$750m 20-year at 110bp over and the US\$750m 30-year at 135bp over.

Spreads on the Otis deal (rated Baa2/BBB) tightened 15bp–20bp through price progression and came about 15bp tight compared with the Carrier deal (rated Baa3/BBB), which offered the same fixed-rate maturities.

Carrier's bonds had not budged much from their pricing spread levels, but all tranches were trading above par, according to MarketAxess data.

Both spin-offs are cyclically sensitive businesses but are also quasi low beta given the commercial nature of their businesses, said Jason Shoup, senior portfolio manager and fixed income strategist at Legal & General Investment Management America.

"From that perspective, the market has been willing to price them at what I would consider to be pretty attractive valuations," Shoup said.

HOLD THE HIGH-GRADE RATINGS

Although Otis received slightly higher ratings from the ratings agencies, it is not clear the company is considered the safer bet of the two spin-offs.

When the spin-offs were first announced, many analysts believed Otis would be a high-yield company because its large free cashflow would allow it to run with higher leverage, Shoup said.

Otis generated US\$1.324bn of free cashflow in 2019, which was spurred by capital expenditures of 1.1% of sales compared with an industry average of around 3%, Stacy Laszewski, vice-president

ALL INV-GRADE US CORPORATE BONDS

BOOKRUNNERS: 1/1/2020 TO DATE

Managing bank or group	No of issues	Total US\$(m)	Share (%)
1 Citigroup	24	6,690.89	12.0
2 JP Morgan	29	6,170.25	11.1
3 Morgan Stanley	10	4,630.55	8.3
4 Barclays	15	4,365.83	7.8
5 Wells Fargo	23	4,362.93	7.8
6 BofA	24	3,921.98	7.0
7 Goldman Sachs	11	3,848.65	6.9
8 MUFG	9	2,767.29	5.0
9 TD Securities	12	1,909.59	3.4
10 HSBC	5	1,829.98	3.3
Total	53	55,707.40	

Excluding equity-related debt, ABS/MBS, all foreign issues, global issues and non corporates.

Source: Refinitiv

SDC code: F6a

ALL US INVESTMENT GRADE CORPORATE DEBT

BOOKRUNNERS: 1/1/2020 TO DATE

Managing bank or group	No of issues	Total US\$(m)	Share (%)
1 JP Morgan	85	24,038.12	10.9
2 Citigroup	71	22,579.81	10.2
3 Morgan Stanley	55	22,482.72	10.2
4 BofA	75	18,036.97	8.2
5 Goldman Sachs	47	17,991.06	8.1
6 Barclays	38	11,721.89	5.3
7 Wells Fargo	46	11,002.02	5.0
8 MUFG	32	8,363.87	3.8
9 RBC	34	6,728.95	3.0
10 HSBC	19	5,356.74	2.4
Total	178	221,021.42	

Source: Refinitiv

SDC code: F9

ALL CORPORATE BONDS IN EUROS

BOOKRUNNERS: 1/1/2020 TO DATE

Managing bank or group	No of issues	Total €(m)	Share (%)
1 Barclays	18	5,117.05	7.5
2 HSBC	23	4,863.59	7.1
3 JP Morgan	24	4,687.97	6.8
4 BNP Paribas	30	4,397.40	6.4
5 Deutsche Bank	24	3,651.16	5.3
6 Citigroup	19	3,439.00	5.0
7 SG	19	2,889.31	4.2
8 UniCredit	19	2,545.76	3.7
9 BofA	16	2,442.70	3.6
10 ING	16	2,358.40	3.4
Total	84	68,504.29	

Excluding equity-related debt. FIGS, ABS/MBS.

Source: Refinitiv

SDC code: N8

Cadent Gas targets debut transition bond

■ CORPORATES ESG UK utility to market use of proceeds bond

CADENT GAS, which runs a network supplying the fuel to more than 10 million UK households, is expected to print its first transition bond following a roadshow that wraps up on February 27.

The investor meetings come after the publication of Cadent's transition bond framework in December. It is marketing a €500m 12-year note through meetings in the UK and across Europe.

Although growing, transition bonds are still a tiny subset of the ESG bond universe. Unlike green bonds, there is no formal framework for transition bonds, which has led to controversy.

Cadent (Baa1/BBB+/BBB+) has publicly committed to medium and long-term targets to reduce its greenhouse gas emissions by 80% against a 1990 baseline by 2050.

Proceeds from the Cadent deal will be earmarked for specific projects that are part of the company's broader strategy to eventually move towards "100% low carbon".

Those projects include the replacement of pipelines to facilitate the integration of hydrogen and other low-carbon gases and reduce methane leakage.

Other eligible projects include developing the production of renewable energy, building sustainable transport infrastructure - such as hydrogen fuelling stations - and energy-efficient buildings.

Funding the expansion of its gas network is excluded.

Transition bonds have come in for criticism from some investors as just a marketing gimmick. Many of the deals seen so far have been criticised for a lack of real transition.

Hong Kong power producer Castle Peak Power and Italian utility Snam, both heavy burners of fossil fuels, were the first issuers in the format, in 2018 and 2019, respectively.

Brazilian meat producer Marfrig followed with a deal last August - even though beef production is considered to be the biggest single contributor to deforestation globally.

One banker on the deal said investors were keen on transition bonds.

"There's a growing emphasis on transition. AXA, for example, has a dedicated transition framework in place."

The French asset manager has been a vocal proponent of transition bonds to help companies which are not yet green - and will, therefore, struggle, to meet the strict criteria required - to issue debt to improve their ESG credentials.

"The transition [label] is realistic around what a company is trying to achieve," said the banker.

Some question why labels should be attached in the first place: issuers can raise funds and use the proceeds for exactly the same purposes without the need for a nomenclature.

One of the benefits of labelling is that it helps attract additional liquidity, though whether that leads to better pricing outcomes for issuers is debatable.

"It potentially gives more confidence that the bond will price tighter but it's really difficult to pinpoint," said the banker.

BNP Paribas is sole transition framework structuring adviser for Cadent and is a lead manager on the new issue alongside *Credit Agricole*, *Mizuho* and *NatWest Markets*.

Sudip Roy

of financial planning and investor relations for Otis, said during an investor presentation.

Strong free cashflow allows Otis to achieve investment-grade ratings but also makes it an attractive target to outside M&A, allows management to pursue M&A or to simply lever up with share buybacks, Shoup said.

"For some investors, that's still in the back of their mind, and I don't think that's a totally off-base observation when you do have one of these semi-cyclical types of industries that produces so much cash," Shoup said.

"In those types of situations, you have to have a lot of faith in the management team that they won't do something that's incredibly negative for creditors and bond holders."

The concern is fresh on investors minds after Kraft Heinz management abandoned investment-grade ratings in favour of shareholder returns as two ratings agencies downgraded the packaged foods company to high-yield this month.

Additionally, the closest peer comparison to Otis is the high-yield German elevator company ThyssenKrupp, which holds B1/BB- ratings. Other competitors - Finland's Kone and Switzerland's Schindler Group - have no outstanding bonds.

CreditSights said Otis will be incentivised to maintain a strong credit profile as ThyssenKrupp continues discussions with private equity groups for a possible US\$17bn spin-out of its elevator unit, which is the industrial conglomerate's most profitable.

Kone was initially in talks to buy the unit but withdrew from the deal.

Moody's estimates Otis will have total debt in excess of US\$7.5bn for a leverage level of 3.6 times debt to Ebitda following the completion of the spin-off later this year.

"While this is quite high when compared to other Baa2 rated industrial peers, Moody's expects that leverage should steadily trend towards the lower 3.0x range by the end of 2022 as earnings grow, and, if necessary, through term loan pre-payments with excess free cashflows," the report stated.

EUROS

■ LOW COUPONS TRIGGER US CORPORATE SUPPLY

US corporates piled into the euro investment-grade market last week, warmly received by investors that showed a preference for paper targeting the belly of the curve.

Last Tuesday, six tranches of US investment-grade paper hit the market as three borrowers sought to take advantage of highly attractive funding costs to refinance debt.

For most US companies, the main draw of the euro sector is the significantly lower coupons on offer compared with their home market.

"On the whole, the issuers concerned are not really looking at the differential in swaps terms, they are just looking at the coupon differential, which is much more beneficial for them in euros," said a lead on one of the trades.

DOW CHEMICAL (Baa2/BBB) and **VF CORP** (A3/A) both took the decision to issue euros in order to take out US dollar debt.

Dow Chemical raised €2.25bn through three tranches comprising €1bn of seven-year, €750m of 12-year and €500m of 20-year bonds. They were priced at mid-swaps plus 80bp, 115bp and 165bp, respectively.

Demand skewed towards the shortest tranche. Final books for the bonds reached €8.75bn, although 40% of that was focused on the shortest tranche.

"I think for some investors curves are a bit too flat to justify going out too far," said a banker away from the deal.

The two longest note tranches were tightened by 35bp from IPTs, while the 2027s were revised by 30bp.

With the offering intended to be leverage-neutral, proceeds will be used to redeem the issuer's US\$1.25bn of 3% November 2022s, as well as retire other debt.

VF, an apparel and footwear company, announced a €500m no-grow green eight-year and €500m conventional 12-year. The

new notes were issued alongside an any-and-all cash tender for its US\$300m 6% October 2033s and US\$350m 6.45% November 2037s.

The issuer will use the proceeds also to fund the redemption of its US\$500m 3.5% September 2021s.

The two tranches were priced at 50bp and 70bp over swaps, from IPTs of 80bp and 95bp area. Books peaked at more than €4.5bn, though by guidance they were €2.5bn.

Again, demand centred on the shorter leg. More than €4bn of orders targeted the issuer's eight-year tranche compared with €2bn for its 12-year.

Proceeds of the eight-year bonds will fund projects that make the company's products, materials, operations and supply chain more sustainable.

Fair value for both trades was considered relatively subjective. Leads for Dow pointed to euro issues from sector peers such as Bayer, LyondellBasell and PPG Industries for pricing points.

Comparables for VF's print included its only euro bond issue – a €850m 0.625% September 2023 – which was bid at 44bp, as well as paper from companies active in similar sectors, such as Swiss luxury goods holding company Richemont and French group Kering.

Home appliance manufacturer **WHIRLPOOL** (Baa1/BBB/BBB) took a slightly different tack to the other two US names by issuing through its European entity, Whirlpool EMEA Finance.

Despite the €500m no-grow eight-year transaction being ECB eligible, leads stressed the fact that, given investors are ultimately taking exposure to a US company, the deal qualifies as a reverse Yankee.

Eligibility for the ECB's Corporate Sector Purchase Programme is something US borrowers are increasingly considering, according to one lead, and issuers will look to meet criteria by issuing through European entities when it is not too cumbersome.

In January, for example, Digital Realty raised €1.7bn through a newly created Dutch finco to ensure its bonds qualified for the CSPP.

Whirlpool's notes were priced at 75bp over swaps, in line with fair value, according to a lead, and 30bp inside IPTs.

Also designed to be leverage-neutral, the trade does differ from Dow Chemical and VF in that proceeds will be used to refinance a euro bond issue. Whirlpool has €500m of 0.625% notes due to mature next month.

The three deals came after the first big wave of US corporate issuance in the euro market this year, earlier this month. Both IBM and Comcast sold multi-tranche deals in the currency.

Bankers believe it is only a matter of time before investors stop distinguishing between US corporates and their European counterparts.

"[US corporates] will definitely start to be much more integrated together with other European trading names within the same sector," said a banker away from Whirlpool.

"As more and more issuance comes from US companies, it will be harder to trade them in isolation."

GENERAL MOTORS then hit the market on Wednesday with a six-year bond issue, extending its curve by a year and printing flat to fair value.

"It is exactly what the market wants at the moment," said a banker away from the trade. "It's at the front end and comes with a bit of spread."

There was good demand for the paper, with orders peaking around €2.2bn.

Issued through General Motors Financial Company (Baa3/BBB/BBB), the financial services arm of GM, the trade was first announced at mid-swaps plus 140bp area. That was then cut to a final 115bp, at which level it offered no new issue concession, said one of the leads.

Books at the tight end of the revised 115bp–120bp guidance dropped to €2bn and the trade was sized at €750m.

ALL INVESTMENT-GRADE BONDS IN EUROS

BOOKRUNNERS: 1/1/2020 TO DATE

	Managing bank or group	No of issues	Total €(m)	Share (%)
1	JP Morgan	47	20,575.42	8.3
2	BNP Paribas	52	17,723.53	7.2
3	SG	44	17,326.42	7.0
4	HSBC	44	15,853.63	6.4
5	Barclays	49	15,655.52	6.3
6	Deutsche Bank	45	13,683.40	5.5
7	Credit Agricole	38	12,387.26	5.0
8	UniCredit	44	12,383.67	5.0
9	Citigroup	29	10,628.50	4.3
10	BofA	31	10,472.55	4.2
	Total	221	247,776.97	

Excluding ABS/MBS, equity-related debt.

Source: Refinitiv

SDC code: N9

ALL INTERNATIONAL STERLING BONDS

EXCLUDING SECURITISATIONS

BOOKRUNNERS: 1/1/2020 TO DATE

	Managing bank or group	No of issues	Total £(m)	Share (%)
1	Barclays	28	5,707.84	14.3
2	HSBC	22	4,180.46	10.5
3	RBC	18	4,048.97	10.2
4	NatWest Markets	21	4,034.37	10.1
5	JP Morgan	10	2,452.10	6.2
6	Deutsche Bank	12	2,334.09	5.9
7	TD Securities	9	2,181.40	5.5
8	Lloyds Bank	9	2,164.65	5.4
9	Citigroup	11	2,162.89	5.4
10	BNP Paribas	6	1,398.49	3.5
	Total	56	39,860.15	

Including preferreds. Excluding equity-related debt.

Source: Refinitiv

SDC code: K05a

GM had four euro-denominated bond issues before last Wednesday, the longest being a €500m 1.694% March 2025, bid at 104bp on Tradeweb.

Next up will be **HONEYWELL INTERNATIONAL** (A2/A/A), which has been sounding out demand for a four to 12-year dual-tranche benchmark. Meetings finished last week.

ASML TAPS EMPTY EURO MARKET BEFORE US DOWNPOUR

ASML HOLDING was the sole corporate in the euro market last Monday with a €750m 10-year bond that will help finance share buybacks.

The Dutch company, rated A3/A– by Moody's and Fitch, announced in January it was committing to a €6bn share buyback programme over the next three years leading it to issue its first benchmark bond since 2016.

With at least three US corporates expected in the euro market the next day leads decided to get their deal done beforehand.

"We are seeing a lot of trades later in the week, especially a lot of the US issuers, and Monday was empty so we took the decision

ALL CORPORATE BONDS IN STERLING

BOOKRUNNERS: 1/1/2020 TO DATE

	Managing bank or group	No of issues	Total £(m)	Share (%)
1	Barclays	8	1,126.05	16.8
2	JP Morgan	6	910.00	13.5
3	BNP Paribas	5	553.17	8.2
4	HSBC	4	464.41	6.9
5	RBC	4	448.66	6.7
6	NatWest Markets	4	439.49	6.5
7	Citigroup	3	439.30	6.5
8	Lloyds Bank	3	414.74	6.2
9	Deutsche Bank	2	297.89	4.4
10	Mizuho	2	208.52	3.1
	Total	12	6,721.48	

Source: Refinitiv

SDC code: N8a

ALL SWISS FRANC BONDS INCLUDING SECURITISATIONS

BOOKRUNNERS: 1/1/2020 TO DATE

	Managing bank or group	No of issues	Total SFr(m)	Share (%)
1	Credit Suisse	29	3,936.0	38.1
2	Verband	9	2,077.6	20.1
3	UBS	20	1,904.2	18.5
4	Raiffeisen Schweiz	10	750.4	7.3
5	Deutsche Bank	5	726.0	7.0
6	ZKB	8	617.1	6.0
7	BNP Paribas	2	217.1	2.1
8	Commerzbank	1	92.5	0.9
	Total	48	10,320.8	

Including preferreds. Excluding equity-related debt.

Source: Refinitiv

to do it today,” said one lead after the deal’s announcement.

Leads *ING*, *JP Morgan*, *Rabobank* and *SMBC Nikko*, began marketing the 2030 bond at the 65bp area. A book of around €2.6bn then enabled them to set guidance at the 45bp area and land at 40bp.

The best marker on its curve was the bond it issued four years ago – a €750m 1.625% May 2027 note that was bid at plus 29bp.

Fair value was quite subjective according to leads, who also looked at recent deals from issuers such as Siemens (A1/A+) as well as the ASML curve.

Siemens issued a February 2029 note the week before at 35bp over swaps as part of a five-tranche offering comprising four euro notes and one in sterling.

Demand for ASML’s deal was probably driven by the issuer’s rarity value as well as its strong position within the sector it operates, according to bankers. It builds and sells lithography systems for the semiconductor industry.

On February 14, Fitch affirmed ASML’s A– rating, with stable outlook, highlighting the company’s “leading position in the design and assembly of lithography tools, the technology that sits at the heart of the production of semiconductors”.

SWEDISH MATCH STRIKES EURO MARKET

SWEDISH MATCH’s first outing in euros in more than two years encountered a surprisingly warm reception last Wednesday despite some investors seeing tobacco companies as incongruent with ESG objectives.

Leads were pleasantly surprised by the number of investors involved in the deal and interested in the issuer.

“It was good to discover how many investors still had credit lines and were wanting to be involved,” said one banker on the deal.

Demand was such that leads were able to land pricing for the €300m conventional seven-year at 118p from IPTs of the 145bp area offering no new issue premium. Bankers selling the deal put its success down to current market conditions.

“It links to how good the market is. Tobacco companies offer a bit of a pick-up compared to similarly rated names from other sectors, and given where spreads are, this is attractive,” said the lead.

The choice of euros over the issuer’s domestic market was based on the thinking that demand would be deeper than in Swedish kronor.

“They find euros attractive versus other alternatives and the Scandinavian investor base takes a somewhat tougher view on their name given ESG focus,” said a second lead

Swedish Match is rated Baa2 and BBB by Moody’s and S&P. It also has an ESG rating of AA from MSCI, the second highest available, which makes it the highest ESG-rated tobacco company by MSCI.

It last sold euro paper in 2017 – a €200m 1.2% November 2025 that was bid at 95bp on Wednesday. In the intervening years, the company has been active in its domestic market, raising SKr1.35bn (US\$138m) via two bond issues in 2018.

According to an investor presentation, the company swaps all proceeds from foreign currency issuance back to Swedish kronor.

TEREGA KEEPS SIZE CONSTANT AS SPREAD COMPRESSES

TEREGA was inundated with demand for its €400m eight-year on Thursday, although even a book that peaked towards €4bn ultimately failed to persuade it to increase the size from first indications.

At one stage during proceedings there was talk of maybe up to €500m, but the final amount had reverted to the original €400m expectations by the time the trade was launched.

The spread was not nearly so immovable, however, with initial price thoughts of mid-swaps plus 125bp-130bp giving way to guidance of the 95bp area with seemingly little effect on demand.

The trade was still the best part of 10 times covered at its plus 90bp launch spread, although a Triple B rated bond in the favoured part of the curve from an issuer with a bit of leverage in the business that therefore offered some sort of spread was always going to be popular, said one of the leads.

BNP Paribas, *Credit Agricole*, *Natixis*, *Societe Generale* and *UniCredit* were lead managers on the transaction, which was issued by holding company Terega SAS (Baa3). This made it an effective debut – and thus added to its allure – given that the previous market visits from the French gas transmission and storage company had been made in the name of operating company Terega SA, which is rated a notch higher.

Terega SA last engaged with investors in September, when it sought a consent solicitation to modify the terms on its debt to increase borrowing up to a maximum of 7.25 times Ebitda from the previous 5.25 times.

One of those deals, the 2.2% August 2025s, was listed as a comparable for Thursday’s offering and was bid at an I-spread of 60bp in the days leading up to marketing. Also referenced were 2i Rete Gas (Baa2/BBB), with September 2025s at 62bp and October 2027s at 85bp; REN (Baa3/BBB), with February 2025s at 59bp and January 2028s at 69bp;

and Cepsa (Baa3/BBB-), with February 2025s at 71bp and February 2028s at 104bp.

Ahead of statistics being released, the lead suggested the bond might not turn out to be the Franco-Italian affair that a lead management group of four French banks and one Italian might indicate. This is just the sort paper that appeals to UK investors that struggle with otherwise low spreads and are attracted by credits with something of a story to tell, he said.

And this proved to be the case, with the UK/Ireland accounting for 29% of the paper, ahead of France’s 28%, while southern Europe in total accounted for just 6%.

DSV PANALPINA PRINTS FIRST EURO BENCHMARK

DSV PANALPINA received good demand for its first euro deal in two years, printing a tightly-priced €500m February 2027 bond off a six times subscribed book.

“The company tapped the market in 2017 with a €200m seven-year bond when they were unrated but this was their first proper benchmark euro,” a lead said.

That 2024 note, he said, was very illiquid and has not traded that much. As a result the bookrunners looked at FedEx and PostNL for comparison.

FedEx’s November 2027s and PostNL’s September 2026s were quoted at plus 85bp and plus 62bp respectively, on Tradeweb.

The Danish container shipping company announced IPTs at the mid-swaps plus 95bp area, Guidance was refined to the plus 70bp area after the books passed €2.8bn. Books peaked at €3.1bn allowing the issuer to set the final spread at plus 65bp.

“It was a strong performance and the result was fantastic and we received orders from 170 investors,” the lead said.

Investors showed a lot of interest because DSV Panalpina has an asset-light business model, which makes it very resilient to financial crisis.

Fund managers were allocated the lion’s share of the paper at 68%, while pension funds/insurers and banks took 12% and 14% respectively.

Nordic investors grabbed 28% while investors in Germany, Austria and Switzerland took 24%.

HSBC, *Danske Bank*, *Nordea* and *Nykredit* were the leads.

TWO CORPORATES LINE UP FOR EUROS

COVIVIO HOTELS has mandated banks for a benchmark euro offering, which will have an eight or nine-year tenor.

The company will meet investors from February 24-26. *CIC*, *HSBC*, *Morgan Stanley* and *Societe Generale* are the leads.

The notes are expected to be rated BBB+ by S&P. Covivio intends to use the proceeds to finance the acquisition of a portfolio of eight hotels and to refinance secured borrowings.

RELX will also begin meetings from February 24 for a new issue.

The Dutch publishing company is eyeing a triple-tranche offering of senior guaranteed notes. The deal will comprise benchmark four, eight and a €300m 12-year note.

RELX is rated Baa1/BBB+/BBB+. *Barclays*, *BNP Paribas*, *CIC*, *Commerzbank*, *MUFG* and *Rabobank* are the leads.

STERLING

WELSH WATER WADES INTO BOND MARKET AFTER DOWNGRADE

Welsh water utility **DWR CYMRU** was out with a dual-tranche sterling transaction last Monday comprising senior and subordinated debt, seemingly unaffected by a downgrade from Moody's.

On February 7, the ratings agency downgraded Dwr Cymru to A3 from A2 (stable) after the company said it would not ask regulator Ofwat to refer its final determination to the Competition and Markets Authority.

Final determinations are the price and performance targets the regulator sets out for each utility. Moody's expects that because of the stringent nature of the final determination the Welsh water utility will likely incur penalties. Dwr Cymru is rated A- by S&P and A by Fitch.

However, none of this appeared to dent interest for the bonds, with books approaching £1.4bn across the two tranches.

That enabled pricing to be tightened to 70bp over Gilts on a £300m no-grow 13-year tranche from initial price thoughts of 80bp-85bp and to plus 120bp on the £200m six-year subordinated note from 135bp-140bp.

A lead said the notes came with a 1bp-2bp premium, but that was a subjective assessment given the lack of straightforward comparables.

The issuer tapped the market because of attractive funding conditions while the addition of a junior tranche helps support the credit rating, said a lead.

Moody's, however, said in its review of the sub notes that it did not expect their reintroduction to the company's capital structure to result in an uplift to the company's senior rating.

The subordinated bond will make up just 5% or so of the utility's overall debt. In

addition, with a bullet maturity of six years, the security is not structured to be permanent capital.

Unlike many UK water utilities, Dwr Cymru has no shareholders and reinvests financial surpluses into the business.

It last sold bonds in January 2018, when it printed a £300m 2.50% March 2036 senior secured, which is bid at 72bp over Gilts. The issuer also has a revolving credit facility, which will be renewed in April for an expected size of around £150m.

HSBC and Lloyds were leads on the new bond issue.

WALES & WEST PUSHES OUT TO 2041

WALES & WEST UTILITIES pushed out its curve on Friday with a £250m May 2041 senior secured issue that is the longest bond for a UK-based utility this year.

HSBC, Lloyds and Santander marketed the notes off the company's Wales & West Utilities Finance vehicle, rated A- by S&P and Fitch, following investor meetings that started on Tuesday.

Initial price thoughts were in the Gilts plus 115bp area, and with books over £700m, guidance was released at the 105bp area (+/-2bp). The spread was set at 103bp with books around £525m.

ESB, National Grid, United Utilities and the above-mentioned Welsh Water have already come to market this year with issues in the 11 to 18-year range. Demand has been strong - ESB in particular found £1.7bn of orders for its £325m trade mid-January.

"There has been a perception of spreads being a bit too tight in the sector," said one of the leads on the Wales & West Utilities deal. Movement in Gilts over the previous three days had been working in favour of borrowers, he said.

"So there was some sensitivity in terms of overall yield requirements, but this is a part of the sterling curve that has been a bit undersupplied lately and demand is there."

Welsh Water was the most recent issuer in the market, selling a £300m 13-year Class B bond on Monday. The issue was 2.3 times covered at 70bp over Gilts.

Wales & West will use proceeds from the issue for general corporate purposes, including the redemption of its £125m 6.25% November 2021 notes.

The deal extends the issuer's curve by three years. Most bonds in that curve were printed between 2009 and 2011.

SWISS FRANCS

MOBIMO GETS GOOD SIZE AHEAD OF SYNGENTA

Swiss real estate holding company **MOBIMO** more than doubled its initial target size with

an eight-year deal on Wednesday, while still pricing with no new issue premium.

Books opened for a minimum SFr100m at 74bp-79bp over swaps, before being launched for SFr220m at MS+72bp (Eidg+107 or a 0.245% yield).

The book came to around SFr220m with 74 accounts taking part, half of them asset managers and a quarter bank treasuries. The rest was taken up by insurers, private banks and pension funds.

The deal means that Mobimo has five bonds in the Swiss market, totalling SFr950m, and extends its curve by two years. Proceeds will be used to replace short-term debt facilities and to finance projects as well as general corporate purposes.

Credit Suisse, *UBS* and *ZKB* were leads on the Fedafin Baa/CS Mid BBB/UBS BBB/Vontobel BBB+/ZKB BBB (all stable) rated deal.

SYNGENTA (Ba2/BBB-/BBB) has mandated *Credit Suisse* and *UBS* to arrange investor meetings on February 24.

A benchmark Swiss franc bond may follow.

NON-CORE CURRENCIES

AUSSIE CORPORATE MARKET FACES NEW TESTS

Australia's booming corporate bond market faces fresh challenges in the weeks ahead that may test the appetite of a broadening but increasingly circumspect investor base.

Significant new buyers have appeared this year, including a large European fund that cornerstoned the recent A\$500m and A\$300m 12-year MTNs from local REITs **DEXUS** and **GENERAL PROPERTY TRUST**, both of which secured A\$1bn order books.

Such demand would have been unthinkable just a couple of years ago, according to Sydney syndication bankers, who cite the continuing search for yield in a low interest rate world for the interest in long-dated issues Down Under.

"Previously, Japanese life companies were the main buyers of long-dated Australian dollar bonds but even they tended to draw the line at 10.5-years," one said.

"European interest was almost unheard of, while many local funds had been reluctant to stray too far from the index-tracking five-year sweet spot, but things are clearly changing."

A DCM manager concurred, saying: "Even a year ago I would not have expected Australian funds to look at 12-year corporate bonds, but what Dexus and GPT showed is a new willingness to get involved in deals that have gained momentum and are backed by a cornerstone investor."

AURIZON TEST

Among the potentially trickier transactions ahead is a proposed 10-year or longer MTN offering from **AURIZON NETWORK**.

The Baa1/BBB+ rated operator of Australia's largest coal-export rail system begins Asian and Australian investor meetings on February 24, arranged by Mizuho, NAB and Westpac, having last accessed the market in June 2017 with A\$425m of seven-year MTNs.

Though the overall investor base is clearly expanding for longer-dated corporate paper, the buy-side has become more sector and credit-specific to reflect clients' growing demand for socially responsible assets.

This bias was underlined last month when French investor Amundi, Europe's biggest fund manager by assets, boycotted a conventional €500m 12-year Eurobond issue from US real estate company Public Storage because of its low ESG rating of Single B from MSCI, its second lowest rating category.

In contrast, GPT has been in the top 5% of the Dow Jones' Global Real Estate Industry Sustainability Index every year for the last decade.

Aurizon Network will be keen to market itself as a transport infrastructure credit with no direct role in mining during its roadshow, which is set to be very well attended, according to the lead managers.

Such a distinction is unlikely to convince ESG-focused investors from Europe, while demand among Australian asset managers may be constrained by their expanding green-targeting mandates.

The syndication banker is not expecting any major backlash, however. Appetite for bonds issued by mining-heavy states Western Australia and Queensland has remained strong, despite the well-publicised withdrawal of Sweden's Riksbank, and local investors have a greater understanding of the Aurizon business model.

"Though new and existing investors are pushing Australian asset managers away from non-green instruments, vanilla funds remain large and active, underpinned by the superannuation system, whereby 9.5% of employees' salaries are automatically transferred to pension funds," he said. "I expect Aurizon to attract plenty of demand."

Port of Brisbane, acting through financing entity QPH Finance, rated BBB (S&P), has mandated MUFG and Westpac to arrange investor meetings in Asia and Australia beginning February 25 for a potential Australian dollar MTN issue.

Port of Brisbane previously sold A\$250m of seven-year MTNs in May 2016 following its debut A\$300m seven-year sale in July 2013 and a A\$200m seven-year print in June 2014.

PORT OF BRISBANE RETURNS, AVANTI DEBUTS

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New Zealand consumer lender **AVANTI FINANCE**, rated BB (S&P), has mandated NAB to arrange investor meetings for a potential debut, and rare sub-investment grade offering, in the Australian dollar market.

FIG

US DOLLARS

BNP PARIBAS GRABS EUROPEAN US DOLLAR AT1 RECORD

BNP PARIBAS secured a record low US dollar Additional Tier 1 coupon for a European bank last Wednesday, with the French lender pricing a US\$1.75bn perpetual non-call 10-year transaction at the 4.5% area.

It is the tightest US dollar-denominated AT1 from Europe, according to CreditSights data.

It is the latest record to fall in the AT1 market, where banks' funding costs have been driven to record lows by investors' hunt for yield.

Rabobank broke the euro record last year with a trade which priced at 3.25%, while DBS sold the tightest ever US dollar AT1 globally last Thursday. The Singaporean bank priced a US\$1bn perpetual non-call five AT1 offering at 3.3% (see Emerging Markets).

Books opened for BNP Paribas' self-led 144A-registered transaction in the Asian hours, with initial price thoughts in the 5.125% area.

Order books were reported above US\$7bn, before pricing was revised to the 4.75% area with books over US\$11.8bn. The deal was ultimately priced at 4.5% upon final demand of around US\$10.6bn.

"Euro AT1 has performed extraordinarily strongly this year, and US dollar AT1 has performed very well, but perhaps slightly less, and has maybe lagged a bit, so perhaps US dollar AT1 looks better value," said a banker close to the deal.

Bankers put fair value for the new issue at around 4.375%-4.5%, extrapolating from BNP Paribas' curve.

Its 7% perpetual non-call August 2028 AT1, its longest call date, was bid at a yield-to-call of 4.2% on Tuesday, according to Tradeweb.

BNP Paribas has eight AT1s, with the next up for call a US\$1.5bn 7.625% perpetual callable in March 2021.

The French bank plans to raise €4bn-equivalent of capital instruments in 2020. It has already issued a €1bn Tier 2 transaction in January.

On Wednesday, it looked as though BNP Paribas would hold the European coupon record only briefly.

ING seemed on course to price a PNC9.75-year inside its French rival, but was forced to pull the trade mid-execution as the bank's CEO revealed his departure for UBS (see section lead).

JP MORGAN ACHIEVES RECORD LOW COUPON FOR NEW PREFERRED

JP MORGAN was in the US high-grade bond market on Wednesday with its second preferred issuance of the year, this time pricing a US\$1.5bn bond at new record tight.

Average US credit spreads and Treasury yields have both tightened in since JP Morgan last issued in this format in January, allowing lower-rated peer banks to price at tighter levels.

Not to be outdone, JP Morgan came back to take advantage of those same strong technicals to price a perpetual non-call five-year fixed-to-float bond at 4.00%.

Initial price thoughts already pegged the bond at record levels and tightened another 25bp-37bp through price progression to set the new low.

"I think they want to get as close to 4% as they can," one investor said. "They are being opportunistic based on price and with potential calls of existing prefs out over the next year."

The bond landed 60bp tight to where JP Morgan's US\$3bn PNC5 priced last month at 4.60%. That same note was trading with a yield of around 4.42% on Tuesday with a dollar price of 103.85, according to MarketAxess data.

Shortly after JP Morgan's last subordinated note, Bank of America set a new low in the space with a US\$1.1bn PNC5 of its own that priced at 4.30%.

Preferred stock notes receive lower ratings due to their deeply subordinated position in the capital structure, but JP Morgan maintained higher ratings at two of the three agencies compared to BofA.

JP Morgan is rated Baa2/BBB-/BBB, while BofA's deal was rated Baa3/BBB-/BBB.

Banks have brought a flurry of subordinated notes to the credit markets at the start of this year to satisfy insatiable investor appetite for high yielding deeply subordinated instruments.

In fact, on Tuesday **BNP PARIBAS** priced a US\$1.75bn PNC10 at 4.5%, which tightened in substantially from IPTs of 5.125% to garner a US\$10.6bn order book.

"There is a willingness to extend risk when you've had winners [in the preferred space]," said Jason Shoup, senior portfolio manager and fixed income strategist at Legal & General Investment Management America.

"People who bought the bonds last week or the week before have done well, so it's not surprising JP Morgan would take advantage of that."

ARION BREAKS ICE WITH AT1 FIRST

ARION BANK drummed up US\$500m of demand for Iceland's first Additional Tier 1 on Wednesday, the last step on its banks' capital markets comeback trail.

Iceland's banking system, one of those worst hit by the financial crisis, has undergone a gradual rehabilitation in the capital markets since the crash.

Banks have worked their way down the capital structure, culminating in Arion's sale on Wednesday of the riskiest form of bank debt.

Following a European roadshow, leads *Barclays*, *Goldman Sachs* and *Morgan Stanley* opened books on Wednesday with initial price thoughts of 6.5%-6.75% for an expected size of US\$100m.

Guidance was set at the 6.375% area (+/- 0.125%) and the size confirmed at US\$100m, before the coupon was fixed at 6.25% with books around US\$500m at the tight end of guidance.

The size of the book represented an impressive result for a sub-benchmark deal from an Icelandic bank, bankers said.

It reflected that there are few other places where FIG investors can obtain such coupons. On Tuesday, BNP Paribas sold the tightest US dollar AT1 ever from a European bank, pricing a perpetual non-call 10-year US\$1.75bn deal at 4.5%.

Arion is issuing AT1 in order to optimise its capital structure.

The bank has operated with own funds well in excess of its minimum requirements for many years, and since floating in 2018 has sought to replace more costly CET1 capital with Tier 2 - in the Swedish and Icelandic markets - and now AT1.

Iceland's banks have eyed AT1 issuance for years, but remained on the sidelines in part because AT1 coupons were not tax deductible under Icelandic law.

A bill changing that is expected to be approved by the country's parliament soon.

The deal paves the way for further Icelandic AT1 supply expected from Arion's domestic rivals.

ISLANDSBANKI said in its 2020 funding plan that it will contemplate AT1 issuance this year.

LANDSBANKINN, which concluded a tender on some of its outstanding debt, has also said it aimed to raise subordinated funding, "if suitable and favourable with regards to the bank's capital structure".

It announced the results of a tender offer on its €500m 1.625% senior unsecured notes due 2021.

It is repurchasing €300m at a price of 101.944, leaving €200m outstanding.

The tender was launched in conjunction with a €300m 4.25-year senior issue priced last Wednesday.

PNC'S OPCO ACHIEVES LOW COUPON FUNDING IN US\$1.5bn TWO-PART DEAL

PNC came to market on Thursday with a US\$1.5bn two-part for its second bond offering of the year and the first out of the operating company.

PNC BANK NA priced two bonds in the three-year non-call two format: a US\$1bn floater at three-month Libor plus 32.5bp and a US\$500m 1.743% fixed-to-float tranche at 35bp over Treasuries.

The deal is the exact same format as a two-part bond from PNC Bank NA that was issued a little over two months earlier in December, but this time landed the spread 10bp tighter with a coupon on the fixed tranche 28bp lower.

Treasuries have tightened during those two months, with the two-year rate trading at 1.41% Thursday, down from 1.58% on December 4.

That December issuance landed a US\$750m three-year 2022 floater at three-month Libor plus 43bp and a US\$650m

ALL FINANCIAL INSTITUTION BONDS IN EUROS BOOKRUNNERS: 1/1/2020 TO DATE

Managing bank or group	No of issues	Total €(m)	Share (%)
1 SG	14	4,657.49	9.4
2 Deutsche Bank	17	4,376.30	8.9
3 BNP Paribas	15	3,778.34	7.7
4 JP Morgan	15	3,544.40	7.2
5 Natixis	9	3,381.70	6.9
6 Credit Agricole	11	3,197.50	6.5
7 Barclays	15	2,158.13	4.4
8 Santander	14	2,093.30	4.2
9 Credit Suisse	10	2,067.77	4.2
10 HSBC	10	1,668.74	3.4
Total	62	49,312.41	

Including banks, insurance companies and finance companies. Excluding equity-related and covered bonds. Excluding publicly owned institutions.

Source: Refinitiv

SDC code: N11

2.028% 2022 fixed-to-float bond at 45bp over Treasuries.

Those notes have since rallied in the secondary market exactly in line with average high-grade credit spreads that are 10bp tighter since the opco was last in the market.

That gave the new notes a flat new-issue concession, according to IFR calculations. PNC's pricing was especially impressive considering the other two issuers on the day — software company **CITRIX** and automotive seating manufacturer **LEAR** - priced with double-digit concessions.

Last month, holdco **PNC FINANCIAL** priced a US\$2bn 2.55% 10-year bond at 78bp over Treasuries.

Regional banks, including PNC, continue to shun the Secured Overnight Financing Rate as a replacement benchmark to the scandal-ridden Libor.

While the December floater can be called ahead of the December 2021 Libor replacement deadline, the new floater will exceed that deadline and use fall-back language if not called on the first available date.

"Regional and smaller bank management teams cite the lack of a term structure and the absence of a credit component as factors complicating the adoption of SOFR as a lending rate to replace US dollar Libor," Fitch wrote in a January report.

MIZUHO, MUFG OVERLAP IN US MARKET

Two of Japan's megabanks have managed to print big US dollar senior bond deals at tight pricing, despite going up against each other on the same day with similar tenors.

MIZUHO FINANCIAL GROUP announced initial price thoughts for a three-tranche offering at around 8:30am Hong Kong time on Tuesday, before **MITSUBISHI UFJ FINANCIAL GROUP** announced IPTs for a dual-tranche trade about an hour later.

"I think this is the first time two megabanks have gone head-to-head, but it

ALL SUBORDINATED FINANCIAL INSTITUTION BONDS (ALL CURRENCIES) BOOKRUNNERS: 1/1/2020 TO DATE

Managing bank or group	No of issues	Total US\$(m)	Share (%)
1 Credit Agricole	2	1,520.02	16.1
2 Citigroup	6	1,300.66	13.8
3 Goldman Sachs	5	934.14	9.9
4 HSBC	3	677.62	7.2
5 BofA	3	661.83	7.0
6 BNP Paribas	3	578.28	6.1
7 JP Morgan	2	565.12	6.0
8 Santander	2	504.10	5.3
9 Barclays	4	459.46	4.9
10 Morgan Stanley	3	420.01	4.4
Total	10	9,458.06	

Source: Refinitiv

SDC code: J3a

Intesa sells AT1, UBI rallies amid merger buzz

■ ITALIAN FINANCIALS Bank takes Italian coupon record

INTESA SANPAOLO sold €1.5bn of Additional Tier 1 paper last Thursday, potentially boosted by merger hopes, with an unusual dual-tranche structure seen supporting performance.

The deal comes in the wake of Intesa Sanpaolo's surprise takeover bid for smaller domestic rival *Unione di Banche Italiane*.

The announcement late last Monday prompted tightening in some Italian bank bonds, adding fuel to the fire of a recent rally. Investors and supervisors hope the move will kick off a long-awaited wave of consolidation in the country's banking sector.

Intesa's AT1s were relatively unmoved after the announcement. But market participants said the new issue may have nevertheless benefited from increased investor interest in the name upon the potential merger, which Intesa said would create the eurozone's seventh-largest bank by assets.

"It is not negative, at worst neutral, and potentially positive," said a banker at one of the leads.

A DCM banker away from the deal said the transaction benefited from the fact that Intesa would become a bigger and stronger player if the merger goes through.

The deal is the latest to benefit from abundant demand for Italian bank paper as investors seek out higher-yielding assets.

Leads *Banca IMI*, *Barclays*, *BNP Paribas*, *BofA*, *Citi*, *HSBC* and *Morgan Stanley* marketed the perpetual non-call five tranche at IPTs of the 4.25% area, and the perpetual non-call 10-year at 4.625% area, for an expected combined size of €1.25bn.

It ultimately increased the size, fixing both tranches at €750m.

The shorter launched at 3.75% on more than €4.5bn of orders, pre-rec, and the longer at 4.125% with demand in excess of €3.5bn.

The final books were substantially lower, at €3.5bn-plus and €2.2bn-plus, respectively.

The shorter tranche set a new record for the

lowest ever coupon for an Italian AT1, beating the 3.875% set by *UniCredit* the previous week, albeit for a longer non-call June 2027 and a bigger €1.25bn size.

Bankers said both tranches priced flat to fair value, based on *UniCredit*'s preceding deal and Intesa's secondaries.

Intesa's €750m 6.25% non-call 2024s were bid at 2.75% and its €1.25bn 7.75% non-call 2027s at 3.34% at Thursday's open, according to *Tradeweb*.

TWO-PRONGED APPROACH

The lead banker said Intesa took the dual-tranche approach – unusual in the AT1 market – in order to stagger its call dates.

He said the decision should also support performance as two €750m deals should do better in the secondary market than one larger bond.

"I think it was also sensible that we tightened by 50bp and didn't overdo it," he said.

Bankers contrasted the deal to *UniCredit*'s recent offering, which moved 75bp. Demand on that peaked over €9bn but dropped as the deal was tightened. It has since underperformed, bid at a cash price of 98.60 on Thursday.

"Obviously it's a very supportive market but that doesn't mean for the perp subordinated product you have carte blanche to print where you like," said a syndicate banker.

Intesa Sanpaolo last issued AT1 in May 2017. It has four AT1s, with the next call date coming up in January 2021 for a €1.25bn 7% trade.

UBI CONVERGENCE

The announcement of Intesa's takeover bid initially caused UBI's AT1s to be marked significantly tighter.

The €400m 5.875% perpetual non-call January 2025s, which were priced on January 16, tightened from a yield-to-call of 4.144% at Tuesday's open to a low of 2.985% that day, according to *Tradeweb*.

Analysts at *CreditSights* expect UBI Banca's board and shareholders to approve the offer, "given the generous terms offered and Intesa's stronger financials".

That should cause spread convergence across the credit curves of the two banks, the analysts said.

"Intesa is more highly rated and trades more tightly than UBI, hence the cheapest way to invest in the merger would be via UBI's bonds," they said.

"These – as well as UBI's shares (up 49% year-to-date) – have had a very strong performance already this year but continue to offer value given the convergence outlook."

Intesa Sanpaolo is rated Baa1/BBB/BBB-/BBB(high) (Moody's/S&P/Fitch/DBRS, while UBI is rated Baa3/BBB-/BBB-/BBB.

If the offer is successful, Intesa expects the merger to be finalised by the end of the year (see *Top News* for more).

The *CreditSights* analysts suggested the proposed merger with UBI might be one of the motivations for Intesa's new issue.

They noted that Intesa has already filled its AT1 bucket of 1.5% of risk weight assets (RWAs), but that UBI has not. The analysts calculated that the combined entity would have a RWA shortfall of 0.2%.

However, later reports cast doubt on the tie-up.

UBI's board said on Wednesday it will hire advisers to evaluate Intesa's offer and that it was too early to give a definite response.

On Thursday, Reuters reported that UBI was looking at alternative merger plans to fend off Intesa's bid. It may explore a takeover of *Banca Monte dei Paschi di Siena* as part of its defence, sources said.

UBI's non-call January 2025s subsequently traded down and erased some of the week's performance. They were quoted at 3.715% on Friday.

Tom Revell

didn't affect our deal size and the pricing was a very good outcome," said a bookrunner on one of the deals. "This is a very systematic issuer, so everyone knows what its funding plans are, and the market backdrop was relatively strong."

Mizuho priced US\$2.35bn across three tenors, while MUFG sold US\$3.75bn in two tranches. Both issues were of SEC-registered senior notes, with Mizuho's expected to be rated A1/A– (Moody's/S&P) and MUFG's A1/A–/A.

Mizuho priced a US\$1.1bn 4.25-year non-call 3.25 floating-rate note tranche at

three-month Libor plus 63bp, the tight end of 65bp area, plus or minus 2bp, guidance and inside initial price thoughts of low 80s.

A US\$750m 6.25-year NC 5.25 tranche was priced at par to yield 2.26%, or Treasuries plus 83bp, compared with 85bp area, plus or minus 2bp, guidance and 100bp–105bp IPTs.

A US\$500m 11.25-year NC 10.25 tranche was priced at par to yield 2.591%, or Treasuries plus 103bp, the tight end of 105bp area, plus or minus 2bp, guidance and inside 120bp–125bp IPTs.

MUFG sold a US\$2.6bn five-year tranche at par to yield 2.193%, equivalent to Treasuries plus 80bp, inside initial thoughts of 90bp–95bp, while a US\$1.15bn 10-year tranche was priced at par to yield 2.559%, or Treasuries plus 100bp, inside initial thoughts of 110bp–115bp.

Both of MUFG's tranches were priced around 5bp wide of *CreditSights*' fair value estimates, while the new issue concession was estimated to be narrower for Mizuho's notes.

Bank of America and *Mizuho* were active bookrunners for the Mizuho trade, while *Morgan Stanley* and *MUFG* led the MUFG deal.

EUROS

» SG, SCB SHOW SENIOR PREF IN DEMAND EVEN AS YIELDS DIMINISH

SOCIETE GENERALE and **SANTANDER CONSUMER BANK** sold solidly oversubscribed senior preferred bonds last Monday, demonstrating investors still see value in the product despite the grind tighter in yields.

Banks have generally focused on issuing loss-absorbing senior transactions this year. But after making early headway towards their MREL issuance targets, some issuers are looking further up the capital stack, uncovering good demand for less subordinated paper in the process.

SG's self-led €1.25bn six-year deal attracted final books of over €2bn.

The deal, expected to be rated A1/A/A+ (Moody's/S&P/Fitch), was marketed with initial price thoughts of the 60bp/65bp area. Guidance was set at the 45bp area (+/-2bp wpir) before the spread was fixed at 43bp.

Bankers said the deal offered at most a 5bp concession, based on the senior preferred curves of other French banks. Some said the deal was priced roughly flat to fair value.

It was ultimately priced with a coupon of 0.125% to yield 0.17%.

The scale of demand at such low yields shows investors are focused on relative value, bankers said.

"Some of the feedback we're getting from investors is that the senior preferred/senior non-preferred differential is quite tight, so there are quite a few investors that want to focus on senior preferred because they see value there," said a syndicate banker away from the deal.

"Because [senior preferred] has been relatively undersupplied this year, we're seeing a lot of interest."

Before Monday's deals, euro benchmark senior preferred and opco senior supply stood at €8.10bn year-to-date, compared with €31.05bn of senior non-preferred (SNP) and holdco senior, according to IFR data.

The differential between SNP and senior preferred spreads is close to historical lows - standing at 15.9bp, according to iBoxx indices.

That offers banks an opportunity to lock in senior funding at historically attractive levels, bankers said.

SG last sold a senior preferred benchmark in August.

It has already issued €4.27bn-equivalent of SNP debt in major currencies this year. In total, it expects to issue around €8bn of SNP and around €8bn of senior preferred and secured debt in 2020.

Norway's Santander Consumer Bank, meanwhile, pulled in final demand of more

than €950m for its €500m (no-grow) transaction.

The five-year deal was priced at 50bp, inside IPTs of the 65bp/70bp area, by leads *Barclays*, *Bank of America*, *Danske Bank*, *MUFG* and *Santander*. It offered a coupon of 0.125% and a yield of 0.201%.

» VIRGIN MONEY UK READIES POST-REBRAND EURO SNP DEBUT

VIRGIN MONEY UK introduced itself to investors last week ahead of an awaited senior unsecured holdco debut in euros, which will be its first post-rebrand deal in the wholesale market.

Virgin Money UK, formerly known as CYBG, is the holding company of the merged entity created after the CYBG group acquired Virgin Money. It is the group's resolution entity, from which all capital and MREL-eligible debt will be issued.

Virgin Money UK, which owns Clydesdale and Yorkshire banks, became the sixth-biggest UK bank after the 2018 takeover with total assets of £91bn as of September 2019.

The bank's aim is to "disrupt the status quo" in the UK banking sector as it looks to compete with larger rivals.

Virgin Money UK and its leads *Citigroup*, *Credit Suisse*, *Deutsche Bank* and *NatWest Markets* completed a European roadshow last Thursday.

A five-year non-call four benchmark, expected to be rated Baa3/BBB-/BBB+ by Moody's/S&P/Fitch, is set to follow this week.

It will be the first senior holdco euro from a UK challenger bank and will therefore be a test of European investor interest for such credits.

Bankers are confident it will prove successful, pointing to the demand that larger but similarly domestically focused UK lenders have been able to garner in the euro market in recent months since Brexit pressure has decreased.

Virgin Money UK already has an established curve of senior and subordinated sterling bonds, issued before the name change. It trades with a clear pick-up over the biggest UK names.

Its £500m 4% 2026 non-call 2025s trade some 50bp-70bp wide of 2026 non-call 2025 markers from *Lloyds*, *HSBC* and *RBS*, for example.

Adding that differential on top of UK banks' euro curves and adjusting for the callable maturity would imply fair value for Virgin Money UK's new euro at around 140bp-150bp, bankers away from the deal said.

However, bankers questioned to what extent that differential could be directly applied to euros.

"UK banks do enjoy much more attractive pricing on a relative value basis in euros and dollars [than sterling] because the depth of the investor base is much greater," said one.

"The question is if the fair value is tighter or flat to sterling."

In an investor presentation, Virgin Money UK said the trade would build towards end-state MREL requirements and establish a pricing reference to support issuance in the single currency.

Virgin Money UK aims to sell £1.5bn-£2bn of MREL-eligible debt by the end of 2021.

» BANCA IFIS SELLS RARE SENIOR

BANCA IFIS benefited from a rush for Italian bank debt as it printed a €400m long four-year senior preferred that was three times subscribed at its peak.

The deal emerged after a three-day roadshow into a market clamouring for Italian bank paper, with *Intesa Sanpaolo*'s takeover bid for *UBI Banca* adding fuel to the fire.

Leads *Barclays*, *Citigroup*, *Goldman Sachs* and *Mediobanca* opened books for the June 2024 deal with initial price thoughts of mid-swaps plus 240bp area on Tuesday.

Guidance was set at 220bp and the size at €400m, before the deal was launched at 215bp on more than €1.2bn of orders (pre-rec).

Bankers away from the deal said it was a decent result, taking into account the relative unfamiliarity of the credit. The demand reflected that it offered a sizeable pick-up over the senior preferred benchmarks of most Italian banks, they said.

From the middle tier, 2024 senior preferred notes from *Banco BPM* were bid at 133bp, for example.

The new issue landed closer to the secondaries of *Banca Monte dei Paschi di Siena*, which has a 3.625% September 2024 senior preferred bid at 213bp.

IFIS's deal is expected to be rated BB+ by Fitch. *Banco BPM*'s senior preferreds are rated Ba2/BBB(low) by Moody's/DBRS, while *BMPS*'s are rated Caa1/B/B(high) by Moody's/Fitch/DBRS.

The deal is *Banca IFIS*'s first public offering since April 2018, when it sold a marginally oversubscribed €300m five-year senior bond.

That deal was partly repurchased in December 2018 after it widened dramatically – as political uncertainty in Italy took its toll on the country's banks' spreads – and the issuer sought to use its liquidity reserves to offer bondholders a way out.

The 2% April 2023s, of which €203m is left outstanding, were bid at 191bp – well below the peak of 451bp in November 2018.

Sentiment towards Italian bank debt has transformed since the struggles of 2018. Bond prices have rallied massively in recent months, compressing towards other jurisdictions as investors seek sectors of the market where there is still performance potential.

Banca IFIS said in its 2020-2022 business plan that it aims to raise €600m of senior funding in 2021, and then €400m of Tier 2 and €300m of senior in 2022.

STRONG BOOK FOR NPL SPECIALIST HOIST'S AT1

Swedish non-performing loan specialist **HOIST FINANCE** priced a €40m AT1 issue on Wednesday that was more than three times covered, taking advantage of market conditions and Nordic investors' appetite for the name.

Hoist buys and works out European non-performing loan portfolios but, unlike most of its peers, is regulated as a bank.

The AT1 transaction is its third, after a €30m issue in 2016 and a €40m issue in 2018, and is designed to optimise its capital structure and free up common equity, leaving room for growth. Hoist bought a €375m portfolio of non-performing mortgages from a French bank at the end of 2019, creating additional financing needs.

The perpetual non-call five AT1 transaction was priced at par with a 7.75% coupon by *Citigroup* and *Nordea*, the tightest pricing of Hoist's three AT1 issues. Final books exceeded €125m.

Pricing followed guidance of the 8%–8.25% area, which with books topping €120m was tightened to 7.75%–8%.

"Clearly, the high level of demand was surprising and came in extremely strong market conditions," said a banker at one of the leads.

The banker said the yield on offer attracted more investors. The book, dominated by Nordic accounts, was larger and the pricing tighter than for Hoist's previous two AT1 issues.

"Hoist has a strong following on the senior and Tier 2 side, so Nordic investors know the name," the banker said.

Pricing was based off the 8% coupon for the 2018 issue and adjusted to account for the market.

Hoist spent much of last year recovering from European Banking Authority guidance, which forced it to increase risk weightings on NPLs it buys to 150% from 100%.

In December, it turned to securitisation with an innovative NPL trade called Marathon, which sold junior risk to hedge fund CarVal and allowed Hoist to retain senior notes at a 100% risk weighting.

Hoist has an issuer rating of Baa3 from Moody's, although the AT1 notes are unrated.

CREDIT SUISSE ISSUES 18-MONTH FRN

CREDIT SUISSE drummed up €2.2bn of interest in a €1.5bn 18-month opco senior floater on Thursday, driven by interest from money market funds seeking a better return than the ECB's record low deposit rate.

The self-led August 2021 FRN was launched at three-month Euribor plus 15bp, inside initial price thoughts of 25bp–30bp.

The book peaked at €2.7bn and stood finally at €2.2bn.

A banker close to the deal said money market funds, the usual buyers of such deals, "were there in force", allowing the issuer to achieve the size.

"It's a deeply, deeply negative-yielding product, so it is being sold to people who would get more deeply negative yields holding cash," he said.

With three-month Euribor at minus 41bp, the deal offers a 24bp pick-up over the ECB's deposit rate, at minus 50bp, its lowest ever level.

The banker said the deal paid a new issue premium of 2bp, based on a €1.75bn September 2021 FRN from *Societe Generale*, quoted at plus 13bp.

He said the trade secured Credit Suisse an attractive level compared with what it would have been able to achieve with a fixed-rate bond.

SANTANDER KEEPS PRINTING WITH UK ARM'S EURO SENIOR RETURN

SANTANDER UK faced no signs of fatigue or indigestion in spite of a busy start to the year for the Santander group as it printed a €750m holdco senior bond last Friday.

The deal was Santander UK's first senior unsecured benchmark in the euro market since 2016. While Santander UK is a rare name in the euro senior market, the broader Santander group has been a very frequent sight in capital markets so far this year.

The Santander group has issued 13 tranches of benchmark debt in major currencies in 2020, according to IFR data.

"FIG has had a very strong run, there's been a lot of issuance and Santander as a brand has been a large proportion of that," said a syndicate banker at one of the leads.

"Therefore we had a degree of caution as we were entering the trade based on the feeling that there could be some fatigue or general indigestion around the name in the market and I have to say that wasn't true."

The five-year non-call four transaction was launched at 73bp over mid-swaps, inside initial price thoughts of the 90bp area, via leads *BNP Paribas*, *Deutsche Bank*, *JP Morgan* and *Santander*.

Books were last reported in excess of €1.8bn at guidance.

"It's a solid trade to round off the week," said a syndicate banker away from the deal.

The lead banker said Santander UK could have taken a larger and tighter trade, but had been more cautious because it was its first visit to the euro senior market in years.

Bankers said the deal paid a 5bp–8bp concession, extrapolating from Santander UK's €1bn 1.125% September 2023s, bid at 48bp at Friday's open, and adjusting for the callable structure.

STERLING

BPCE RETURNS TO STERLING

BPCE sold its second sterling senior preferred issue on Thursday, picking up more than £570m in orders for a £400m December 2026 issue that priced at Gilts plus 100bp.

The deal was announced by *Barclays*, *HSBC*, *Natixis* and *NatWest Markets* at benchmark size, with initial price thoughts of 105bp–110bp.

The A1/A+/A+ rated issuer's first sterling issue in January last year was a £250m short four-year at Gilts plus 145bp.

"Investors want to diversify in sterling and they want to see issuers return to market," said a banker at one of the leads.

He said more frequent sterling issuer BFCM was a natural comparable. BFCM came to market with a £600m December 2025 at Gilts plus 97bp in January.

That deal was its largest ever in sterling and illustrated the strength of demand for the currency this year. Year-to-date issuance (excluding covered and UK issuers) stands at £6.5bn, up more than 50% on the £3.95bn by the same time last year.

"BFCM has been active and has a good curve, so the deal from BPCE is a good opportunity for investors to gain some French exposure from a less frequently seen issuer."

The banker said the cross-currency swap continued to work for euro issuers, and the issue printed broadly flat to BPCE's euro curve.

SWISS FRANCS

BUSY FOR BANKS IN SWISS FRANCS

Issuance in the Swiss franc market last week began with **ZURICH INSURANCE**'s no-grow SFr250m (US\$252m) 12.5-year senior unsecured offering.

Books opened at the mid-swaps 32bp area, the bonds quickly pricing at that level for a negative 4bp new issue premium. The

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spread was equivalent to 67bp over Swiss government bonds and the yield was 0.065%.

An all-Swiss 41-strong contingent of investors was headed by asset managers, which took more than 60% of the paper. Banks, insurers and pension funds split almost all the rest.

Proceeds from the deal very neatly refinance an upcoming maturity of SFr250m of 0.625% bonds due in late July, which were initially issued in 2014.

Credit Suisse was sole bookrunner for the A1/A+/A+ rated deal.

AMP GROUP, rated A2/BBB+ by Moody's/S&P, returned to an increasingly receptive Swiss market last Wednesday with a SFr175m 4.25-year Reg S bond sale.

The 0.2031% June 2024s priced through 95bp–105bp initial guidance at mid-swaps plus 90bp, again for a negative 4bp new issue concession.

Credit Suisse and *UBS* were joint lead managers on the issue, all of which was allocated to local investors. Asset managers bought 51%, insurance companies 20%, private banks 13.5%, treasuries 13.5% and pension funds 2%.

The troubled Australian financial group previously tapped its 0.8% July 2023 bond for SFr100m last November, having raised SFr140m from the initial 4.25-year sale in April 2019.

ZUERCHER KANTONALBANK, closer to an agency with its Canton Zurich guarantee than to a commercial bank, printed a self-led SFr190m 10-year on Monday. The bonds came at the wide end of mid-swaps plus 17bp–18bp guidance, although still made for a negative yield of -0.195%.

More FIG supply is set for next month, with Austria's **HYPO VORARLBERG BANK** having mandated *Credit Suisse* and *ZKB* to arrange a Swiss roadshow starting on March 2.

The bank is aiming to issue what will be its inaugural Swiss franc-denominated senior preferred green bond.

Hypo Vorarlberg is rated A3 by Moody's and A+ by S&P, while ISS-ESG, which rates the issuer Prime, C, will provide a second party opinion.

The bank has undertaken to use the proceeds to finance or refinance selected eligible loans, investments and/or projects in categories that have clear environmental benefits according to criteria in its green bond framework.

YEN

» SOCIETE GENERALE RETURNS TO YEN

SOCIETE GENERALE, rated A1/A/A, last Thursday priced a modest ¥50bn (US\$450m) offering of five-year senior non-preferred Euroyen notes at 48bp over yen offer-side swaps.

The spread was at the wide end of the initial price guidance range of 45bp–48bp on Tuesday. The coupon was set at 0.472%.

The spread was equivalent to more than 5bp over the bank's US dollar secondary curve and more than 10bp over its euro curve, according to calculations by two bankers on the deal.

The French bank initially marketed a 10-year SNP tranche at 50bp–52bp but decided not to issue it. It was looking for demand of ¥5bn or more for the tranche, but investors wanted a wider spread than SG was willing to pay.

The issuer is a regular in the yen market. A year ago, it priced ¥86.2bn of five-year notes at yen offer-side swaps plus 90bp and ¥10bn of 10-year notes at plus 97bp.

Although the size was much smaller than the previous deal, the bank was still able to draw benchmark-sized demand as both central and regional Japanese investors participated.

Three bankers on the deal told IFR that it was a positive surprise that regional investors took some 30% of the bonds despite the increased risk weightings applied on holdings of bonds that count towards total loss-absorbing capacity requirements.

The bankers said regional investors chose to buy because of the recent lack of supply from foreign issuers and products in yen that yield near 0.5% in the five-year sector, as well as the issuer's commitment to the yen market.

Central investors such as city banks, pension funds, specialised banks and insurers took about 60%, with the rest going to foreign accounts.

Daiwa, *Mitsubishi UFJ Morgan Stanley*, *Mizuho*, *Nomura*, *SMBC Nikko* and *Societe Generale* were the lead managers for the new transaction. The bonds have expected ratings of Baa2/BBB+/A.

» YEN ISSUERS CALL OFF ROADSHOWS

Foreign issuers are postponing or cancelling roadshows in Japan as the coronavirus continues to spread, making the yen bond market even quieter than it already was in January due to less favourable pricing than in the US dollar and euro markets.

"We have cancelled all roadshows in February and March," said a DCM banker at a Japanese house. "We'll see how this will affect the market, but I think new issues will be pushed back."

Bankers in Tokyo are hesitant to ask issuers to come and meet Japanese investors.

"If an issuer wants to come, we are happy to arrange face-to-face meetings, but we are not in a position to ask issuers to come to

Japan now," a second Japanese banker said. "Our company is advising us to cancel business trips and seminars with a large number of people."

Domestic issuers as well as foreign ones are cancelling roadshows.

"We have cancelled group presentations by domestic issuers, too," a third Japanese bank told IFR. "The problem is that we don't know when this virus ends," he said.

The spread of the virus appears to be slowing in China, but that is not the case in Japan. While most of the confirmed cases are passengers of the virus-hit Diamond Princess cruise ship, other cases are rising as well and had reached 84 as of February 20, according to Japan's health ministry.

The coronavirus crisis is another blow for the yen market after a very slow start to the year. So far this year, there have been only two foreign public bond offerings, by Malayan Banking and Societe Generale, in stark contrast to the US dollar and euro markets, where many issuers have rushed to secure competitive spreads compared with what the yen market can offer.

"The real impact of the cancellations may materialise in May," traditionally a busy issuance month, said a banker at a foreign bank in Tokyo.

Although other markets have quickly embraced virtual roadshows to overcome travel restrictions, internet roadshows are not popular in Japan – where face-to-face contact is preferred.

"I hope we will have more net roadshows and investor calls because of this situation," said a fourth banker. "Or maybe we can invite investors to our office and do video conferences [with issuers overseas]".

NON-CORE CURRENCIES

» NAB SETS GUIDANCE FOR ATI NOTES

NATIONAL AUSTRALIA BANK (Aa3/AA–/AA–) has announced guidance at three-month BBSW plus 295bp–315bp for an indicative A\$750m (US\$488m) perpetual non-call 7.5-year (September 17 2027) Additional Tier 1 retail note offer, **NAB CAPITAL NOTES 4**.

The offer includes a reinvestment offer for holders of NAB Capital Notes issued on March 23 2015 that will be repurchased on March 23 this year.

The margin is expected to be announced on February 25 following the bookbuild, with the offer due to open the same day and close on March 17. S&P has assigned a BBB– rating to the subordinated notes.

NAB is arranger of the offer and joint lead manager with *Morgan Stanley*, *Morgans*, *Ord Minnett*, *UBS* and *Westpac*.

COVERED BONDS

EUROS

› SANTANDER ECLIPSES CREDIT AGRICOLE WITH DUAL-TRANCHE CEDULAS

BANCO SANTANDER and **CREDIT AGRICOLE** jostled for covered bond investors' attention on Thursday, bringing their first deals of the year in the format, with the cheaper deal from the Spanish lender ending up with the upper hand.

The sudden flurry of issuance came after a quiet start to the week, leaving enough room for both transactions though the bigger spread offered by Santander won it bigger demand, with combined books passing €5.2bn in less than three hours.

"It went extremely well, not just in terms of book size but also in terms of quality," a lead said.

"The additional spread helped obviously and the fact that Spanish issuers aren't coming that often to the covered bond jurisdiction."

Santander was only the second cedulas issuer to venture in the market this year, following a 10-year offering from Sabadell in January.

By using the dual-tranche approach, the bank was able to test the short-end of the curve and tap into additional pockets of liquidity even though the €1.25bn five-year priced at a negative yield of -0.269%, a first for a peripheral lender.

The €1.25bn February 2032 tranche meanwhile targeted investors' appetite for long-dated positive-yielding debt and "fitted nicely with the maturity profile of the issuer," said the lead.

Santander visited the 10-year and 12-year spots of the curve last year. These June 2030 and May 2031 deals were both quoted at mid-swaps plus 8bp on Tradeweb on Thursday morning.

Final spreads were set at plus 5bp for the five-year and at plus 12bp for the 12-year, 5bp and 6bp tighter than initial guidance.

The lead saw fair values in the plus 2bp/3bp area for the short-dated tranche and in the plus 10bp area for the longer-dated one, suggesting final new issue premiums of 2bp/3bp for the 2025s and of 2bp for the 2032s.

In contrast, Credit Agricole received more measured appetite for a €1bn November 2031 OF for which marketing started at the same level as Santander's five-year.

Final books reached €1.25bn-plus, allowing for a 3bp tightening from the 10bp area IPTs and a final new issue concession of around 4bp/5bp, bigger than Santander's.

"We felt that was a relatively generous concession to offer the market in the light of the low yield environment and the other competing supply in the market," a banker close to the deal said.

The banker said it was fair to assume that the trade was impacted by "competing supply from a cheaper name, at the same maturity" in a context where "there had previously only been one transaction in the market that week."

The short 12-year fitted between Credit Agricole's March 2031 and February 2032 mortgage-backed notes, which date back to 2016 and 2017, and were both quoted at mid-swaps plus 3bp on Tradeweb.

"The idea was to get as close to 10 years as possible but still fit with Credit Agricole's curve and offer a positive yield," said the lead.

"The underlying swap to that [short 12-year] maturity was just in positive territory, about 1bp, as we opened books," he said.

› SR-BOLIGKREDITT ON TREND WITH POSITIVE-YIELDING 10-YEAR COVERED

SR-BOLIGKREDITT extended its curve by six years with a €500m February 2030 mortgage-backed transaction, its first covered bond of the year.

"This was the first time a Norwegian covered bond issuer managed to print below 10bp for a 10-year tenor," according to a lead manager. The bond was priced at 8bp over mid-swaps.

SR-Boligkredittd usually favours five-year and seven-year maturities for its covered bond debt. The 2030 maturity "made sense, since the curve is pretty flat", said the lead.

The issuer's conventional 0.75% 2025 covered paper from 2018 and its 0.01% 2026 green covered bond from 2019 were both quoted around mid-swaps plus 7bp in the secondary market, according to Tradeweb.

Furthermore, "10-year is a really sweet spot currently", the lead manager said.

This was shown the previous week when investors gave the cold shoulder to negative-yielding seven-year mortgage-backed paper from Berlin Hyp and Deutsche Hypo, instead favouring ING Belgium's positive-yielding €1.25bn 10-year.

That deal, which priced at mid-swaps plus 5bp and attracted an order book in excess of €3bn, served as comparable for SR-Boligkredittd. The lead manager said they also looked at Norwegian counterpart SpareBank 1.

It visited the 10-year point on its curve in 2019 with January 2029 and May 2029 covered notes, which were quoted around mid-swaps plus 7bp and 9bp, respectively, according to Tradeweb.

SR-Boligkredittd announced guidance at mid-swaps plus 13bp area, which was

refined to 9bp (+/-1bp) after books peaked north of €1.2bn. In the end, the spread was fixed at the tight end, with books seen dropping to €900m-plus at the last update.

The lead manager said the bond priced in line with fair value. For its part, ING Belgium offered a NIP of 1bp on its 2030 deal.

"To manage to print another 10-year covered bond at plus 8bp so soon with only 3bp divergence versus ING and get this level of demand, that's really an achievement," he said.

The lead said the issuer was happy with the tight print but a banker away pointed out that the tightness resulted in a drop in the order book and impacted on the size of the trade.

"The €500m size was a result of that, as opposed to a larger size which the issuer may have wanted, since it has done €750m."

He also expressed doubts as to the final book size.

"I would have thought that that €900m was not even there. You'd have to speculate how much was left in the book to allocate."

Another grey cloud for SR-Boligkredittd might have been the fact that it is a non-eurozone issuer and as such is not eligible for ECB bond purchases.

"When you are in single-digit territory, investors are really weighing up what it is they get for making that extension. Given the ECB purchases, ING is more likely to perform in secondary than the SR-Boligkredittd trade," said the banker away.

The silver lining was that the trade captured the grand theme of having a positive yield, something attractive to investors, he said.

The new notes yielded 0.027% at pricing, while ING Belgium's 10-year came at 0.012%.

JP Morgan, LBBW, Natixis, Nordea and Santander were bookrunners on the SR-Boligkredittd deal.

HIGH-YIELD

UNITED STATES

› ZAYO BOND DEAL DRAWS MORE THAN US\$10bn OF DEMAND

The US\$2.58bn of junk bonds being sold to finance Digital Colony Partners and EQT Infrastructure's US\$14bn leveraged buyout of **ZAYO GROUP** drew more than US\$10bn of orders as investors piled into new paper from a well-known name despite tight pricing.

Lead banks priced a US\$1.5bn seven-year non-call one secured bond at 4.00% and a

US\$1.08bn eight-year non-call three unsecured bond at 6.125% on Thursday.

Price talk had been 4.00%–4.25% on the B1/B rated secured notes and 6.25% area on the Caa1/CCC+ unsecured.

The company, which provides bandwidth infrastructure such as fibre cables and data centres, was also set to raise US\$5.56bn in the loan market, setting pricing on a US\$4.75bn dollar tranche at 300bp over Libor and an US\$810m-equivalent euro tranche at 325bp over Euribor.

WIDELY EXPECTED

Pricing on the bonds was seen as aggressively tight, given that it is a leveraged buyout and the unsecured bonds carry Triple C ratings, but this came as little surprise given relentless investor demand for new paper.

Strong demand allowed leads to increase the size of both the term loan and secured bonds by US\$500m, reducing the size of the higher-yielding unsecured bonds by an equivalent amount.

The sponsors are also kicking US\$6.388bn of equity into the US\$14bn deal.

That takes leverage at the firm to 5.9 times net debt to annualised further adjusted Ebitda for the three months ended December 31 2019, pro forma for the transaction, according to research firm Covenant Review.

"They over-equitised it," said the source close to the deal. "You could have seen something in the mid-six times area, or higher."

The deal contained some off-market covenant features, although the documents are understood to have seen some changes during the syndication process.

"It ticks a lot of the boxes for aggressive deals," said one investor who was not participating in the deal.

But investors still piled into a transaction that offered a rare slug of new paper in a market that has been swamped with refinancing trades this year.

"It's a name that has been in the market for a long time, is viewed as pretty defensive and stable," said the person close to the deal. "It came in tight for the market, but not crazy."

CALL PROTECTION ERODED

Investors also caved in to allow the secured bonds to offer only one year of call protection. This bucked the normal convention of seven-year notes offering investors two years of call protection.

The move is a big positive for the issuer.

Although it ultimately depends on pricing, sponsors usually prefer to lean on loan financing for LBOs if they can, as they offer investors much shorter call protections - usually only six months.

This makes them easier to refinance than bonds, which require a pre-payment penalty if they are taken out before the non call expires.

In the Zayo case, the bond financing was cheaper - some 50bp–75bp inside the loans, according to the source - but shortening the call protection to one year also makes the debt easier to refinance, making it a win-win.

The market should expect to see more bond issuers using the one year call option in future LBOs and that should be welcomed, the source close to the deal said.

Without the shorter call protection, Zayo would have pushed most of the secured financing into the loan market, he said.

"[Bond investors] are not going to get anything on some of these trades if they don't have more flexibility on the call protection," he said.

Investors may balk at this erosion, but it could increase the attractiveness of bond financing in large LBO deals, at a time when the buy-side is also complaining about the lack of new deals to invest in.

"I remember being frustrated when the market moved from an eight-year non-call four to a non-call three as a standard. The market bears it," said another investor.

ALL US\$ DENOMINATED HIGH-YIELD BONDS BOOKRUNNERS - 1/1/2020 TO DATE

Managing bank or group	No of issues	Total US\$(m)	Share (%)
1 BofA	47	7,040.16	9.2
2 JP Morgan	51	6,921.05	9.0
3 Barclays	42	6,450.83	8.4
4 Citigroup	43	5,138.16	6.7
5 Goldman Sachs	37	4,394.71	5.7
6 Credit Suisse	35	4,247.33	5.5
7 Morgan Stanley	25	4,030.31	5.3
8 Deutsche Bank	36	3,621.49	4.7
9 Wells Fargo	28	3,607.63	4.7
10 RBC	26	3,427.58	4.5
Total	114	76,654.08	

Including US domestics, Euro, foreign, globals. Excluding equity-related debt.
Source: Refinitiv SDC code: B5

ALL ASIAN HIGH-YIELD ISSUERS 1/1/2020 TO DATE

Managing bank or group	No of issues	Total US\$(m)	Share (%)
1 Credit Suisse	17	2,340.55	13.0
2 UBS	9	1,606.54	9.0
3 BofA	5	1,531.66	8.5
4 Tianfeng Securities	2	1,250.00	7.0
5 Goldman Sachs	8	1,044.82	5.8
6 Haitong Secs	19	761.87	4.2
7 Citic	12	686.06	3.8
8 Barclays	10	649.80	3.6
9 Morgan Stanley	7	627.50	3.5
10 Deutsche Bank	11	553.66	3.1
Total	34	17,949.62	

Excluding equity-related debt.
Source: Refinitiv SDC code: B06d

ENERGY FIRMS FACE TRICKY CAPITAL MARKETS AS MATURITIES LOOM

Energy companies continue to have a tough time accessing capital markets as a wave of debt from the sector falls due over the next few years, causing Moody's to warn of increased default risk from troubled parts of the sector.

Although some market participants think the energy sector is in much better financial shape than it was before the last energy credit meltdown in 2015, persistently low oil and gas prices have weighed on investor appetite for energy bonds for some time.

A case in point came on Tuesday, when Blackstone-owned oil and natural gas pipeline company **TALLGRASS ENERGY PARTNERS** hit the market and encountered a tricky reception.

Tallgrass was looking to raise money to pay down its revolver, which would then be redrawn to finance Blackstone's purchase of the remaining equity in Tallgrass.

The pipeline company downsized a US\$500m offering to US\$430m, pricing it at 98.591 to yield 6.25%, outside of the 5.75%-6.00% price talk.

"They didn't need the full US\$500m and it was more expensive than they wanted," said a source close to the deal.

ALL NON-DOLLAR DENOMINATED HIGH-YIELD BONDS 1/1/2020 TO DATE

Managing bank or group	No of issues	Total €(m)	Share (%)
1 JP Morgan	15	1,726.28	9.1
2 Deutsche Bank	11	1,601.70	8.4
3 Citigroup	13	1,335.14	7.0
4 BNP Paribas	12	1,139.86	6.0
5 ING	10	1,110.34	5.8
6 HSBC	13	1,019.70	5.3
7 Credit Agricole	7	994.41	5.2
8 Credit Suisse	7	978.24	5.1
9 Barclays	9	907.80	4.8
10 UniCredit	9	904.62	4.7
Total	36	19,064.64	

Excluding equity-related debt.
Source: Refinitiv SDC code: B6

ALL EUROPEAN HIGH-YIELD ISSUERS 1/1/2020 TO DATE

Managing bank or group	No of issues	Total US\$(m)	Share (%)
1 JP Morgan	17	2,284.81	9.3
2 Deutsche Bank	10	2,038.77	8.3
3 Citigroup	14	2,028.61	8.2
4 BNP Paribas	12	1,535.83	6.2
5 ING	9	1,326.58	5.4
6 Credit Suisse	7	1,277.19	5.2
7 Credit Agricole	6	1,203.41	4.9
8 Barclays	8	1,183.53	4.8
9 SG	7	1,125.88	4.6
10 HSBC	12	1,124.68	4.6
Total	38	24,594.42	

Excluding equity-related debt.
Source: Refinitiv SDC code: B06c

Aside from general investor aversion to energy bonds, the biggest credit issue for Tallgrass was its exposure to energy producers that have a challenged outlook with bonds trading at weak levels, such as EQT, Antero Resources and Gulfport.

All focus on natural gas, where spot prices are hovering close to US\$2, at their lowest levels in around four years.

"The gas names are in a pretty horrific place," he said. "It has been a pretty painful four weeks of trading."

The pricing of the new issue in turn put pressure on the company's bonds in the secondary market. Its 5.5% 2028s, which were had been trading close to par, dropped to 96.60 to yield just over 6%, according to Finra data.

"New-issue energy has been a disaster, so people want to get paid more," said Greg Zappin, portfolio manager at Penn Mutual Asset Management.

BOOM TO BUMMER

Energy companies were absent from the high-yield bond market for much of the second half of last year, with expectations of an oil glut in 2020 weighing on prices and investor appetite.

A short-lived spike in oil prices to over US\$60 a barrel in January gave some energy issuers a brief window to refinance debt on the back of improving sentiment.

But oil prices soon spiralled down to around US\$50, after the spread of coronavirus renewed worries of an economic slowdown and oil oversupply.

That also caused some of the bonds sold in January to plummet in the secondary market.

LAREDO PETROLEUM's 10.125% 2028s and 9.5% 2025s, issued at par on January 10, were at 82.25 and 84.50 last week, according to MarketAxess. And **RANGE RESOURCES'** 9.25% 2026s, also sold at par on January 9, were at 85.

This is making it trickier for other companies that come to the market, which could be an increasingly pressing concern for some issuers.

A Moody's report on Wednesday highlighted US\$86bn of debt from North American exploration and production companies that falls due through 2020-2024, 62% of it from high-yield borrowers.

That is a "staggering level" in the face of tight access to credit, the ratings agency said, "implying a higher default risk for the industry".

Lower quality names and natural gas producers will have the most difficulties accessing capital, the report said, because of overproduction, depressed natural gas prices, and widespread investor risk aversion.

Moody's said certain natural gas producers with large debt maturities over the next few years had a particularly challenging outlook, highlighting **ANTERO RESOURCES** (US\$2.6bn of debt maturing 2020-2024), **EQT CORPORATION** (US\$2.5bn) and **CHESAPEAKE ENERGY** (US\$1.8bn).

"While these companies have already taken some measures to address maturities, more needs to be done," the report said.

"Refinancing costs will remain sky high for these producers without a sharp rebound in gas prices, which seemed improbable as of early 2020, based on futures market price indications."

REPEAT OF 2015?

High-yield energy bonds in general have underperformed the market this year. JP Morgan's domestic HY energy index has returned -231bp, compared with total returns of 89bp for the bank's broader domestic HY index.

But outside of certain names and the natural gas sector, however, some feel like the market is unfairly pricing in a doomsday scenario for the sector.

"A lot of investors are fearing a redux of 2015," said Stephen Repoff, taxable bond senior credit analyst at GW&K Investment Management.

"But many of these companies are not the same as they were in terms of leverage, spending and earnings – back then, most were dramatically outspending earnings."

That is not the case now, he said.

"It seems like people are pricing in a dire outcome in energy that is not visible in other sectors."

HIGH-YIELD BORROWERS LOCK IN RECORD COUPONS

Investors showed insatiable appetite for high-yield bonds in the primary market last week, helping some issuers land record low coupons as they refinance existing debt.

Some eight borrowers priced deals during the week through Thursday, pricing a combined US\$6.38bn that took year-to-date volumes to US\$69.26bn, well over double the amount seen during the same period last year.

Despite the heavy supply, average spreads have held in, reaching 357bp over Treasuries on Wednesday, 13bp tighter over the previous 10 days.

High-yield bonds widened 5bp on Tuesday as the stock market sold off after Apple warned it would not meet its revenue guidance for the second quarter because of the coronavirus outbreak in China, but there was little panic.

"Investors were hesitant to sell anything," said John McClain, portfolio manager at Diamond Hill Capital Management.

The heavy amount of refinancing activity this year and lack of substantial net new issuance has created a strong technical support for the market. That is supporting the efforts of issuers to term out their debt with long-dated maturities.

Three borrowers priced bonds with 10-year maturities last week, even from some cyclical industries: mining company **FREEPORT MCMORAN**, financial index provider **MSCI**, and homebuilder **MATTAMY GROUP**.

MSCI's US\$400m 10.5-year non call five senior unsecured stood out, pricing at just 3.625% – inside price talk of 3.75% and the tightest ever seen in that structure, according to a lead involved.

"Issuers are setting new records in the market, it is the strongest we've ever seen," he said.

Not all deals got through the market unscathed – oil and gas pipeline company **TALLGRASS ENERGY PARTNERS** was forced to reduce the size of its seven-year non-call three senior unsecured from US\$500m to US\$430m, and price wide of talk, as investors demanded a generous coupon to offset concerns over low commodity prices.

And after meeting with US investors from February 10, British carmaker **JAGUAR LAND ROVER** was also understood to be holding off on plans to issue dollar high-yield bonds after the company – and bond investors – expressed concerns about the impact of coronavirus on the firm's supply chain.

Aside from that, bankers report a decent pipeline of deals coming up to continue borrowers' efforts to lock in cheaper debt.

"The primary market is wide open to all that want to issue," said Greg Zappin, portfolio manager at Penn Mutual Asset Management. "There is plenty of cash to put to work."

EUROPE/MIDDLE EAST/AFRICA

CATALENT HOOVERS UP DEMAND FOR HY DEBT

Demand for European high-yield debt was on full display on Thursday when drug developer **CATALENT** was able to nearly double the size of a euro bond.

The US company, rated B1/BB–, approached the investors with a €450m eight-year non-call three bond earlier in the week but by launch, the deal had been increased in size to €825m.

Catalent was also able to cut the yield from initial price talk of high 2% to 3%, down to 2.375%.

Proceeds will refinance Catalent's euro senior unsecured notes, repay the company's euro Term Loan B, and put cash on its balance sheet.

Junk bond buyers shrug off fallen angel risk

■ CORPORATES/HIGH-YIELD Investors brace for influx

Despite a week in which **KRAFT HEINZ** and **RENAULT** saw their debt ratings cut to junk status, European high-yield investors say they are not afraid of a flood of fallen angels, citing the all-pervasive force of central bank action.

Kraft Heinz has €26bn-equivalent in outstanding debt, €2.55bn of which is in euro-denominated bonds. French automaker Renault (excluding issuance from BBB rated subsidiary RCI Banque) has €4.95bn in euro debt, according to Tradeweb.

Even with the prospect of an extra €7.5bn headed into the high-yield secondary market, average yields in the junk bond universe this week dropped to just under 2.7%, the lowest the asset class has seen since January 2018, according to Refinitiv Eikon data.

"Sitting from within the European high-yield market, it doesn't look great to see a year where there has already been a record amount of supply, and on top of that having secondary supply via fallen angels," said one investor.

"It's a pretty poor technical, but people are still searching for yield the world over, and trying to find income wherever they can get it."

The investor said that high-yield bond buyers are likely to snap up debt from fallen angels because of the higher returns offered by debt with a longer maturity. Junk borrowers do not often issue long-duration debt because the cost would be prohibitive.

"One of the few places where investors are likely to get return are from duration,

and Double Bs offer that. Look at Kraft Heinz's dollar curve: US\$12bn of their US\$28bn debt has a greater-than 20-year maturity."

Renault saw its bonds gap out after Moody's cut its rating to Ba1 on Wednesday. S&P said it was placing Renault on negative watch, meaning it could also revise down its BBB-rating. Fitch rates the company BBB.

Chicago-based Kraft Heinz is rated BB+ by S&P and Fitch.

RETAIL UNDER THREAT

Another area to watch is European retail where there could be more downgrades to high-yield. Italian supermarket chain **ESSELUNGA** and French supermarket operator **AUCHAN** are teetering on the edge of the investment-grade bucket, with ratings in the Triple B space.

They report full-year results in March.

"Our thesis [is] that European IG food/general retail companies, which issue long-term debt, are drifting towards high-yield," wrote CreditSights analysts.

Esselunga, now rated Baa2/BBB-, has its ratings under review for a possible downgrade by Moody's and S&P.

The sturdiness of the family-owned company's capital structure is under threat by a buyout of one branch of the Caprotti family's shares by the other, according to CreditSights analysts.

If Guiliana and Marina Caprotti, core shareholders in parent Supermarkets Italiani, decide to finance the remaining 30% with debt, Esselunga's leverage could increase to 3.8 times from 1.1 times, said CreditSights.

A purchase price for the stake will be determined on March 7, according to the company.

"A toppish valuation for the shares, fully funded by debt, would leave Esselunga as a fallen angel in our opinion," wrote CreditSights analysts.

The company has €1bn in bonds, split between a €500m 0.875% October 2023 and a €500m 1.875% October 2027.

They blew out by between 40bp-50bp in January 2019, when the buyout was announced. But since then the notes have tightened by nearly 100bp.

Esselunga's 2023s are now at 67bp. The 2027s are seen bid at 141bp.

Auchan, which has €5.4bn of bonds, has a BBB- rating from S&P and a negative outlook.

Auchan said last year that it was aiming to make €1.1bn of savings by 2022. The company faces fierce price pressure in its home market from the likes of Carrefour and competition from Amazon.com.

"We are not expecting that the group restructuring of 2019 will have lifted the negative pressure on credit fundamentals," wrote CreditSights.

Eleanor Duncan

JP Morgan was lead left, while Barclays, Bank of America and RBC were bookrunners.

European high-yield bonds are now yielding less than 2.7% on average – the lowest average yield the market has seen since January 2018, according to Refinitiv iBoxx data.

That is despite Renault and Kraft Heinz both being downgraded into junk territory from investment-grade within the past week, substantially increasing the universe of debt available to buy in secondary.

■ THYSSENKRUPP BONDS SLIDE ON MOODY'S DOWNGRADE

THYSSENKRUPP's bonds widened last week after Moody's cut its credit rating by one notch, citing weak operating performance and negative free cashflow.

Moody's downgraded the German steel-to-submarines conglomerate to B1 with a "developing" outlook, from Ba3, following a weak first quarter (the company's fiscal year runs from October to September) that saw

its steel division swing to a loss thanks to poor demand from the auto industry.

"Although Moody's had expected adverse market conditions to continue to burden ThyssenKrupp's operating performance this year, the magnitude of the earnings decline and cash drain in Q1 was more severe than anticipated," analysts wrote.

The yield on ThyssenKrupp's 2.875% February 2024s jumped as high as 2.3% from 1.56%. Its 1.875% March 2023s moved to 2%, up from 1.30%, according to MarketAxess data.

The bonds had recovered a touch by Friday, after news broke that the company was nearing a sale of its €16bn elevator division, proceeds from which are expected to pay down debt.

But the 2024s tightened were still at 2.185% on Friday, while the 2023s were quoted at 1.8%.

ThyssenKrupp's first-quarter earnings, reported on February 13, saw its net debt increase to €7.1bn as of December 31 - nearly doubling quarter on quarter,

reflecting adjusted accounting of lease liabilities under the IFRS accounting standard.

The company, which also carries BB-/BB+ (developing) ratings from S&P and Fitch, also reported negative cashflow of €2.5bn.

ThyssenKrupp, which is under pressure after numerous profit warnings, needs to rake in cash by selling all or part of its elevator business, by far the group's most profitable unit.

If the sale goes ahead, Moody's expects ThyssenKrupp's liquidity to be adequate.

However, liquidity is also dependent on a "successful near-term refinancing of upcoming debt maturities", analysts wrote.

ThyssenKrupp's next bond maturity is its 1.75% November 2020s. That bond is trading at 100.20, according to Tradeweb. After that the company will need to refinance its 2.75% March 2021s, which is callable next month, according to Refinitiv.

The company will also likely need to renegotiate its gearing covenant "well ahead" of the next testing date at September

30, to mitigate any risk of a potential breach, wrote analysts.

ThyssenKrupp's gearing was 166.38% as of September 30 2019.

According to a debt prospectus seen by IFR, ThyssenKrupp has agreements with banks which contain certain conditions in the event the gearing ratio (net financial debt to equity) in the consolidated financial statements exceeds an applicable limit on September 30.

That range lies between 150% and 200% and depends on the discount rate used to calculate the company's pension obligations in Germany.

► FUGRO SET TO MARKET DEBUT HIGH-YIELD BOND

Dutch company **FUGRO** is joining the list of European companies taking advantage of low borrowing costs to fix up their capital structures.

The marine surveying business is kicking off a four-day roadshow on Monday to market a debut €500m five-year non-call two senior secured bond.

Proceeds from the deal, along with an equity issue, will refinance Fugro's revolving credit facility and convertible notes due 2021.

Fugro placed an €81.8m 10% accelerated capital raise on Thursday.

It also agreed a new €200m super senior revolving credit facility with a tenor of 4.5 years.

The new RCF, which is conditional on the successful issue of the bonds, is arranged by *ING*, *Rabobank*, *Credit Suisse*, *BNP Paribas*, *HSBC* and *Bank of China*.

The company's target is to reduce its net leverage to below 1.5x, down from 3.6x.

Fugro, which is still recovering from the collapse of oil prices in 2014-15, has been assigned ratings of B2/B/B.

Over the past three years, Fugro has cut its workforce by more than 20% and has sold some non-core assets, according to S&P.

"Although we view positively the company's actions to enhance its capital structure, including a material equity injection, the starting point remains a credit weakness," wrote S&P analysts.

After the equity placement and potential debt raise, Fugro will have gross debt of around €650m and "only modest cashflow".

"We expect debt reduction, facilitated by divestments, to take two to three years," wrote S&P.

Moody's analysts said they expect Fugro's "currently weak credit metrics" to be improved by underlying market growth and the company's diversification away from the oil and gas industry.

Around 52% of Fugro's revenues are now generated with the oil and gas sector, down from 78% in 2014. It has expanded into markets including offshore wind.

Fugro was involved in the search for the Malaysian airliner MH370, which disappeared in 2014.

Global coordinators on the bond are *Credit Suisse* (B&D), *ING*, *Jefferies* and *Rabobank*. *BNP Paribas* and *HSBC* are bookrunners.

STRUCTURED FINANCE

EMEA MBS

► FEWER ACCOUNTS FOR CCFS OWNER-OCCUPIED RMBS

CHARTER COURT FINANCIAL SERVICES returned to the market last week with owner-occupied RMBS **CMF 2020-1**, following its buy-to-let deal which reopened the UK RMBS market in January.

That January RMBS rode a wave of New Year cash and newfound enthusiasm for sterling, building a very busy book and finding very heavy levels of oversubscription.

But there were far fewer investors in the book, and more modest subscription levels, for last week's deal, which was sold through *BofA Securities* and *Lloyds*.

"We're on a firmer footing now after a start to the year when everyone was chasing paper and chasing spreads tighter," said a banker close to the deal.

He said aggressive price thoughts from the leads were designed to avoid a situation where high oversubscription on the relatively small mezzanine tranches meant scaled-back investors ended up with allocations below one million pounds.

There were 16 investors in the Class A for **CMF 2020-1**, compared to 28 from January's **PMF 2020-1**. There were seven accounts allocated through the mezzanine tranches and Class X, compared to 18 on the January trade.

Attention had also been focused on type of investors participating: the owner-occupied CMF programme is designed to be STS-compliant and LCR-eligible, unlike the buy-to-let PMF series.

But there was only a modest pick-up of bank treasury accounts: distribution statistics, which covered the full capital structure and were not broken down just for the Class A, showed 27% bank treasury participation for **CMF 2020-1**, compared to 21% on **PMF 2020-1**.

"Call risk is the same as for PMF," said one investor, adding that in terms of spreads, "the potential for volatility is the same, although the starting point is different".

The full statistics showed asset managers taking 72%, bank treasuries 27% and hedge

funds and private equity 2%. On **PMF**, the breakdown was asset managers 59%, bank treasury 21%, a much larger 19% going to hedge funds and private equity, and 1% to central banks and official institutions.

By jurisdiction, UK accounts bought 70% of the new issue, other Europe 24% and US offshore 6%. Figures in January were UK 66%, other Europe 17% and US offshore 17%.

HTB FACTOR

Charter Court says the deal qualifies as prime under the FCA's definition, but the £350.4m portfolio, which has a high weighted average interest rate of 4.01%, has a large 29.4% bucket of help-to-buy (HTB) loans.

The FCA said this month that HTB borrowers - who can put forward just a 5% stake and use a government loan to make up the rest of their deposit - could be more exposed to changes in economic conditions.

"A stagnant housing market, combined with the 'new build premium', could see a reduced number of re-mortgage options relative to a non-HTB property," the FCA said.

"They are also more likely to face negative equity if property prices begin to fall."

Other portfolio highlights include a 36% pool of self-employed borrowers, and an 18.5% portion of debt-consolidation mortgages.

The deal's £310.7m Class A, with a 2.55-year average life, was priced 2.2 times covered at Sonia plus 60bp. Initial price thoughts were mid-60s, which tightened to 60bp-63bp.

The 60bp print compares with 93bp on January's **PMF RMBS**, and was not too far outside the 53bp from Skipton Building Society's **Darrowby No.5** on February 14.

The Aa2/AA+ (Moody's/Fitch) Class B and A1/A+ Class C came at 100bp and 125bp, following respective IPTs of 100bp-110bp and 125bp-135bp and then guidance at 100bp and 125bp. The two tranches were 2.8 times and 4.7 times covered.

The Baa2/BBB Class D was priced with 1.6 times subscription at 160bp, after 160bp area IPTs and then 155bp-160bp guidance - a rare example this year of a tranche not pricing inside or at the tight end of a range.

Those Classes B to D were sized at £9.9m, £8.2m and £8.2m. No IPTs or guidance were shown for the even smaller £1.6m Class E, rated Ba3/BB+, and the £6.6m Ba1/BB+ Class X, which went subject early and was priced at 244bp and 224bp, respectively.

► BAML ANNOUNCES DUTCH CMBS TAURUS 2020-1

BANK OF AMERICA MERRILL LYNCH is marketing Dutch CMBS **TAURUS 2020-1 NL**, sponsored by

Blackstone and weighing in at a hefty €620.6m. The deal is the third CMBS of 2020 and is lead-managed by *BofA Securities*.

The 76 offices and 29 urban logistics properties were acquired by Blackstone as part of its US\$4.69bn acquisition of Dream Global REIT in December last year.

The underlying loan has an LTV of 65.9%, and the debt yield is 9.5%

A site visit is scheduled for Tuesday and pricing is expected at the end of the week or later. There are five tranches on offer from Triple A to BB-/BB, rated by Fitch and KBRA.

】 CITI READIES SECOND CANADA SQUARE RMBS

CANADA SQUARE FUNDING 2020-1 was filed at Companies House last week and appears to be a second RMBS from the Canada Square programme established last year by Citigroup.

In October, Citigroup sold UK buy-to-let RMBS Canada Square Funding 2019-1, securitising mortgages it warehoused that were originated by Fleet Mortgages. Although that deal was pre-placed, Canada Square was expected to become a more broadly distributed programmatic issuer over time.

Last year's deal was the first to securitise mortgages originated through Fleet since it suspended its entire mortgage range at the start of 2019, while trying to replace a previous funding line.

Fleet later reopened for business after securing a new funding line with an unnamed US bank, understood to be Citigroup.

Last year's RMBS pre-placed seven tranches totalling £417m, topped by a 2.14-year Triple A tranche priced at Sonia plus 110bp.

】 GOLDMAN PRICES SONIA-LINKED CMBS MAGENTA 2020

GOLDMAN SACHS priced the CMBS market's first Sonia-linked new issue last week, printing five Sonia-linked tranches off the £265.6m **MAGENTA 2020**.

However, the underlying loan, to Thai conglomerate DTGO and backed by a UK hotels portfolio, is linked to Libor.

The CMBS market has lagged UK RMBS and ABS in taking up Sonia-linked issuance, largely because CRE borrowers prefer Libor. Libor continues to dominate the market for interest rate caps.

Goldman extended the underlying loan in Magenta to finance DTGO's £460m acquisition of the hotel portfolio from Marathon Asset Management. The SPV has entered into an interest rate swap with Goldman to hedge against any mismatch

between the Libor-linked underlying loan and the Sonia liabilities.

The senior loan is sized at £270.9m, and has a 62.2% LTV. Apollo has taken a £65.3m mezzanine loan.

Magenta's £115.3m Triple A (S&P/DBRS) seniors were sold at 120bp over Sonia, with the £42m AA/AA(low) Class B at 145bp, the £40m A/A(low) Class C at 180bp and the £45m BBB-/BBB(low) Class D at 250bp. No level was shown for the £23.3m BB+/BB Class E at the bottom of the stack.

The notes have expected 4.8-year maturities, assuming all senior loan extensions are exercised.

The portfolio holds 17 full-service hotels belonging to the Hilton, Marriott and IHG franchises, across 13 UK cities. There are 3,383 keys, at £136,000 per key, and occupancy is 83.6%.

The CMBS is Goldman's second of 2020: in January it priced River Green Finance, Europe's first CMBS to claim green bond status.

EMEA ABS

】 VW ANNOUNCES VCL 30

VOLKSWAGEN LEASING has announced German auto ABS **VCL 30**. Pricing is expected later this week, following conference calls that started on Friday and will end on Tuesday.

Bank of America, *LBFW* and *UniCredit* are joint leads.

The deal is offering the standard capital structure for VCL trades: a €941m 1.23-year Triple A (rated by S&P, Fitch and Creditreform) and a €19m AA-/A+/AA- 2.08-year Class B. The coupon for the seniors has been pre-set at 65bp over one-month Euribor and the tranche should be priced above par.

VW's previous issue off the VCL shelf was in October last year. The €941m of seniors from VCL 29 came 1.4 times covered at a 17bp discount margin, but the mezzanine appeared to struggle: the €19m tranche was partly retained at a final spread of 78bp.

VW has already tapped euro investors once this year with a well-received Spanish ABS in January.

】 FUTURA ABS OPENS DOOR TO PUBLIC ITALIAN NPL MARKET

Half of the investors who bought the senior notes from Italian non-performing loan securitisation **FUTURA 2019** were buying NPL ABS for the first time, providing encouragement to other issuers who are considering selling broadly syndicated senior risk.

Futura 2019 was brought to market by **VARDE PARTNERS** and securitises a portfolio

Varde bought 18 months ago from Cassa Centrale Banca (CCB).

Most Italian NPL securitisations have been balance sheet clean-up exercises by banks taking advantage of the government guarantee scheme known as GACS. GACS gives a 0% risk weighting on senior notes, which the banks retain while privately placing mezzanine and junior bonds.

Non-bank Varde cannot use GACS and, because it mainly sought refinancing rather than risk transfer, sold the seniors via public syndication while retaining the mezzanine and junior tranches.

"We could be on the brink of the birth of a new asset class," said one market participant away from the deal, referring to the possibility of a liquid, tradeable market for senior NPL paper if more public deals emerge.

Market participants do expect other sponsors who have bought Italian NPL portfolios in recent years to consider securitisation as a way to obtain new leverage. The previous such deal was Belvedere SPV from asset manager Bayview in 2018, but unlike Futura, Belvedere was not broadly distributed.

Futura closed fully retained at the end of 2019 before Varde announced the remarketing of €150.1m Triple B rated Class As at the end of January. The notes were priced at six-month Euribor plus 320bp on February 14.

The tranche was twice covered at that level, which followed initial price thoughts of mid-300s and then guidance at 320bp-340bp.

JP Morgan arranged the securitisation and was co-placement agent with *Barclays*. Barclays had provided financing for the initial portfolio acquisition.

SHORT AND YIELDY

"In a very low-yielding market, this offered something senior, short and yieldy," said a source familiar with the deal.

There were 10 investors, mainly real-money asset manager accounts, with a small amount of hedge fund participation, with distribution across the UK, France and the US.

Five of the accounts were new to NPL securitisation. Others had bought senior NPL paper from deals in other European jurisdictions such as Spain, Portugal and Ireland.

"One of the goals of the transaction was to build a deeper investor base, not just for Varde and their programme but for NPLs in general," said the source.

Craig Rydqvist, global head of capital markets at Varde, said the ABS market proved the most efficient and effective place to refinance the bridge financing put in place when it bought the loans from CCB.

“From a sponsor perspective, one of the strongest features of this market is the true match funding it offers through the term,” Rydqvist said.

“We have invested a lot of time in this deal and would hope to spread the benefit over several transactions, so I can see us doing more ABS as we accumulate more assets.”

After buying the first CCB portfolio 18 months ago, Varde bought a second in March last year.

And CCB itself, which is made up for about 80 small cooperative banks, is under regulatory pressure to continue offloading NPLs. More portfolio sales are expected over the next four to five years.

Futura 2019 issued a total of €203m of notes backed by a portfolio of €1.26bn by gross book value. The loans were originated by 53 of CCB's member banks and comprise senior secured (45.7%), unsecured (48.2%) and junior secured loans (6.1%). Corporate borrowers made up 78%.

The servicer is Guber Banca, an experienced NPL servicer in Italy, but acting in a securitisation for the first time. Varde bought a 33% share in Guber in 2017.

BOOK BUILDS FOR GEDESCO ABS

Spanish lender **GEDESCO** is targeting a transaction size of up to €300m for its debut trade receivables ABS, which is lead managed by *Morgan Stanley*. The size includes up to €100m of pre-funding.

Initial price thoughts were released on Monday, with the Aa3/AAA (Moody's/KBRA) Class A shown at 100bp area to low 100s. A book update on Thursday reported €430m of orders for the tranche including trading interest, and €350m excluding trading interest.

The Baa2/AA Class B and B2/A Class C have IPTs of 200bp area to low 200s, and 300bp area to low 300s. Three lower-rated tranches are shown as “call desk”.

The SPV is *Gedeco Trade Receivables 2020-1*.

EMEA CLO

CLO BUYERS FILL VOID LEFT BY NORINCHUKIN

Japanese bank **NORINCHUKIN** has signalled a saturation in its multibillion-dollar holdings in CLOs, though other investors, including pension funds and insurers are ensuring that money continues to pour into the red-hot asset class.

Norinchukin, the world's largest CLO investor, ceased its buying in the second half of 2019. Its December holdings were ¥8trn (US\$72bn), the same level as in June

last year, according to the bank's latest result released early this month.

It's a stark contrast to the Japanese lender's rapid buying spree in recent years. It doubled its CLO exposure from ¥3.8trn in a two-year period from March 2018.

The halt came after Japanese regulators raised concerns about high CLO exposure for domestic lenders in March last year. However, Norinchukin, which solely invests in the Triple A tranches of CLO debts, has remained the largest CLO holder, accounting for around 9% of an estimated US\$800bn global CLO market.

Norinchukin's move has not stopped the market growth or deterred other yield-hungry investors. The global CLO market grew almost 7% in 2019, according to Bank of England estimates.

“The sufficient depth of the market allows CLOs to get printed without reliance on Asian investors,” said a London-based fund manager who issued a CLO this year.

Banks are the largest buying group, accounting for 36% of the market, followed by pension funds and insurers, which increased their CLO holdings by 28% last year to US\$192bn.

FILLING THE VOID

These buyer groups have filled the void in the absence of Norinchukin and have flocked into the safest option, holding Triple A rated and Double A rated tranches of CLO funds as their primary goal is principal protection.

For the majority of banks' treasuries and pension funds, the current mid-90bp offer of Triple A tranches in Europe and around 120bp in the US are very attractive, amid the low interest rate environment.

“There is a very strong demand for CLO Triple A tranches,” said Laila Kollmorgen, managing director at PineBridge Investments in Los Angeles. “It is our understanding that while US banks and insurers continue to be major buyers, it is a US-based asset manager who is taking the entire Triple A in many transactions pricing in January and February.”

It is unclear which are the top CLO holders after Norinchukin, as few institutions disclose such information. California Public Employees' Retirement System, which has invested about US\$8.5bn in CLOs, is one of few companies that have revealed their CLO holdings.

Other active CLO investors, including hedge funds, which normally take more risky equity tranches of CLO debts in exchange for higher returns, doubled their investments in the asset class last year to US\$96bn, Bank of England data showed.

Fund managers are optimistic about CLO issuance this year. But a lack of new paper

and falling pricing in leveraged loans could put CLO managers under pressure to ramp up.

“It's a challenge to purchase enough good quality leveraged loans at right spreads. With many repricing deals at a cheaper rate, it just very difficult,” said Kollmorgen.

Global leveraged loan refinancing and repricings total US\$93bn so far this year, almost double the US\$49bn raised in the same period last year, LPC data showed.

SENIOR CLO PAPER HITS 92bp, TRIPLE Bs SLOWER TO FILL

SELF ADVISORS and INTERMEDIATE CAPITAL

MANAGERS both sold senior notes from new issue CLOs at 92bp over Euribor last week, the tightest level this year at the standard two-year non-call and 4.5-year reinvestment maturities.

CELf's **CARLYLE EURO CLO 2020-1** and ICM's **ST. PAUL'S CLO XII** sold their Double As at 150bp and 160bp, respectively, while both their Single As came at 200bp.

Market participants say it is the Triple Bs which are now the slowest part of the debt stack to fill. Triple B spreads this year have snapped in from the 400s to low 300s and those investors who expect them to widen back out in the future are sitting on the sidelines for that rating.

The BBB-/BBB- tranche from Carlyle came at 330bp, and the BBB-/BBB- tranche from St. Paul's came at 320bp.

Carlyle's BB-/BB- tranche was priced at a 585bp discount margin, and St. Paul's tranche with the same ratings at 580bp. Pricing for the B-/B- tranches on both CLOs was not disclosed.

BNP Paribas was lead manager for Carlyle Euro CLO 2020-1 and Citigroup was lead for St. Paul's CLO XII.

US ABS

SOLID ECONOMY BUOYS US ABS INDUSTRY AHEAD OF VEGAS GATHERING

US asset-backed securities market players are rolling into a major industry conference this week on a high note, as a solid economy has stoked keen demand from investors and supply has outpaced last week's issuance so far in 2020.

“Everything I'm hearing is upbeat,” said Jason Merrill, investment specialist at Penn Mutual Asset Management.

The Structured Finance Association will sponsor its annual event in Las Vegas, where, from February 23 to 26, some 8,000 bankers, issuers, analysts and investors are expected to descend on the Aria hotel on the Vegas Strip, matching last year's record crowd, according to the industry group.

With a US presidential election later this year, the SFVegas 2020 event will host several sessions on politics, featuring former UK Prime Minister Theresa May (possibly); first-time Arizona Democrat Senator Kyrsten Sinema; former interim head of the Democrat National Committee Donna Brazile; and Republican strategist and commentator Ana Navarro.

Also, industry topics such as capital-raising for environment/social/governance programmes and the transition away from the London interbank offered rate will be the focus of a number of panels.

Signs of a firm jobs market have kept defaults and losses low on car loans, credit card and student debt. This has buttressed the view that banks and other lenders can easily obtain cheap funding from investors.

"We are comfortable with consumer fundamentals," said Kroll senior managing director Rosemary Kelly. "Performances have been very good."

That outlook has helped propel the ABS primary activity since the start of the year.

SOLID START

ABS issuers raised US\$37bn last week, about 15% higher than the same period a year earlier, IFR data showed.

Robust orders for top-rated issuers such as Ford, Toyota and Verizon increased the size of their deals to sate demand.

Spreads on most recent transactions priced tighter or at the tight end of their guidance.

Spread compression, together with low defaults and delinquencies, have delivered 1.01% in total return for investors, albeit less than the 2.37% for Treasuries, according to indices compiled by Bloomberg and Barclays.

Overall strong market fundamentals have supported players' optimism in the sector.

But some deterioration in credit quality among sub-prime borrowers and loosening of underwriting standards have led some analysts and investors to turn a bit cautious.

Moreover, the coronavirus outbreak since December has injected market volatility, raising fears about global travel and disruption to global supply chains.

Those concerns, however, have not halted the new supply of aircraft ABS to come to market, although fresh issues may begin to struggle if air travel does not rebound in the near future, some analysts said.

FAIR SQUARE SEES MORE DEALS AFTER CREDIT CARD ABS DEBUT

Upstart credit card company **FAIR SQUARE FINANCIAL** said it expected to issue more asset-backed debt, perhaps later this year, after strong reception for its first ever securitisation earlier this month.

The US\$300m deal, FSIT 2020-A, on February 13 offered investors a very different proposition to typical bank credit card offerings that fetch cheaper funding costs.

Still Fair Square saw significant demand for its maiden ABS offering following a short investor road, said Fair Square CFO, Steve Linehan. "We could do another transaction later this year," he added.

NEW ASSET-BACKED SUMMARY DETAILS: WEEK ENDING 21/2/2020

Issuer	Amount (m)	WAL	Coupon (%)	Bookrunner(s)	Rating	Asset type
ARIFL 2020-A	US\$184	0.38	-	BofA/JP Morgan/Mizuho/TD Securities	NR/A1+/F-1+	ABS
ARIFL 2020-A	US\$277	1.58	1.770	BofA/JP Morgan/Mizuho/TD Securities	NR/AAA/AAA	ABS
ARIFL 2020-A	US\$83.152	3.05	1.800	BofA/JP Morgan/Mizuho/TD Securities	NR/AAA/AAA	ABS
ARIFL 2020-A	US\$17.648	3.98	2.060	BofA/JP Morgan/Mizuho/TD Securities	NR/AA/A	ABS
CMF 2020-1	£301.722	2.55	SONIA+60bp	BofA/Lloyds	Aaa/NR/AAA	RMBS
CMF 2020-1	£9.893	4.06	SONIA+100bp	BofA/Lloyds	Aa2/NR/AA+	RMBS
CMF 2020-1	£8.244	4.06	SONIA+125bp	BofA/Lloyds	A1/NR/A+	RMBS
CMF 2020-1	£8.244	4.06	SONIA+160bp	BofA/Lloyds	Ba2/NR/BBB	RMBS
CMF 2020-1	£1.649	4.06	SONIA+244bp	BofA/Lloyds	Ba3/NR/BB+	RMBS
CMF 2020-1	£6.595	0.42	SONIA+224bp	BofA/Lloyds	Ba1/NR/BB+	RMBS
FREMF SPC K-104	US\$153.600	6.92	1.938	Credit Suisse/Barclays	NR/AAA/AAA	CMBS
FREMF SPC K-104	US\$1019.540	9.76	2.253	Credit Suisse/Barclays	NR/AAA/AAA	CMBS
FREMF SPC K-104	US\$70.496	9.91	1.955	Credit Suisse/Barclays	NR/A+/A+	CMBS
FREMF 2020-K104 Mortgage Trust Class B/C	US\$57.844	9.91	3.538	Credit Suisse/Barclays	NR/NR/BBB+	CMBS
FREMF 2020-K104 Mortgage Trust Class B/C	US\$36.152	9.91	3.538	Credit Suisse/Barclays	NR/NR/BBB-	CMBS
GCAT 2020-NQM1	US\$229.935	2.36	2.247	Credit Suisse	NR/AAA/NR	RMBS
GCAT 2020-NQM1	US\$16.603	2.36	2.452	Credit Suisse	NR/AA/NR	RMBS
GCAT 2020-NQM1	US\$35.555	2.36	2.554	Credit Suisse	NR/A+/NR	RMBS
GCAT 2020-NQM1	US\$21.971	2.36	2.934	Credit Suisse	NR/BBB/NR	RMBS
GCAT 2020-NQM1	US\$12.243	2.36	3.638	Credit Suisse	NR/BBB/NR	RMBS
GSMBS 2020-PJ2	US\$267.062	4.92	3.500	Goldman Sachs	NR/NR/AAA	RMBS
GSMBS 2020-PJ2	US\$52	2.77	3.500	Goldman Sachs	NR/NR/AAA	RMBS
GSMBS 2020-PJ2	US\$17.333	11.38	3.500	Goldman Sachs	NR/NR/AAA	RMBS
GSMBS 2020-PJ2	US\$36.805	4.92	3.500	Goldman Sachs	NR/NR/AAA	RMBS
HAROT 2020-1	US\$350.550	0.30	-	JP Morgan/Barclays/BNP Paribas	P-1/NR/F1+	ABS
HAROT 2020-1	US\$550.05	1.09	1.630	JP Morgan/Barclays/BNP Paribas	Aaa/NR/AAA	ABS
HAROT 2020-1	US\$491.15	2.35	1.610	JP Morgan/Barclays/BNP Paribas	Aaa/NR/AAA	ABS
HAROT 2020-1	US\$108.25	3.24	1.630	JP Morgan/Barclays/BNP Paribas	Aaa/NR/AAA	ABS
JPMMT 2020-2	US\$781.9	-	-	JP Morgan	NR/NR/NR	RMBS
LDPT 2020-1	US\$113.789	0.6	2.512	Guggenheim Partners	NR/NR/NR	ABS
LDPT 2020-1	US\$34	1.5	3.107	Guggenheim Partners	NR/NR/NR	ABS
LDPT 2020-1	US\$29.684	2.1	4.143	Guggenheim Partners	NR/NR/NR	ABS

The company, along with lenders such as Petal and Mission Lane, is among recent non-bank credit card start-ups that focus on consumers with patchier credit histories.

Unlike the Triple A ratings usually seen on deals from bank issuers, the highest-rated tranche was a US\$181.5m two-year note that garnered only a Single A rating from Kroll.

It was priced at a spread of 145bp over swaps for a yield of 2.918%, inside price guidance of 155bp-165bp but well wide of the 17bp spread and 1.543% yield that JP Morgan achieved with a three-year, Triple A card-backed note on February 10.

Fair Square said it used the money from the ABS sale to pay down borrowings from its US\$600m revolving credit facility and to fund the acquisition of more card receivables.

The weighted average interest rate on its ABS associated with the two-year revolving structure is 3.54%.

The ABS deal's borrowing cost saves at least 100bp when compared with the interest rate on its credit line, Linehan said.

On top of the lower ratings, the wide spreads on the Fair Square paper stemmed from it coming from a first-time issuer and competition from better known names in what has been the busiest week of ABS supply in 10 months, a fund manager said.

BRIEF HISTORY

Fair Square also has a short operating history and the credit card receivables backing the deal had weak credit quality, according to Moody's.

About 48.5% of Fair Square cardholders in the ABS have a FICO score below the prime level of 660, which is substantially larger than levels seen in credit card ABS among top issuers, Moody's said in a pre-sale report.

The loans being securitised represented a sizeable chunk of the receivables on the firm's balance sheet.

At the end of 2019, it had US\$552m in card receivables, up 84% from a year earlier, according to Kroll.

This compared with JP Morgan's US\$15bn in securitised credit card receivables at the end of last year.

Fair Square, through its partnership with The Bank of Missouri, offers credit cards through its "Ollo" programme.

The privately held company, which began in 2016, has strong ties with veterans in the US banking industry.

Its chief executive Rob Habgood co-led the credit card business at Bank of America prior to joining Fair Square.

Vikram Pandit, former CEO at Citigroup, is a board member and whose investment fund The Orogen Group made a US\$100m in equity commitments in the company. Steven Freiberg, who served various top jobs at Citigroup, is also a board member.

Citigroup was the sole bookrunner on Fair Square's offering.

US ASSET-BACKED MARKET POSTED BUSIEST WEEK SINCE APRIL

The US asset-backed securities market recorded its highest weekly total in 10 months in the week ended February 14 as issuers minted fresh debt to meet huge

NEW ASSET-BACKED SUMMARY DETAILS: WEEK ENDING 21/2/2020 (CONTINUED)

Issuer	Amount (m)	WAL	Coupon (%)	Bookrunner(s)	Rating	Asset type
LDPT 2020-1	US\$22.527	2.5	6.323	Guggenheim Partners	NR/NR/NR	ABS
LUNAR 2020-1	US\$325.8	4.48	3.376	Deutsche Bank/Citigroup/MUFJ	NR/NR/A	ABS
LUNAR 2020-1	US\$53.6	4.48	4.335	Deutsche Bank/Citigroup/MUFJ	NR/NR/BBB	ABS
LUNAR 2020-1	US\$29.7	3.26	6.413	Deutsche Bank/Citigroup/MUFJ	NR/NR/BB	ABS
Magenta 2020	£115.3	4.79	SONIA+120bp	Goldman Sachs	NR/AAA/NR	CMBS
Magenta 2020	£42	4.79	SONIA+145bp	Goldman Sachs	NR/AA/NR	CMBS
Magenta 2020	£40	4.79	SONIA+180bp	Goldman Sachs	NR/A/NR	CMBS
Magenta 2020	£45	4.79	SONIA+250bp	Goldman Sachs	NR/BBB-/NR	CMBS
Magenta 2020	£23.346	4.79	SONIA+N/A	Goldman Sachs	NR/BB+/NR	CMBS
Red Rock Securitization Tr	US\$125	-	3.600	Deutsche Bank Securities	NR/NR/NR	ABS
Red Rock Securitization Tr	US\$75	-	10.000	Deutsche Bank Securities	NR/NR/NR	ABS
St. Paul's CLO XII DAC	€2	-	3mE+35bp	Citigroup	NR/AAA/AAA	CLO
St. Paul's CLO XII DAC	€244	-	3mE+92bp	Citigroup	NR/AAA/AAA	CLO
St. Paul's CLO XII DAC	€14	-	3mE+160bp	Citigroup	NR/AA/AA	CLO
St. Paul's CLO XII DAC	€30	-	1.9	Citigroup	NR/AA/AA	CLO
St. Paul's CLO XII DAC	€22.5	-	3mE+200bp	Citigroup	NR/A/A	CLO
St. Paul's CLO XII DAC	€7.5	-	2.1	Citigroup	NR/A/A	CLO
St. Paul's CLO XII DAC	€24	-	3mE+320bp	Citigroup	NR/BBB/BBB-	CLO
St. Paul's CLO XII DAC	€20	-	3mE+532bp	Citigroup	NR/BB-/BB-	CLO
St. Paul's CLO XII DAC	€11	-	3mE+805bp	Citigroup	NR/B-/B-	CLO
St. Paul's CLO XII DAC	€20	-	-	Citigroup	NR/NR/NR	CLO
St. Paul's CLO XII DAC	€35.650	-	-	Citigroup	NR/NR/NR	CLO
VOLT 2020-NPL5	US\$216.303	1.28	2.982	Nomura/Credit Suisse/GS/Cantor Fitzgerald	NR/NR/NR	RMBS
VOLT 2020-NPL5	US\$41.05	2.87	3.475	Nomura/Credit Suisse/GS/Cantor Fitzgerald	NR/NR/NR	RMBS
VOLT 2020-NPL5	US\$25.89	3.01	3.967	Nomura/Credit Suisse/GS/Cantor Fitzgerald	NR/NR/NR	RMBS
WESTF 2020-A	US\$303	6.5	3.228	BofA/MUFJ/Wells Fargo	NR/NR/A	ABS
WESTF 2020-A	US\$42.1	6.5	4.212	BofA/MUFJ/Wells Fargo	NR/NR/BBB	ABS
WESTF 2020-A	US\$21.1	1.92	6.657	BofA/MUFJ/Wells Fargo	NR/NR/BB	ABS
WFCM 2020-SDAL	US\$93.7	1.92	1mUSL+102bp	Wells Fargo	Aaa/NR/NR	CMBS
WFCM 2020-SDAL	US\$22.1	1.92	1mUSL+135bp	Wells Fargo	Aa3/NR/NR	CMBS
WFCM 2020-SDAL	US\$21.2	1.92	1mUSL+175bp	Wells Fargo	A3/NR/NR	CMBS
WFCM 2020-SDAL	US\$22.4	1.92	1mUSL+210bp	Wells Fargo	Baa3/NR/NR	CMBS
WFCM 2020-SDAL	US\$43.3	1.92	1mUSL+275bp	Wells Fargo	Ba3/NR/NR	CMBS
WFCM 2020-SDAL	US\$44.8	1.92	1mUSL+350bp	Wells Fargo	B3/NR/NR	CMBS

appetite for short-dated securities that yield more than Treasuries.

Bankers and issuers were pushing out deals in advance of a long US holiday weekend and a major industry conference in Las Vegas later in the month, market players said.

US financial markets were closed last Monday, shortening the window ahead of the conference.

Lenders raised US\$11.2bn in the ABS market during the week to February 14, marking the biggest sum since the US\$12.18bn seen in the week ended April 12 last year, according to IFR data.

This raised US ABS issuance to more than US\$36.8bn year-to-date, above the US\$31.9bn for the same period a year ago.

"When you are seeing this type of supply movement, there's this tremendous demand for higher quality paper," said Eric Souza, senior portfolio manager at SVB Asset Management.

ABS issuance slowed last week to US\$3bn, less than a third of prior week's volume.

Several of the 14 deals that priced last week racked up huge orders, resulting in issuers enlarging their offerings.

JP MORGAN doubled its first credit card securitisation in nearly two years to US\$1bn.

FORD's finance unit increased its revolving auto loan transaction to US\$1.62bn from the initial US\$1bn.

Despite the surge of supply, nearly all the deals were priced with spreads at the tight end or tighter than guidance, underscoring the favourable conditions for companies raising cash in the sector.

"This is a great environment for issuers," Souza said.

All types of issuers were able to bring in pricing.

In **CREDIT ACCEPTANCE CORP's** US\$500m sub-prime auto deal, the Triple A tranche with a 2.61-year weighted average life came in at 60bp over swaps, versus initial price talk in a 65bp-70bp range.

The auto sector has dominated supply, accounting for close to two-thirds of the ABS issuance so far this year.

Student loan securitisation is a distant second with US\$3.26bn in supply, IFR data show.

In other ABS asset classes, aircraft supply has not been grounded by the coronavirus outbreak that began in December.

AVOLON AEROSPACE priced a US\$620m lease offering on February 10. The deal's US\$490m Single A notes with a 5.1-year WAL priced at 3.250% yield, which was 25bp tighter than the low end of its guidance.

HONDA DEAL HIGHLIGHTS FIRM DEMAND FOR US AUTO ABS

AMERICAN HONDA FINANCE's US asset-backed securities offering last Wednesday underscored persistent investor demand for this type of paper, helping auto lenders to clinch cheap cash so far in 2020.

Auto-related ABS supply is off to a strong start this year, accounting for nearly two-thirds of the US\$37bn in overall ABS supply year-to-date, data compiled by IFR showed.

But investors are having no trouble mopping up supply, resulting in a decent spread rally and bringing down the cost of funding for auto lenders.

A drop in credit card ABS supply, which is running 66% below last year's pace, according to JP Morgan figures, is also encouraging ABS investors to put to work in the auto space.

Last Wednesday, the US finance arm of Japan's third-biggest automaker raised US\$1.5bn through a prime auto loan securitisation, boosting the deal from an initial size of US\$1.25bn.

The three publicly offered tranches in the HAROT 2020-1 transaction were about two to three times oversubscribed, according to a source familiar with the deal.

The biggest class, a US\$550.05m Triple A note with a weighted average life of 1.09 years, cleared at a spread of 11bp over the Eurodollar synthetic forward rate for a yield of 1.645%. It came in at the tight end of a 11bp-13bp range at guidance.

In November, Honda priced a similar tranche at EDSF plus 19bp for a yield of 1.873%.

HAROT 2020-1's longest-dated tranche had a 3.24-year WAL and racked up about US\$275m in orders, more than double its offered size of US\$108.25m.

It was priced at 25bp over swaps, yielding 1.643%, inside guidance of 26bp-28bp.

A US\$350.55m money market piece was pre-placed prior to the pricing of the other tranches.

GLOBAL STRUCTURED FINANCE IN US\$

BOOKRUNNERS: 1/1/2020 TO DATE

	Managing bank or group	No of issues	Total US\$(m)	Share (%)
1	Wells Fargo	36	12,658.90	13.8
2	JP Morgan	28	10,116.06	11.0
3	Credit Suisse	25	9,181.88	10.0
4	BofA	31	8,381.97	9.1
5	Citigroup	28	7,632.81	8.3
6	Goldman Sachs	28	7,598.08	8.3
7	Morgan Stanley	17	6,406.42	7.0
8	Barclays	23	5,123.10	5.6
9	Deutsche Bank	23	4,887.07	5.3
10	Nomura	18	3,445.10	3.7
	Total	149	91,893.08	

Including securitisations (Euro, foreign, global and domestics, excluding CDOs) and PFI bonds.

Source: Refinitiv

SDC code: B16b

Spreads on Honda's notes were comparable to Capital One's US\$1.25bn prime auto offering sold the week before.

American Honda's deal, its first of the year, boosted domestic auto ABS issuance to more than US\$24bn since the start of January.

Confidence on consumer credit fundamentals is underpinning the auto ABS sector.

A solid jobs market has stoked the optimism about consumers' ability to service their debt, analysts said.

"We feel pretty good about its fundamentals right now. Performance will likely improve with consumers getting their tax refunds this spring," said Deutsche Bank lead analyst in ABS securitisation Kayvan Darouian.

US CLO

CLOS SEEK FLEXIBILITY FOR DISTRESSED ASSETS

US CLOs are increasingly seeking flexibility to provide rescue financing to distressed companies after other lenders have been able to swoop in and offer lifelines to borrowers and often obtain a senior claim on assets in the process.

CLO managers can be prohibited from participating in restructuring or workout scenarios due to constraints in their deal documents, so when sales and marketing firm Acosta reworked its debt late last year, their funds were essentially forced to sit on the sideline.

The result could impact on returns to CLO investors, especially in the next downturn when recovery rates are already predicted to be more than 20% lower than the historical average.

In November, some investors agreed to provide US\$250m of equity capital to Acosta as part of a restructuring that wiped out

STRUCTURED FINANCE - ALL INTL ISSUERS

BOOKRUNNERS: 1/1/2020 TO DATE

	Managing bank or group	No of issues	Total US\$(m)	Share (%)
1	Wells Fargo	18	4,638.76	10.6
2	Goldman Sachs	18	4,552.17	10.4
3	Barclays	19	3,887.13	8.9
4	JP Morgan	18	3,804.58	8.7
5	BofA	18	3,739.93	8.5
6	Credit Suisse	17	3,486.61	7.9
7	Citigroup	16	3,347.78	7.6
8	Nomura	15	2,395.56	5.5
9	Deutsche Bank	14	2,252.38	5.1
10	Morgan Stanley	9	1,987.16	4.5
	Total	81	43,881.92	

Includes securitisations, PFI bonds, self-funded issues and credit-linked notes. Excludes US global ABS/MBS and CDOs.

Source: Refinitiv

SDC code: J10c

about US\$3bn of the company's debt. CLOs, forced to the wings, have started to push for the ability to either provide companies with rescue financing or increased flexibility to receive equity in a workout situation in order to be able to participate in future reorganisations.

"The dynamic we have seen is that non-CLO lenders would pick up the distressed loans and would drive the restructuring and the economics of the restructured debt," said Sean Solis, a partner at law firm Milbank.

"The non-CLO lenders are keenly aware that by putting all the economics in a super-priority loan, (the existing CLO lenders) would be much more subordinated."

Years of sustained growth and low interest rates fuelled a debt binge by borrowers that were able to lock in more loan-only capital structures with looser lender protections. Regulators have said the US leveraged loan market does not pose a systemic risk, but Federal Reserve chairman Jerome Powell noted that corporate debt could be an amplifier of the next downturn.

The US leveraged loan default rate ended January at 3.7%, up from 1.9% a year earlier, according to Moody's. Recoveries for first-lien loans are forecast to be about 61%, down from the average historical recovery of 77%, according to the ratings firm.

Recoveries for second-lien loans are forecast to be just 14%, down from the average historical rate of 43%. The CLO market is the largest buyer of leveraged loans.

"Some CLO managers have begun to react to certain defaults – Acosta was one example – where in those situations the CLOs were maybe at a bit of a disadvantage to provide additional money to participate in a restructuring because by virtue of their documents they didn't have a provision to do that," said Algis Remeza, associate managing director at Moody's.

"The provisions are being added in anticipation of a downturn by providing flexibility for the manager to trade."

Acosta said it reached an agreement with more than 70% of its lenders and more than 80% of its note-holders on the reorganisation agreement that eliminated the US\$3bn of long-term debt. Investors then committed to provide the US\$250m in new equity, according to a 2019 news release.

In the case of Acosta, some investors had greater flexibility to take other securities whereas CLOs had strict limits and these assets were not considered a collateral obligation, according to Derek Miller, head of US structured credit at Fitch Ratings.

"Listed in the indenture are items a CLO can invest in. If what a non-CLO lender is

proposing as an alternative to extract recovery and the CLO can't participate, then the CLO manager is at a disadvantage," he said.

"We have seen more transactions with greater flexibility in what they can invest in as a result."

While the US CLO market has seen just a handful of new issues – US\$5.2bn in 2020 through to February 12 compared to US\$8.6bn during the same period in 2019 – market participants expect more funds to push for the additional flexibility to participate in restructurings.

"Some CLOs have added provisions to allow themselves to participate in these types of workouts, where they have the potential to put additional money into that kind of workout," Moody's Remeza said.

"We think it's very credit-positive because it will help improve the overall recovery the CLO experiences."

ASIA-PACIFIC MBS

COLUMBUS SETS GUIDANCE

COLUMBUS CAPITAL has released price guidance for the indicative A\$500m (US\$336m) Triton 2020-1 RMBS offering, expected to be launched and priced this week.

NAB, Standard Chartered Bank and Westpac are joint lead managers.

The A\$100m of Class A1-MM notes with a 1.4-year weighted-average-life have been pre-placed at a one-month BBSW spread of 75bp.

Price talk for the A\$250m of Class A1-AU and A\$75m of Class A1-5Y notes, with respective 2.8 and 5.0-year WALs, is one-month BBSW plus 120bp–125bp area and 140bp area.

Guidance for the A\$35m of Class A2, A\$14m of Class AB, A\$10.5m of Class B and A\$7.5m of Class C notes, all with 4.3-year WALs, is one-month BBSW plus 150bp area, 160bp area, 185bp area and 245bp area.

The D to F notes have been pre-placed with no pricing levels disclosed.

The non-bank lender issued three RMBS offerings last year, the last being the enlarged A\$1bn Triton 2019-3 transaction on November 1.

CBA MARKETS 2015-1 RMBS CLASS A1 NOTES

COMMONWEALTH BANK OF AUSTRALIA is marketing a refinancing of its Medallion Trust Series 2015-1 RMBS Class A1 notes benchmarked against a one-month BBSW reference rate.

Last November, CBA issued the first RMBS linked to the risk-free Australian

Overnight Index Average (Aonia) rate, the A\$1.5bn (US\$975m) Medallion 2019-1 prime RMBS.

The issuer/originator then stated its intention to reference Aonia for future RMBS transactions, though this clearly does not necessarily include the refinancing of outstanding tranches linked to one-month BBSW.

AMP BANK ON ROAD WITH PROGRESS RMBS

AMP BANK has released roadshow details for its indicative A\$750m (US\$487m) Progress 2020-1 Trust funding and capital relief prime RMBS offering.

Investor meetings will be held in London on March 3 and 4, Sydney on March 10 and 11, and Melbourne on March 12 ahead of expected pricing the following week.

NAB is arranger and joint lead manager with CBA, Deutsche Bank, Macquarie, MUFG and Standard Chartered.

AMP Bank previously issued the upsized A\$1bn Progress 2019-1 Trust capital relief RMBS in June last year.

PEPPER REFINANCING

Non-bank lender PEPPER has mandated NAB to market a refinancing of the Class A1-u2 notes issued in March 2019, which were refinanced from the PRS 20 prime RMBS transaction sold in March 2018.

The new Class AR-u note issue has an approximate size of A\$105.7m (US\$71m) with 47.3% credit support and a modelled weighted-average-life of 1.8 years.

The transaction is expected to be launched and priced in the week beginning March 9.

ASIA-PACIFIC ABS

VWFS JAPAN PRICES AUTO LOAN ABS

VOLKSWAGEN FINANCIAL SERVICES JAPAN priced an upsized ¥60bn (US\$546m) Driver Japan nine auto loan ABS offering on February 14. The final terms were announced last week.

BNP Paribas and Mizuho are joint lead managers.

The prime auto loan ABS, rated Aaa/AAA/AAA, was priced with a 0.10% coupon.

The provisional underlying Japanese auto loan pool has 26,586 contracts with an average contract size of ¥2,413,789. The weighted average life of the collateral is 27.1 months.

The offering was expected to be ¥40bn when the two banks were hired for the transaction in January, but was then upsized because of solid demand from investors.

GLOBAL BOND SUMMARY DETAILS: WEEK ENDING 21/2/2020

Pricing date	Issuer	Amount	Maturity	Coupon (%)	Reoffer	Spread (bp)	Yield (%)
SSAR							
US DOLLARS							
Feb 19 2020	FMS	US\$500m	Feb 26 2023	1.375	99.734	MS+6 / T+7	1.461
Feb 19 2020	IsDB sukuk	US\$2bn	Feb 26 2025	1.809	100	MS+40 / T+38.6	1.809
Feb 20 2020	CoE	US\$1bn	Feb 27 2025	1.375	99.64	MS+8 / T+6.7	1.45
EUROS							
Feb 18 2020	Madrid	€1.25bn	Apr 30 2030	0.419	100	SPGB+14	0.419
Feb 18 2020	Belgium	€5bn	Jun 22 2040	0.4	99.418	MS+11 / B+52.8	0.43
Feb 18 2020	KfW	€1bn incr (€6bn)	Apr 2 2024	0	101.993	MS-13 / B+18.1	-0.48
STERLING							
Feb 19 2020	EBRD	£750m	Feb 27 2023	Sonia+25	100	Sonia+25	-
SWISS FRANCS							
Feb 17 2020	ZKB	SFr190m	Mar 12 2030	0	101.971	MS+18 / Eidg+53	-0.195
Feb 20 2020	Freiburger KB	SFr30m incr (SFr205m)	Nov 1 2044	0.1	102.412	MS+12 / Eidg+46	0.002
NON CORE							
Feb 17 2020	KfW	NKr500m incr (NKr3.25bn)	May 12 2022	1.125	99.111	0	1.536
Feb 18 2020	Treasury Corp of Victoria	A\$2.25bn	Nov 20 2030	1.5	9.654	EFP+50 / ACGB+49.9	1.535
Feb 19 2020	AOFM	A\$2bn incr, A\$6.6bn	May 21 2041	2.75		EFP+49.5	1.535
Feb 19 2020	BNG	A\$25m incr (A\$1.375bn)	Jul 17 2028	3.3	114.5	ASW+50 / ACGB+48.5	1.458
Feb 19 2020	Queensland Treasury Corp	A\$1.5bn	Nov 25 2024	3mBBSW+23.5	100	3mBBSW+23.5	-
Feb 20 2020	KfW	A\$100m incr A\$1.35bn	Sep 11 2026	3.2	112.485	ASW+40 / ACGB+41.5	1.208
Feb 20 2020	MuniFin	NKr200m incr (NKr3.35bn)	Jul 11 2023	3mN+150	-	-	-
Feb 21 2020	Northern Territory Treasury Corp	A\$700m	Apr 21 2031	2	101	EFP+93 / ACGB+89.4	1.9
CORPORATES							
US DOLLARS							
Feb 18 2020	Amgen	US\$500m	Feb 21 2025	1.9	99.796	T+55	1.943
Feb 18 2020	Amgen	US\$750m	Feb 21 2027	2.2	99.787	T+75	2.233
Feb 18 2020	Amgen	US\$1.25bn	Feb 21 2030	2.45	99.965	T+90	2.454
Feb 18 2020	Amgen	US\$1.25bn	Feb 21 2040	3.15	99.603	T+117	3.177
Feb 18 2020	Amgen	US\$1.25bn	Feb 21 2050	3.375	99.962	T+137	3.377
Feb 18 2020	Commonwealth Edison	US\$350m	Mar 1 2030	2.2	99.696	T+68	2.234
Feb 18 2020	Commonwealth Edison	US\$650m	Mar 1 2050	3	99.862	T+100	3.007
Feb 18 2020	FirstEnergy	US\$300m	Mar 1 2025	2.05	99.795	T+70	2.093

Pricing steps	NIP (bp)	Book size	Ratings	Bookrunners	Distribution
MS+6 area, MS+6 area	-	US\$680m	Aaa/AAA/-	Barc/BofA/HSBC	-
MS+high 40s, MS+40/+43	-	US\$2.15bn	Aaa/AAA/AAA	Citi/DIB/HSBC/ICDPS/LBBW/Natx/StCh	-
MS+9 area	-0.5	>US\$1.3bn, 40acs	Aa1/AAA/AA+	BNPP/BofA/DB/TD	Eur 40.8%, Asia 34.1%, Amers 15.2%, ME 10%. Tsy/PB 56.4%, CB/OI 33.6%, AM/Ins/Other 10.1%.
SPGB +20 area, SPGB +17 area	-1	>€7.25bn	Baa1/A-/A-/AL	Bankia/BBVA/DB/HSBC/Saba/Santan	Sp 20%, Ger/Aus 20%, Fr 13%, UK 11%, Benelux 11%, Switz 7%, It 7%, Nordics 6%, RoEU 2%, RoW 3%. FM 45%, Ins/PF 14%, Bks 33%, CB 5%, Other 3%.
MS+12 area	3	>€27bn, >200acs	Aa3/AA/AA-	Citi/JPM/Natx/Nomura/SG	UK 20%, Ger 19%, It 16%, Scandi 13%, Fr 12%, RoEur 10%, RoW 10%. FM 40%, Tsy 23%, PF 10%, Ins 10%, Bks 7%, HF 6%, CB/OI 4%.
MS-13 area	-	>€2bn	Aaa/AAA/-/Scope AAA	CMZ/GS/HSBC	-
Sonia +27 area, Sonia +26 area	0	>£1.85bn, 60acs	Aaa/AAA/AAA	Barc/HSBC/NatWest/RBC	UK 84%, Eur/RoW 16%. Bks 73%, FM/Ins/PF 21%, CB/OI 6%.
MS+17/+18	0	SFr190m, 29acs	Aaa/AAA/AAA	ZKB	Switz 100%. Bks 41%, AM 27%, Ins 19%, PF13%.
-	-	-	ZKB AA+	KB Fribourg	-
-	-	-	Aaa/AAA	CMZ	-
EFP+49/52	-	-	Aaa/AAA	ANZ/Citi/DB/UBS	Oz 82%, Asia 10%, Eur 6%, Japan 2%. AM 54%, Bks 27%, Trading 9%, OI 8%, HF 2%.
EFP+49/51	-	-	Aaa/AAA/AAA	CBA/JPM/UBS	-
-	-	-	Aaa/AAA/-	Miz	-
3mBBSW+23.5/25.5	-	-	Aa1/AA+/AA	ANZ/CBA	Oz 96%, Asia 4%. Bks 86%, OI 8%, Trading 3%, AM/Ins 2%, Others 1%.
-	-	-	Aaa/AAA	Nom/RBC	-
-	-	-	Aa1/AA+	Nordea	-
EFP+89/93	-	-	Aa3	ANZ/NAB/UBS	-
T+75/80, T+60 (+/-5)	-3	US\$2.8bn	Baa1/A-	Barc/Citi/GS/MS	-
T+90/95, T+80 (+/-5)	2	US\$4bn	Baa1/A-	Barc/Citi/GS/MS	-
T+105/110, T+95 (+/-5)	2	US\$3.8bn	Baa1/A-	Barc/Citi/GS/MS	-
T+135/140, T+120 (+/-3)	-1	US\$4bn	Baa1/A-	Barc/Citi/GS/MS	-
T+155/160, T+140 (+/-3)	-1	US\$4.3bn	Baa1/A-	Barc/Citi/GS/MS	-
T+85 area, T+70 (+/-2)	2	US\$900m	A1/A/A	BofA/BNPP/Citi/MUFG	-
T+115 area, T+105 (+/-2)	3	US\$1.4bn	A1/A/A	BofA/BNPP/Citi/MUFG	-
T+105 area, T+75 (+/-5)	-10	US\$2.1bn	Baa3/BBB-/BBB	Barc/BofA/Citi/JPM/MS	-

GLOBAL BOND SUMMARY DETAILS: WEEK ENDING 21/2/2020 (CONTINUED)

Pricing date	Issuer	Amount	Maturity	Coupon (%)	Reoffer	Spread (bp)	Yield (%)
Feb 18 2020	FirstEnergy	US\$600m	Mar 1 2030	2.65	99.929	T+110	2.658
Feb 18 2020	FirstEnergy	US\$850m	Mar 1 2050	3.4	99.849	T+140	3.408
Feb 18 2020	KKR Group Finance	US\$500m	Feb 25 2050	3.625	99.474	T+165	3.654
Feb 18 2020	National Retail Properties	US\$400m	Apr 15 2030	2.5	99.678	T+98	2.536
Feb 18 2020	National Retail Properties	US\$300m	Apr 15 2050	3.1	97.978	T+120	3.205
Feb 18 2020	Republic Services	US\$600m	Mar 1 2030	2.3	99.707	T+78	2.333
Feb 18 2020	Republic Services	US\$400m	Mar 1 2050	3.05	99.26	T+108	3.088
Feb 19 2020	BP Capital Markets	US\$1.25bn	Feb 24 2050	3	98.344	T+107	3.085
Feb 19 2020	Halliburton	US\$1bn	Mar 1 2030	2.92	99.974	T+135	2.923
Feb 19 2020	KLA	US\$750m	Mar 1 2050	3.3	99.962	T+130	3.302
Feb 19 2020	Otis Worldwide	US\$500m	Apr 5 2023	3ml+45	100	3ml+45	3ml+45
Feb 19 2020	Otis Worldwide	US\$1.3bn	Apr 5 2025	2.056	99.999	T+65	2.056
Feb 19 2020	Otis Worldwide	US\$500m	Apr 5 2027	2.293	99.998	T+80	2.293
Feb 19 2020	Otis Worldwide	US\$1.5bn	Feb 15 2030	2.565	99.992	T+100	2.566
Feb 19 2020	Otis Worldwide	US\$750m	Feb 15 2030	3.112	99.986	T+110	3.113
Feb 19 2020	Otis Worldwide	US\$750m	Feb 15 2030	3.362	99.982	T+135	3.363
Feb 19 2020	Omnicom Group	US\$600m	Apr 30 2030	2.45	99.656	T+92	2.488
Feb 19 2020	Tennessee Gas Pipeline	US\$1bn	Mar 1 2030	2.9	99.801	T+135	2.923
Feb 19 2020	UDR	US\$200m	Jan 15 2030	3.2	105.66	T+97	2.534
Feb 20 2020	Citrix	US\$750m	Mar 1 2030	3.3	99.35	T+185	3.377
Feb 20 2020	Lear	US\$350m	May 30 2030	3.5	99.774	T+200	3.525
Feb 20 2020	Lear	US\$300m	May 15 2049	5.25	106.626	T+285	4.821
EUROS							
Feb 17 2020	ASML Holding	€750m	Feb 25 2030	0.25	99.029	MS+40 / B+74.8	0.349
Feb 18 2020	VF Corp	€500m	Feb 25 2032	0.625	98.673	MS+70 / B+118.1	0.741
Feb 18 2020	VF Corp	€500m	Feb 25 2028	0.25	99.362	MS+50 / B+85.4	0.331
Feb 18 2020	Dow Chemical Company	€500m	Mar 15 2040	1.875	98.731	MS+165 / B+207.1	1.952
Feb 18 2020	Dow Chemical Company	€750m	Mar 15 2032	1.125	99.263	MS+115 / B+163.3	1.191
Feb 18 2020	Dow Chemical Company	€1bn	Mar 15 2027	0.5	99.442	MS+80 / B+114.9	0.581
Feb 18 2020	Whirlpool	€500m	Feb 20 2028	0.5	99.369	MS+75 / B+110.2	0.581
Feb 19 2020	General Motors Financial	€750m	Feb 26 2026	0.85	99.802	MS+115 / B+148.6	0.884
Feb 19 2020	Swedish Match	€300m	Feb 26 2027	0.875	99.427	MS+118 / B+152.8	0.96
Feb 20 2020	DSV Panalpina	€500m	Feb 26 2027	0.375	99.759	MS+65 / B+99.6	0.41

Pricing steps	NIP (bp)	Book size	Ratings	Bookrunners	Distribution
T+135/140, T+115 (+/- 5)	-10	US\$2.5bn	Baa3/BBB-/BBB	Barc/BofA/Citi/JPM/MS	-
T+170/175, T+145 (+/- 5)	-7	US\$2.3bn	Baa3/BBB-/BBB	Barc/BofA/Citi/JPM/MS	-
T+165 area, T+165 (+/- 5)	8	-	-/A/A	Citi/GS/Miz/MS	-
T+110/115 T+100 (+/- 2)	-3	US\$1.15bn	Baa1/BBB+/BBB+	BofA/Citi/Jeff/RBC/STRH/WFS	-
T+130/135 T+120 (the #)	-1	US\$750m	Baa1/BBB+/BBB+	BofA/Citi/Jeff/RBC/STRH/WFS	-
T+95 area, T+80 (+/- 2)	-2	US\$1.7bn	Baa2/BBB-/BBB-	BofA/JPM/BNPP/Miz/SMBC/WFS	-
T+125 area, T+110 (+/- 2)	-2	US\$1.4bn	Baa2/BBB-/BBB-	BofA/JPM/BNPP/Miz/SMBC/WFS	-
T+120-125 T+110 (+/- 3)	2	US\$3.35bn	A1/A-	BofA/Barc/GS/MS	-
T+150 area, T+140 (+/- 5)	4	US\$1.8bn	Baa1/A-	Citi/HSBC/JPM/Miz	-
T+155 area, T+135 (+/- 5)	0	US\$2.5bn	Baa1/BBB+/BBB+	Citi/JPM/WFS	-
3ml+65 area, 3ml+50 (+/- 5)	-	US\$3.1bn	Baa2/BBB	Citi/BofA/GS	-
T+85 area, T+70 (+/- 5)	-	US\$4.9bn	Baa2/BBB	Citi/BofA/GS	-
T+95 area, T+85 (+/- 5)	-	US\$2.9bn	Baa2/BBB	Citi/BofA/GS	-
T+115 area, T+105 (+/- 5)	-	US\$4.8bn	Baa2/BBB	Citi/BofA/GS	-
T+135 area, T+115 (+/- 5)	-	US\$3.5bn	Baa2/BBB	Citi/BofA/GS	-
T+155 area, T+140 (+/- 5)	-	US\$4.8bn	Baa2/BBB	Citi/BofA/GS	-
T+110/115 T+95 (+/- 3)	2	US\$1.4bn	Baa1/BBB+	Citi/JPM/WFS	-
T+135 area, T+140 (+/- 5)	-3	US\$1.9bn	Baa2/BBB/BBB	Citi/CS/WFS	-
T+110 area, T+100 (+/- 3)	1	US\$350m	Baa1/BBB+	Citi/WFS	-
T+185 area	15	US\$1.1bn	Baa1/BBB/BBB	BofA/DB/JPM(a)/BNPP/Citi/GS/ WFS(p)	-
T+215 area	2	US\$925m	Baa2/BBB-	BofA/Barc/JPM(a)/Citi/HSBC(p)	-
T+290/295	7	US\$450m	Baa2/BBB-	BofA/Barc/JPM(a)/Citi/HSBC(p)	-
MS+65 area, MS+45 area	-	€2.6bn	A3/-/A-	ING/JPM/Rabo/SMBC Nikko	-
MS+95 area, MS+75 area	-	€2bn	A3/A	Barc/BofA/MS	-
MS+80 area, MS+55 area	-	€4.1bn	A3/A	Barc/BofA/MS	-
MS+200 area, MS+170/+175	-	€2.95bn	Baa2/BBB/BBB+	Barc/BofA/DB	-
MS+150 area, MS+125/+130	-	€2.4bn	Baa2/BBB/BBB+	Barc/BofA/DB	-
MS+110 area, MS+85/+90	-	€3.4bn	Baa2/BBB/BBB+	Barc/BofA/DB	-
MS+105 area, MS+80 area	-1	-	Baa1/BBB/BBB	BNPP/Citi/ING/JPM/Miz	-
MS+140 area, MS+115/120	0-5	>€2bn, ~210acs	Baa3/BBB/BBB	BcalMI/BNPP/DB/ICBC/Lloyds/Uni	Ger/Aus 27%, S.Eur 15%, UK/Ire 13%, Fr 10%, Nordics 8%, ME 8%, Benelux 5%, Switz 5%, Asia 4%, Other 5%. AM/ FM 58%, Bks/PWM 25%, Ins/PF 2%, OI 15%.
-	-	-	Baa2/BBB	Danske/DB/SEB	-
MS+95 area, MS+70 area	-	€3.1bn	-/BBB+	Danske/HSBC/Nordea/Nyk	Nordics 28%, Ger/Aus/Switz 24%, FR 16%, Benelux 14%, UK/Ire 9%, S.Eur 7%, Other 2%. FM 68%, Ins/PF 12%, Bks 14%, Other 6%.

GLOBAL BOND SUMMARY DETAILS: WEEK ENDING 21/2/2020 (CONTINUED)

Pricing date	Issuer	Amount	Maturity	Coupon (%)	Reoffer	Spread (bp)	Yield (%)
Feb 20 2020	Terega	€400m	Feb 27 2028	0.625	99.349	MS+90 / B+124.9	0.709
STERLING							
Feb 17 2020	Dwr Cymru	£300m	Mar 31 2033	1.375	99.955	G+70	1.458
Feb 17 2020	Dwr Cymru	£200m	Mar 31 2026	1.625	99.627	G+120	99.627
Feb 21 2020	Wales & West Utilities	£250m	May 28 2041	1.875	97.713	G+103	1.998
SWISS FRANCS							
Feb 17 2020	Mobimo Holding	SFr220m	Mar 23 2028	0.25	100.04	MS+72 / Eidg+107	0.245
NON CORE							
Feb 19 2020	Corem Property Group	SKr1bn	Feb 27 2023	3mS+250	100	3mS+250	-
Feb 20 2020	SFF	SKr258m	Mar 9 2023	0.853	100	0	0.853
Feb 20 2020	SFF	SKr512m	Mar 11 2024	3mS+87	100	3mS+87	-
FINANCIALS							
US DOLLARS							
Feb 18 2020	BNP Paribas	US\$1.75bn	Perpetual (Feb 2030)	4.5	100	4.5	4.5
Feb 18 2020	Brookfield Finance	US\$600m	Apr 15 2050	3.45	99.058	T+150	3.501
Feb 18 2020	Mitsubishi UFJ Financial	US\$2.6bn	Feb 25 2025	2.193	100	T+80	2.193
Feb 18 2020	Mitsubishi UFJ Financial	US\$1.15bn	Feb 25 2030	2.559	100	T+100	2.559
Feb 18 2020	Mizuho Financial Group	US\$1.1bn	May 25 2024	3ml+63	100	3ml+63	3ml+63
Feb 18 2020	Mizuho Financial Group	US\$750m	May 25 2026	2.226	100	T+83	2.226
Feb 18 2020	Mizuho Financial Group	US\$500m	May 25 2031	2.591	100	T+103	2.591
Feb 19 2020	Arion banki	US\$100m	Perpetual (Aug 2025)	6.25	100	T+484.2	6.25
Feb 19 2020	F.N.B.	US\$300m	Feb 24 2023	2.2	99.925	T+83	2.226
Feb 19 2020	JPMorgan Chase	US\$1.5bn	Perpetual (Feb 2025)	4	100	4	4
Feb 20 2020	PNC Bank NA	US\$1bn	Feb 24 2023	3ml+32.5	100	3ml+32.5	3ml+32.5
Feb 20 2020	PNC Bank NA	US\$500m	Feb 24 2023	1.743	100	T+35	1.743
EUROS							
Feb 17 2020	Societe Generale	€1.25bn	Feb 24 2026	0.125	99.732	MS+43 / B+77.3	0.17
Feb 17 2020	Santander Consumer Bank AS	€500m	Feb 25 2025	0.125	99.622	MS+50 / B+83.8	0.201
Feb 19 2020	Hoist Finance AT1	€40m	Perpetual (Feb 2025)	7.75	100	MS+805.3	7.75
Feb 20 2020	Credit Suisse	€1.5bn	Aug 27 2021	3mE+60	100.685	DM+15	-
Feb 20 2020	Banco Santander	€1.25bn	Feb 27 2032	0.1	99.821	MS+12 / B+55.6	0.115
Feb 21 2020	Santander UK Group Holdings	€750m	Feb 28 2025 (Feb 2024)	0.391	100	MS+73 / B+104	0.391
YEN							
Feb 20 2020	Societe Generale (SNP)	¥50bn	Feb 27 2025	0.472	100	OS+48	0.472

Pricing steps	NIP (bp)	Book size	Ratings	Bookrunners	Distribution
MS+125/130, MS+95 (+/-5)	10	>€3.9bn, >250acs	Baa3	BNPP/CA-CIB/Natx/SG/Uni	UK/Ire 29%, Fr 28%, Ger/Aus 16%, Switz 15%, S.Eur 6%, Benelux 3%, Nordics 2%, Other 2%. AM/FM 75%, Ins/PF 13%, Bks/PB 9%, OI 2%, Other 1%.
G+80/+85, G+70/75	-	-	A3/A-/A	HSBC/Lloyds	-
G+135/140, G+120/125	-	-	Baa2/BBB/BBB+	HSBC/Lloyds	-
G+115 area, G+105 (+/-2)	-	>£700m	-/A-/A-	HSBC/Lloyds/Santan	-
MS+74/79, MS+72/74	0	SFr220m, 74acs	Fedafin Baa/CS Mid BBB/UBS BBB / Vontobel BBB+ / ZKB BBB all stable	CS/UBS/ZKB	Switz 100%. AM 50%, Tsy 25%, Ins 14%, PB 7%, PF 4%.
-	-	-	-	Nordea/Swed	-
-	-	-	-/BBB+	HCM/Swed	-
-	-	-	-/BBB+	HCM/Swed	-
5.125 area, 4.50 (the #)	-	US\$10.6bn	Ba1/BBB-/BBB-	BNP	-
T+165 area, T+150 (+/-3)	3	-	Baa1/A-/A-	BofA/DB(a)/SMBC(p)	-
T+90/95, T+80 (the #)	7	US\$3.75bn	A1/A-/A	MS/MUFG	-
T+110/115, T+100 (the #)	5	US\$2.5bn	A1/A-/A	MS/MUFG	-
3ml+low 80s, 3ml+65 (+/-2)	-	US\$2.1bn	A1/A-	BofA/Miz	-
T+100/105, T+85 (+/-2)	1	US\$1.8bn	A1/A-	BofA/Miz	-
T+120/128, T+105 (+/-2)	4	US\$1.65bn	A1/A-	BofA/Miz	-
6.5%/6.75%, 6.375% (+/-12.5)	-	~US\$500m	-/BB/-	Barc/GS/MS	-
T+105 area, T+85 (+/-2)	-	US\$800m	Baa2/BBB/BBB+	BofA/GS	-
4.25%/3.75% 4% (the #)	-	-	Baa2/BBB-/BBB	JPM	-
3ml+equiv, 3ml+equiv	-	US\$2bn	A2/A/A+	JPM/MS/PNC	-
T+mid-high 40s, T+35/37	0	US\$1.2bn	A2/A/A+	JPM/MS/PNC	-
MS+60/+65, MS+45 area	-	€2.5bn	A1/A/A+	SG	-
MS+65/+70, MS+50/55	-	€950m	A3/-/A-	Barc/BofA/Danske/MUFJ/Santan	Ger/Aus 36%, Iberia 16%, Benelux 15%, Fr 10%, UK/Ire 8%, It 8%, Switz 4%, Nordics 1%, Other 2%. AM 69%, Ins/PF 10%, Bks/PB 18%, CB/OI 2%, Other 1%.
7.75%/8%	-	€125m	-	Citi/Nordea	-
DM+25/+30, DM+15/20	-	€2.2bn	A1/A+/A	CS	-
MS+18 area	-	€2.6bn	Aa1/-/AA	CMZ/CS/ING/Medio/Santan/Uni	-
MS+90 area, MS+75 (+/-2)	-	>€1.35bn	Baa1/BBB/A	BNPP/DB/JPM/Santan	-
OS+45/48	-	-	Baa2/BBB+/A	Daiwa/MUMSS/Miz/Nomura/SMBC Nikko/SG	Japan 97%, RoW 3%. Trust Bank 26%, City Bank Regional 20%, Bks 13%, Central Cooperative 10%, Shinkin 8%, Life Ins 4%, Intl 3%, Property Ins 2%, Other 14%.

GLOBAL BOND SUMMARY DETAILS: WEEK ENDING 21/2/2020 (CONTINUED)

Pricing date	Issuer	Amount	Maturity	Coupon (%)	Reoffer	Spread (bp)	Yield (%)
STERLING							
Feb 20 2020	BPCE	£400m	Dec 23 2026	1.375	99.562	G+100	1.438
SWISS FRANCS							
Feb 17 2020	Zurich Insurance	SFr250m	Aug 27 2032	0.1	100.436	MS+32 / Eidg+67	0.065
Feb 19 2020	AMP	SFr175m	Jun 3 2024	0.203	100	MS+90 / Eidg+99.5	0.203
NON CORE							
Feb 18 2020	Members Banking Group	A\$60m	Feb 24 2023	3mBBSW+93	100	3mBBSW+93	-
Feb 18 2020	Liberty Financial	A\$250m	Feb 26 2024	3mBBSW+235	100	3mBBSW+235	-
COVERED BONDS							
EUROS							
Feb 17 2020	SR-Boligkredditt	€500m	Feb 25 2030	0.01	99.83	MS+8 / B+43	0.027
Feb 20 2020	Credit Agricole Home Loan SFH	€1bn	Nov 3 2031	0.01	99.488	MS+7 / B+48.9	0.054
Feb 20 2020	Banco Santander	€1.25bn	Feb 27 2032	0.1	99.821	MS+12 / B+55.6	0.115
SWISS FRANCS							
Feb 18 2020	PSHypo	SFr150m incr (SFr643m)	Apr 26 2034	0.25	105.498	MS+8 / Eidg+40.9	-0.134
Feb 18 2020	PSHypo	SFr525m	Feb 25 2028	0	103.113	MS+12 / Eidg+39.8	-0.383
Feb 18 2020	PSHypo	SFr175m incr (SFr875m)	Jan 24 2025	0.5	105.148	MS+12 / Eidg+25.4	-0.531
Feb 18 2020	PSHypo	SFr150m	May 10 2045	0	100	MS+9.1 / Eidg+40.2	0
HIGH YIELD							
US DOLLARS							
Feb 18 2020	Forestar Group	US\$300m	Mar 1 2028 (Mar 2023)	5	100	T+350	5
Feb 18 2020	Tallgrass Energy	US\$430m	Mar 1 2027 (Mar 2023)	6	98.591	T+477	6.25
Feb 19 2020	Frepport McMoran	US\$700m	Mar 1 2028 (Mar 2023)	4.125	100	T+261	4.125
Feb 19 2020	Frepport McMoran	US\$600m	Mar 1 2030 (Mar 2025)	4.25	100	T+268	4.25
Feb 19 2020	MSCI	US\$400m	Sep 1 2030 (Sep 2025)	3.625	100	T+208	3.625
Feb 19 2020	Silgan Holdings	US\$200m incr (US\$600m)	Feb 1 2028 (Oct 2022)	4.125	99.5	T+269	4.2
Feb 20 2020	Front Range Bid Co SN	US\$1.08bn	Mar 1 2028 (Mar 2023)	6.125	100	T+465	6.125
Feb 20 2020	Front Range Bid Co SSN	US\$1.5bn	Mar 1 2027 (Mar 2021)	4	100	T+255	4
Feb 20 2020	Mattamy Group	US\$600m	Mar 1 2030 (Mar 2025)	4.625	100	T+310	4.625
Feb 20 2020	American Airlines	US\$500m	Mar 1 2025	3.75	100	T+239	3.75
EUROS							
Feb 19 2020	Silgan Holdings	€500m	Jun 1 2028 (Mar 2023)	2.25	100	B+276	2.25
Feb 20 2020	Catalent Pharma Solutions	€825m	Mar 1 2028 (Mar 2023)	2.375	100	B+291	2.375
NON CORE							
Feb 20 2020	Mattamy Group	C\$250m	Mar 1 2028 (Mar 2023)	4.625	100	GOC+329.8	4.625

Pricing steps	NIP (bp)	Book size	Ratings	Bookrunners	Distribution
G+105/+110	-	>£570m	A1/A+/A+	Barc/HSBC/Natx/NatWest	-
MS+32 area	-4	>SFr250m, 41acs	A1/A+/A+	CS	Switz 100%. AM 63.83%, Bks 15.54%, PF 9.84%, Ins 9.22%, Retail/PB 1.56%.
MS+95/105	-4	-	A2/BBB+	CS/UBS	Switz 100%. AM 51%, Ins 20%, PB 13.5%, Tsy 13.5%, PF 2%.
3mBBSW+93 area	-	-	Baa1/BBB+	ANZ/NAB	-
3mBBSW+240/245	-	-	BBB-	DB/NAB/WBC	-
MS+13 area, MS+9 (+/-1)	-	€900m	Aaa	JPM/LBBW/Natx/Nordea/Santan	-
MS+10 area	-	>€1.25bn	Aaa/AAA/AAA	CA-CIB(B&D/DM)/ABN/BBVA/Danske/LBBW/SG	-
MS+18 area	-	€2.6bn	Aa1/-/AA	CMZ/CS/ING/Medio/Santan/Uni	-
MS+8 area	-	-	Aaa	CS/Raiff/UBS	-
MS+12 area	-	-	Aaa	CS/Raiff/UBS	-
MS+12 area	-	-	Aaa	CS/Raiff/UBS	-
0%/0.01%	-	-	Aaa	CS/Raiff/UBS	-
5%/5.25%	-	-	B2/B	JPM/Citi/Miz/TD/WFS	-
5.75%/6%	-	-	B1/BB-/BB	CS/Jeff/Blackstone/MUFG/RBC/Barc/PNC/TD/ING/BBVA/Regions/ABN	-
4.125%/4.375%	-	-	Ba1/BB	JPM/BofA/BNPP/Citi/HSBC/Miz/SMBC/BMO/MUFG/Scotia	-
4.25%/4.50%	-	-	Ba1/BB	JPM/BofA/BNPP/Citi/HSBC/Miz/SMBC/BMO/MUFG/Scotia	-
3.75% area, 3.625%	-	-	Ba2/BB+	MS/JPM/BofA/GS	-
99.25/99.50	-	-	Ba3/BB-	BofA/Wells/Miz/JPM/SMBC Nikko/GS	-
6.25% area	-	-	Caa1/CCC+	MS(left)/CS/Citi/DB/STRH/TD	-
4%/4.25%	-	-	B1/B/-	MS(left)/CS/Citi/DB/STRH/TD	-
4.625% area	-	-	B1/BB	JPM/BofA/RBC	-
3.875% area	-	-	B1/BB-	MS	-
2.375% area	-	-	Ba3/BB-	BofA/Wells/Miz/JPM/SMBC Nikko/GS	-
High 2%/3%, 2.625% area	-	-	B3/B+	JPM/Barc/BofA/RBC	-
-	-	-	B1/BB	RBC/BofA/BMO	-

GLOBAL DEBT: SOVEREIGN FOREIGN CURRENCY LONG-TERM RATINGS (21/2/2020)

Sovereign	Moody's 1	2	S&P 3	4	Fitch 5	6	Sovereign	Moody's 1	2	3	S&P 4	5	Fitch 6
Abu Dhabi	Aa2	–	AA	AA+	AA	AA+	Kyrgyzstan	B2	Ba3	–	–	–	–
Albania	B1	Ba2	B+	BB	–	–	Latvia	A3	Aaa	A	AAA	A–	AAA
Andorra	–	Ba2	BBB	AAA	BBB+	A+	Lebanon	Caa2	Caa1	CCC n	CCC	CC	CCC
Angola	B3	B2	B– n	B–	B n	B	Lesotho	–	–	–	–	B	B+
Argentina	Caa2	Caa1	CC n	B–	CC	CCC	Liechtenstein	–	Aaa	AAA	AAA	–	–
Armenia	Ba3	Ba1	–	–	BB–	BB	Lithuania	A3 p	Aaa	A	AAA	A– p	AAA
Aruba	–	–	BBB+ n	BBB+	BBB– n	BBB	Luxembourg	Aaa	Aaa	AAA	AAA	AAA	AAA
Australia	Aaa	Aaa	AAA	AAA	AAA	AAA	Macau	Aa3	Aa2	–	–	AA n	AAA
Austria	Aa1	Aaa	AA+	AAA	AA+ p	AAA	Macedonia (FYR)	–	–	BB–	BB	BB+	BBB–
Azerbaijan	Ba2	Ba2	BB+	BB+	BB+	BB+	Malaysia	A3	A1	A–	A+	A–	A
Bahamas	Baa3	Baa1	BB+	BBB–	–	–	Maldives	B2 n	Ba3	–	–	B+	BB–
Bahrain	B2	Ba3	B+ p	BB–	BB–	BBB–	Malta	A2	Aaa	A– p	AAA	A+ p	AAA
Bangladesh	Ba3	Ba2	BB–	BB–	BB–	BB–	Mauritius	Baa1	A2	–	–	–	–
Barbados	Caa1	B2	B–	B–	–	–	Mexico	A3 n	A1	BBB+ n	A+	BBB	A–
Belarus	B3	B3	B	B	B	B	Moldova	B3	B2	–	–	–	–
Belgium	Aa3	Aaa	AA	AAA	AA–	AAA	Mongolia	B3	B1	B	B+	B	B+
Belize	B3	B1	B–	B–	–	–	Montenegro	B1 p	Ba1	B+	AAA	–	–
Bermuda	A2	Aa3	A+ p	AA+	–	–	Montserrat	–	–	BBB–	BBB–	–	–
Bolivia	Ba3	Ba2	BB– n	BB–	B+	B+	Morocco	Ba1	Baa2	BBB–	BBB+	BBB–	BBB
Bosnia Herzegovina	B3	B3	B p	BB–	–	–	Mozambique	Caa2	Caa1	CCC+	CCC+	CCC	B–
Botswana	A2	Aa3	A–	A+	–	–	Namibia	Ba2	Baa3	–	–	BB	BB+
Brazil	Ba2	Ba1	BB–	BB+	BB –	BB	Netherlands	Aaa	Aaa	AAA	AAA	AAA	AAA
Bulgaria	Baa2	A3	BBB	A	BBB p	A–	New Zealand	Aaa	Aaa	AA p	AAA	AA p	AAA
Cambodia	B2	B1	–	–	–	–	Nicaragua	B3 ▼	B2 ▼	B–	B–	B–	B–
Cameroon	B2	Ba2	B n	BBB–	B	BB+	Nigeria	B2 n	B1	B	B+	B+ n	B+
Canada	Aaa	Aaa	AAA	AAA	AAA	AAA	Norway	Aaa	Aaa	AAA	AAA	AAA	AAA
Cape Verde	–	–	B	BB–	B	B+	Oman	Ba1 n	Baa3	BB n	BB+	BB+	BBB–
Cayman Islands	Aa3	Aa2	–	–	–	–	Pakistan	B3	B2	B–	B–	B–	B–
Chile	A1	Aa2	A+	–	A	AA	Panama	Baa1	A2	BBB+	AAA	BBB n	A
China	A1	Aa3	A+	A+	A+	A+	Papua New Guinea	B2	B1	B	B	–	–
Colombia	Baa2	A3	BBB–	BBB+	BBB n	BBB+	Paraguay	Ba1	Baa3	BB	BB+	BB+	BB+
Congo (DR)	B3 n	B3	CCC+	CCC+	–	–	Peru	A3	A1	BBB+	A	BBB+	A–
Congo (Rep)	Caa2 n	B2	B–	BBB–	CCC	B+	Philippines	Baa2	A3	BBB+	A–	BBB p	BBB+
Cook Islands	–	–	B+	AAA	–	–	Poland	A2	Aa3	A –	A	A–	AA–
Costa Rica	B2	Ba3	B+n	BB	B+n	BB–	Portugal	Baa3 p	Aa3	BBB p	AAA	BBB p	AA
Cote d'Ivoire	Ba3	Baa3	–	–	B+ p	BBB–	Qatar	Aa3	Aa3	AA–	AA	AA–	AA
Croatia	Ba2 p	Baa3	BBB	BBB+	BBB– p	BBB+	Ras al-Khaimah	–	–	A	AA+	A	AA+
Cuba	Caa2	Caa2	–	–	–	–	Romania	Baa3	A3	BBB–	A–	BBB–	BBB+
Curacao	–	–	BBB+	BBB+	–	–	Russia	Baa3	Baa2	BBB–	BBB	BBB	BBB
Cyprus	Ba2 p	A2	BBB–	AAA	BBB – p	A	Rwanda	B2	B1	B+	B	B+	B+
Czech Rep	Aa3	Aa1 up	AA–	AA+	AA–	AAA	St Vincent & Gren	B3	Ba3	–	–	–	–
Denmark	Aaa	Aaa	AAA	AAA	AAA	AAA	San Marino	–	–	–	–	BBB– n	BBB+
Dominican Rep	Ba3	Ba1	BB–	BB+	BB–	BB–	Saudi Arabia	A1	A1	A–	A	A	A+
Ecuador	Caa1	B3	B–	B–	B –	B –	Senegal	Ba3	Baa1	B+	BBB–	–	–
Egypt	B2	B1	B	B	B+	B+	Serbia	Ba3	Ba1	BBp	BB+	BB+	BBB–
El Salvador	B3	B1	B–	AAA	B–	B	Seychelles	–	–	–	–	BB	BBB–
Estonia	A1	Aaa	AA–	AAA	AA–	AAA	Singapore	Aaa	Aaa	AAA	AAA	AAA	AAA
Ethiopia	B1 n	B1	B	B	B n	B	Slovakia	A2	Aaa	A+	AAA	A+	AAA
Fiji	Ba3	Ba3	BB–	BB–	–	–	Slovenia	Baa1 p	Aa1	AA–	AAA	A	AAA
Finland	Aa1	Aaa	AA+	AAA	AA+ p	AAA	Solomon Islands	B3	B2	–	–	–	–
France	Aa2 p	Aaa	AA	AAA	AA	AAA	South Africa	Baa3 n	A3	BB n	BBB–	BB+ n	BBB–
Gabon	Caa1 p	B1	–	–	B	BB+	South Korea	Aa2	Aa1	AA	AAA	AA–	AA+
Georgia	Ba2	Baa3	BB	BBB–	BB	BBB–	Spain	Baa1	Aa1	A	AAA	A–	AAA
Germany	Aaa	Aaa	AAA	AAA	AAA	AAA	Sri Lanka	B2	Ba3	B n	B	B	B
Ghana	B3	B1	B	B+	B	B	Suriname	B2	Ba3	B	B+	CCC	B–
Greece	B1	Baa1	BB–	AAA	BB–	BBB–	Sweden	Aaa	Aaa	AAA	AAA	AAA	AAA
Guatemala	Ba1	Baa3	BB–	BB+	BB n	BB+	Switzerland	Aaa	Aaa	AAA	AAA	AAA	AAA
Honduras	B1	Ba2	BB–	BB	–	–	Tanzania	B1n	Ba3	–	–	–	–
Hong Kong	Aa3	Aaa	AA+	AAA	AA n	AAA	Taiwan	Aa3	Aa2	AA–	AA+	AA–	AA+
Hungary	Baa3	Baa1	BBB	A–	BBB	A	Thailand	Baa1 p	A2	BBB+	A	BBB+ p	A–
Iceland	A3 p	A3	A	A	A	A+	Trinidad & Tobago	Ba1	Baa3	BBB	BBB+	–	–
India	Baa2	Baa1	BBB–	BBB+	BBB–	BBB–	Tunisia	B2 **	Ba3	–	–	B+ n	BB–
Indonesia	Baa2	A3	BBB	BBB+	BBB	BBB	Turkey	B1n	B1	B+	BB–	BB–	BB–
Iraq	Caa1	B3	B–	AAA	B–	B–	Turks & Caicos	–	–	BBB+	AAA	–	–
Ireland	A2	Aaa	AA–	AAA	A+	AAA	Uganda	B2	Ba3	BB	A–	B+	B+
Israel	A1 p	Aa3	AA–	AA+	A+	AA	Ukraine	Caa1p	B3	B	B	B p	B
Italy	Baa3	Aa3	BBB n	AAA	BBB n	AA	UAE	Aa2	Aa2	–	–	–	–
Jamaica	B2	Ba3	B+	BB–	B+ p	BB–	UK	Aa2	Aaa	AA +	AAA	AA n	AAA
Japan	A1 p	Aaa	A+ p	AA+	A	AAA	USA	Aaa	Aaa	AA+	AAA	AAA	AAA
Jordan	B1	Ba1	B+	BB	BB–	BB	Uruguay	Baa2	A2	BBB	A–	BBB– n	BBB+
Kazakhstan	Baa3 p	Baa2	BBB–	BBB	BBB	BBB+	Venezuela	C	Ca	SD	CC	–	–
Kenya	B2	Ba3	B+	BB–	B+	BB–	Vietnam	Ba3	Ba1	BB	BB	BB p	BB
Kuwait	Aa2	Aa2	AA	AA+	AA	AA+	Zambia	Caa2 n	B3	CCC+	CCC+	CCC	B –

1 Moody's Government Bonds
2 Moody's Country Ceilings
3 S&P Government Bonds
4 S&P Transfer and Convertibility Assessments

5 Fitch Government Bonds
6 Fitch Country Ceilings
p Positive outlook/on watch for upgrade

n Negative outlook/on watch for downgrade
N New rating
W Rating withdrawn
SD Selective default

* Taken off positive watch/outlook
** Taken off negative watch/outlook

▲ Improvement in ratings, outlook or watch status
▼ Deterioration in ratings, outlook or watch status

FRONT STORY MIDDLE EAST

Investors jump on Riyadh Bank Tier 2

Attractive profit rate lures big demand for tightly priced issue

An investment-grade-rated security offering a 3%-plus yield proved hard for investors to resist as the first Tier 2 deal from a GCC bank in seven years generated more than US\$8bn of demand.

Even though the US\$1.5bn 10-year non-call five sukuk deal from **RIYAD BANK** came inside theoretical fair value, it was the relatively juicy profit rate that investors focused on.

"3%-plus in today's market is high-yield," said a lead. "The deal priced inside where investors said they would take it, reflecting the strong technicals."

This was Riyadh Bank's first US dollar issuance since 2006 and the first Tier 2 offering from the GCC since 2013, so it was always likely to generate interest.

While Additional Tier 1 issuance has become a more common feature in the region, Tier 2 debt has been less popular, as the capital boost has not been worth the necessary cost.

The fact that the bank is 38.47% indirectly owned by the government added to the deal's appeal. Indications of interest were US\$1.7bn before initial price thoughts were announced.

Books opened at the 225bp area over five-year mid-swaps. Given the lack of obvious comparables, calculating fair value was tricky.

Most investors used peer Samba Bank's senior curve as a proxy - it has October 2024s and January 2027s - and then applied a senior/sub differential of about two times.

Others looked at the difference between Tier 2 bonds in other emerging markets jurisdictions and their spread over the respective sovereign.

Either way, theoretical fair value was put in the 190bp-200bp range.

But with the book growing throughout, and to a final US\$8.3bn, leads were able to tighten pricing to a launch spread of 180bp, or a profit rate of 3.174%. That was roughly 1.4 times where a theoretical senior would price, said the lead.

"We started IPTs reflecting feedback, but every time we revised, books continued to grow," he said.

So much so that the issuer was able to raise much more than the US\$750m-\$1bn amount it was initially targeting.

The sukuk then traded to 100.50 in the aftermarket from their par reoffer price.

"We squeezed pricing materially, but it still traded up in the secondary," said the lead.

Unlike most sukuk deals, this transaction was mostly taken up by non-GCC accounts. Asia and European investors (including the UK) took 28% each, while MENA and Saudi accounts got a combined 35%.

"The coronavirus is redirecting liquidity from Asia to other places," said a second lead, referring to the big allocation to the region.

Fund managers took the majority of the sukuk, at 55%, with banks and private banks the next biggest buyers at 26%.

"The deal is a reminder that Tier 2 issuance can be very successful," said the second lead.

Riyad Bank is rated A2/BBB+/BBB+ at the senior level, while the Tier 2 sukuk are expected to be rated Baa3 by Moody's and BBB- by Fitch.

Sudip Roy

Gazprom showcases its bond market credentials

State-owned company issues its second-biggest bond

GAZPROM notched up yet another achievement in the bond market on Tuesday, with the state-owned company securing its second biggest bond transaction ever on the same day that a Dutch court ruled that Russia should make a US\$50bn award to shareholders in the now defunct oil company Yukos.

The decision in the Supreme Court of the Netherlands overturned a previous ruling that had annulled the payment.

But it made no difference to Gazprom (Baa2/BBB-/BBB), which printed a US\$2bn 10-year trade inside fair value.

The size was eye-catching given that Gazprom has been relatively conservative in recent years, but with an international borrowing target of US\$4bn this year and market conditions so good, the oil company decided to go big.

Books opened at the 3.625% area. The closest markers on its curve were its February 2028s, bid at 3.11%, or 167bp over mid-swaps, and its April 2034s, which based on Tradeweb prices were at 3.78%, or plus 221bp.

Both notes, though, trade at high cash prices - at 153 in the case of the 2034s, which has a coupon of 8.625%. The 4.95% 2028s were bid at a cash price of 113.

Still, a simple interpolation based on yield or spread suggested the new issue began with a premium of 30bp or so.

That was more than wiped out as a book that grew to US\$4bn at guidance enabled leads to launch at 3.25%.

That was the lowest coupon in any currency for a Russian bond with a tenor of 10 years or longer. It was also a record tight 45bp pick-up over the sovereign.

Gazprom last raised dollars a year ago, when it placed a US\$1.25bn February 2026 bond at a yield of 5.15%. That bond was bid around 3%.

Last month, Gazprom said that the freezing of some of its foreign assets had been lifted.

The assets had been frozen at the request of Ukraine's state-owned Naftogaz. The assets affected were in England and Wales, the Netherlands and Luxembourg, Gazprom said.

In December, Gazprom said it had paid Ukraine US\$2.9bn to settle a legal dispute as part of a wider gas package deal. In exchange, Ukraine was expected to sign a legal settlement and withdraw all outstanding claims.

Gazprombank, JP Morgan and UniCredit were the leads for the 144A/Reg S issue.

Sudip Roy

ASIA-PACIFIC

CHINA

SMIC RETURNS TO DOLLAR MARKET

SEMICONDUCTOR MANUFACTURING INTERNATIONAL CORPORATION has returned to the US dollar bond market after a five-year absence with a tightly priced US\$600m issue to take advantage of ample liquidity and low funding costs.

The issuer, rated Baa3/BBB-, last Thursday priced five-year senior unsecured bonds at par to yield 2.693%, or Treasuries plus 133bp, the tight end of final guidance of 135bp (+/-2bp) and 37bp tighter than initial guidance of the 170bp area.

The Reg S deal was the Hong Kong-listed semiconductor foundry company's first dollar bond since 2014.

The deal was five times covered with final orders in excess of US\$3bn from 112 accounts, including US\$880m from the leads, even after a significant order attrition due to the aggressive pricing. Orders peaked at US\$5.8bn ahead of the release of final guidance.

The final spread came way inside Nomura's fair value estimate of Treasuries plus 150bp-155bp.

"The pricing was a bit aggressive," a banker on the deal said. "The market consensus seemed to put fair value at around Treasuries plus 150bp. Pricing about 10bp tighter than fair value looked reasonable, but the strong market momentum and book size enabled the issuer to be more aggressive and increase the issue size."

SMIC initially sounded the market for US\$500m.

Given that SMIC did not have dollar bonds outstanding, leads used references from

tech names such as Sunny Optical Technology Group, Weibo, JD.com and Hon Hai Precision Industry as comparables.

"The demand for the deal was strong despite negative headlines such as Apple's profit warning and US threats of further action against Huawei ahead of the announcement of SMIC's mandate," said the banker.

However, there was some reckoning in the aftermarket, with the bonds trading about 4bp wider at 138bp/137bp over Treasuries on Friday.

The bonds have an expected rating of Baa3 by Moody's.

Asia-Pacific bought 96% of the bonds. Fund managers took 50%, banks and financial

institutions 48%, and private banks, insurers and others 2%.

SMIC was established as part of China's policy to develop a domestic integrated circuit industry. Its major shareholders were Datang Telecom (17%) and China Integrated Circuit Industry Investment Fund (15.8%) as at end-2019, following several funding rounds.

While none of SMIC's shareholders hold a majority stake, they are all government-related institutions with a track record of injecting equity into SMIC, according to Moody's.

Nomura views SMIC as a beneficiary of US-China trade tensions, which have underlined the increasing importance of a self-sufficient semiconductor supply.

Europe powers Vena Energy debut

■ SINGAPORE Power producer prints first Asian IG renewable energy bond

Singapore-headquartered **VENA ENERGY** beat its price and size targets on its capital markets debut with a US\$325m green bond, despite differing views from the market on valuation.

Vena Energy, rated BBB-/A- (S&P/JCR), last Wednesday priced a five-year bond at par to yield 3.133%, equivalent to Treasuries plus 172.5bp, inside initial guidance of the 200bp area. The Reg S bonds are expected to be rated BBB- by S&P.

Investors and analysts had a challenge assessing relative value since there are no other investment-grade US dollar bonds from renewable energy companies with projects across multiple countries in Asia.

Independent power producer Vena Energy has wind and solar assets in Australia, India, Indonesia, Japan, the Philippines, South Korea, Taiwan and Thailand.

Some analysts suggested Indian renewable energy producers such as Greenko and ReNew Power, which are rated Double B, were suitable price references. Those trade at spreads in the low to mid-300s.

Nomura's sales and trading desk wrote in a note that it viewed Vena Energy as a high-yield credit, as it argued the group would not easily be able to walk away from troubled projects, and put fair value for the proposed issue at Treasuries plus 250bp.

In the end, the bookrunners pointed investors to bonds from India's NTPC and Adani Transmission, as well as Philippines-based renewable energy company AC Energy. The first two are focused on India, while AC Energy has projects in the Philippines, Vietnam and Indonesia.

NTPC's 2024 dollar bond, rated BBB-/BBB-, was seen at a G spread of 141bp, Adani Transmission's 2026 (Baa3/BBB-/BBB-) was at

181bp, and AC Energy's unrated green bond due 2024 was seen at 156bp.

US-based fund Global Infrastructure Partners and its co-investors own Vena Energy, and that strong sponsorship encouraged high-quality funds to participate in a debut bond from an unlisted company.

There were enough indications of interest from real-money accounts following roadshow meetings to persuade the issuer to go ahead.

"Some anchors had strong views on pricing and really wanted paper," said a lead. "A lot of investors from Asia had questions on the structure or the value proposition."

The green element was also a more important selling point for European investors.

As a result, investors outside Asia drove the deal. Orders at final pricing were over US\$567m from 56 accounts, with Europe and offshore US investors taking 73%, and Asia the rest. Fund managers booked 84%, banks 13%, and private banks and others the rest.

Demand enabled the issuer to increase the bond beyond its target size of US\$300m.

However, the relatively weaker demand from Asia meant that the bonds were quoted 7bp wider on Friday.

Orphan special purpose vehicle Vena Energy Capital is the issuer and Vena Energy Holdings, Vena Energy (Taiwan) Holdings and Zenith Japan Holdings are guarantors.

Credit Agricole, DBS, ING and MUFG were global coordinators. They were also lead managers with *ABN AMRO, Banca IMI, BNP Paribas and SMBC Nikko*.

Proceeds will refinance corporate loans for green projects.

Daniel Stanton

ALL INTL EMERGING MARKETS BONDS

BOOKRUNNERS: 1/1/2020 TO DATE

Asia-Pacific

	Managing bank or group	No of issues	Total US\$(m)	Share (%)
1	HSBC	52	5,240.04	7.3
2	Credit Suisse	36	4,124.31	5.7
3	Standard Chartered	34	3,390.52	4.7
4	Citigroup	26	3,195.54	4.4
5	UBS	24	3,138.81	4.3
6	Bank of China	32	2,476.43	3.4
7	BofA	12	2,445.24	3.4
8	Barclays	29	2,404.84	3.3
9	Deutsche Bank	24	2,266.07	3.1
10	DBS Group	23	1,970.74	2.7
	Total	140	72,260.34	

Excluding equity-related debt.

Source: Refinitiv

SDC code: L4

DBS sets yet another AT1 record

■ SINGAPORE AT1 Singaporean bank prints at lowest coupon globally

DBS GROUP HOLDINGS made a promising start for bank capital issuance in Asia this year by achieving the world's lowest coupon for US dollar Additional Tier 1 notes – again.

The Singaporean bank priced a US\$1bn perpetual non-call five AT1 offering at par to yield 3.3%, inside initial guidance of the 3.65% area. Books were five times subscribed.

This beats the previous lowest coupon of 3.6%, which DBS set in its 2016 issue.

The bank was thought to have priced flat to its curve, with the DBS AT1s callable in 2021 seen at 2.846% and United Overseas Bank's AT1s callable in 2023 at 3.07%.

In a sign of how far yields have compressed recently, just 15 months ago DBS sold a US\$1.25bn Triple A rated three-year covered bond at a yield of 3.3%.

"In a low-rate environment, being able to buy DBS paper at 3.3%, albeit subordinated, was very attractive for investors in Asia and Europe," said Raj Malhotra, head of DCM for Asia-Pacific at *Societe Generale*, one of the leads.

"With the virus and all these other headlines around Asia, to be able to deliver this show of strength is very impressive."

The trade came a day after **BNP PARIBAS** set a record low coupon for a US dollar AT1 from a European bank. Its US\$1.75bn perpetual non-

call 10 transaction, rated Baa1/BBB-/BBB-, was priced at 4.5% last Wednesday.

DBS's notes have expected ratings of Baa1/BBB (Moody's/Fitch), but the far lower yield shows the confidence investors have in the bank and the jurisdiction, as well as the relative rarity of Singaporean bank capital paper.

CAPITAL PIPELINE

Asia's first offshore AT1 deal of the year also provides a solid benchmark for the region's other banks as they prepare to issue capital securities.

BANK OF COMMUNICATIONS (HONG KONG), rated A2/A-/A, held calls last week held calls ahead of a proposed US dollar Basel III-compliant AT1.

BoCom, *Citigroup* and *HSBC* are global coordinators on the Reg S issue.

The non-cumulative perp non-call five capital securities have expected ratings of Ba2/BB+ (Moody's/Fitch).

That deal is expected to be around US\$500m. **BANK OF CHINA** has received approval from the China Securities Regulatory Commission to issue up to Rmb20bn (US\$2.86bn) equivalent of offshore preference shares, according to a stock exchange filing.

BOC will monitor the market to decide when to launch the deal, said two people familiar with the situation.

"If feedback from investors is positive, the deal may launch as soon as this month. The issuer aims to achieve an optimal rate in terms of funding cost," said one of them.

Last year, Chinese banks preferred to raise Tier 1 capital onshore, encouraged by domestic investor demand for the new perpetual structure allowed by the central bank.

BOC redeemed its US\$6.5bn offshore AT1s on the first call date of October 23 last year without issuing more dollar securities to replace them, but others may now refinance in the offshore market.

"A number of banks have call dates coming up this year and next around the region, so we expect the capital space to be busy, whether it's Tier 1 or Tier 2," said *Societe Generale's* Malhotra.

"Yields are very attractive to issuers and still make sense to investors, so it's a good time to beef up your capital."

Final orders for DBS's offering were over US\$5.5bn from 304 accounts. Asia took 77% of the Reg S bonds and EMEA accounts the rest.

Asset managers and fund managers booked 73%, private banks 11%, insurers, pension funds and public institutions 11%, and banks 5%.

The notes were bid at 100.4 in early trading on Friday.

DBS was sole global coordinator and structuring adviser. It was also bookrunner with *Citigroup* and *Societe Generale*.
Daniel Stanton, Carol Chan

It also believes the strong funding support from government-related entities will mitigate the financing risk from its aggressive capital expenditure and R&D funding needs.

"However, we do not expect the gap between SMIC and international leading peers (ie, TSMC, Samsung) to narrow significantly anytime soon and expect a long ramp-up period for SMIC, considering intense pricing competition and continuous compressed margin, which leaves limited room for improvement for its fundamental/credit profile," Nomura credit analyst Clare Guo wrote in a note.

She also noted that substantially all of SMIC's principal materials requirements must be sourced from outside of China, which poses a risk given the global trading uncertainty.

JP Morgan, *ICBC International*, *Barclays* and *UBS* were the global coordinators.

■ CHINESE TOLL-ROAD OPERATORS FACE LIQUIDITY SQUEEZE

China's toll-road operators are set to be hit hard by a country-wide suspension of all toll

fees that came into force on February 17 in response to the coronavirus outbreak, ratings agencies have warned.

"With immediate zero cash inflow from road operations, toll-road operators could face difficulties in debt servicing and meeting fixed expenditures, especially those with heavy debt burdens," said S&P credit analyst Laura Li.

The Ministry of Transport announced the drastic and unprecedented measure on February 15 as part of the government's relief measures in response to the coronavirus outbreak. Toll fees for all types of vehicles in China will be lifted until the outbreak is deemed to be over.

"For Chinese toll-road operators, this is clearly credit negative," said Ivy Poon, a credit analyst at Moody's.

"We expect the government to introduce measures to compensate the toll-road operators for the lost revenue, but the magnitude, timing and duration of such measures is not certain at this point."

Moody's expects the liquidity and refinancing risk of most toll-road operators

it rates to remain manageable in the near term because they have cash on hand to meet maturing debt over the next three to six months, and proven access to funding.

According to S&P, **GANSU PROVINCIAL HIGHWAY AVIATION TOURISM INVESTMENT** may face significant liquidity risks, given its very high short-term maturities and heavy reliance on external financing to service debt.

Gansu Highway's 6.25% 2021s fell 0.375 points from February 14 to 104.125 bid on February 18, while its 3.875% 2022s were unchanged at 100.75, according to Refinitiv data.

S&P expects listed toll-road operators **SHENZHEN EXPRESSWAY** and **YUEXIU TRANSPORT INFRASTRUCTURE** to manage their liquidity risks and maintain reasonable funding costs, supported by their financial flexibility.

"In our view, the Chinese government could urge banks to allow maturing loans to roll over and postpone interest payments, but maturities for bonds and shadow banking products are difficult to roll over. Zero cashflow from toll-road operations can quickly deplete companies' cash on hand," said S&P.

GLOBAL EMERGING MARKETS BOND DETAILS: WEEK ENDING 21/2/2020

Pricing date	Issuer	Amount	Maturity	Coupon (%)	Reoffer	Spread (bp)	Yield (%)
Feb 17 2020	China Huarong Financial Leasing	US\$200m	Feb 18 2021	3.1	100	-	3.1
Feb 17 2020	China Aoyuan Group	US\$188m	Feb 18 2021	4.8	100	-	4.8
Feb 18 2020	Citic	US\$300m	Feb 25 2025	2.45	99.85	T+110	2.482
Feb 18 2020	Citic	US\$700m	Feb 25 2030	2.85	99.793	T+132.5	2.874
Feb 18 2020	Yango Group	US\$300m	Nov 25 2023 (Feb 2022)	8.25	98.836	-	8.625
Feb 18 2020	Kunming Industrial Development	US\$300m	Feb 25 2023	6.1	100	-	6.1
Feb 18 2020	Delhi International Airport	US\$150m incr (US\$500m)	Jun 4 2029	6.45	108	-	5.343
Feb 18 2020	ICBC Sydney	A\$500m	Feb 24 2023	3mBBSW+77	100	3mBBSW+77	-
Feb 18 2020	HDB	S\$700m	Feb 24 2027	0.018	100	-	1.76
Feb 19 2020	China Huarong AMC	US\$400m	Feb 24 2023	2.5	99.753	T+120	2.586
Feb 19 2020	China Huarong AMC	US\$400m	Feb 24 2023	3mL+112.5	100	3mL+112.5	-
Feb 19 2020	China Huarong AMC	US\$300m	Feb 24 2025	3mL+125	100	3mL+125	-
Feb 19 2020	China Huarong AMC	US\$700m	Feb 24 2030	3.375	99.68	T+185	3.413
Feb 19 2020	Modern Land (China) (green)	US\$200m	Feb 26 2022	11.8	98.156	-	12.875
Feb 19 2020	China South City	US\$225m	Jun 26 2022	10.875	97.073	-	12.375
Feb 19 2020	Zhenro Properties	US\$200m	Feb 28 2021	5.6	100	-	5.6
Feb 19 2020	Vena Energy (green)	US\$325m	Feb 26 2025	3.133	100	T+172.5	3.133
Feb 19 2020	ESR Cayman	S\$225m	Feb 26 2025	5.1	100	-	5.1
Feb 20 2020	DBS Group Holdings (AT1)	US\$1bn	Perpetual (Feb 2025)	3.3	100	T+191.5	3.3
Feb 20 2020	UPL	US\$400m	Perpetual (May 2025)	5.25	100	T+386.5	5.25
Feb 20 2020	Kunming Municipal Urban Construction	US\$200m incr (US\$500m)	Oct 17 2022	5.8	99.63	-	5.95
Feb 20 2020	Shui On Land	US\$400m	Mar 3 2025 (Mar 2023)	5.5	100	-	5.5
Feb 20 2020	SMIC	US\$600m	Feb 27 2025	2.693	100	-	2.693
Feb 20 2020	Muthoot Finance	US\$550m	Sep 2 2023	4.4	100	-	4.4
Feb 18 2020	Gazprom	US\$2bn	Feb 25 2030	3.25	100	MS+176	3.25
Feb 18 2020	Riyad Bank	US\$1.5bn	Feb 25 2030	3.174	100	MS+180 / T+179.1	3.174
Feb 19 2020	Dar Al-Arkan Real Estate Development	US\$400m	Feb 26 2027	6.875	99.317	0	7
Feb 19 2020	Emirates NBD Bank	A\$700m	Feb 26 2030	3.05	99.445	ASW+200	3.115
Feb 19 2020	Itau Unibanco Holding AT1	US\$700m	Perpetual (Feb 2025)	4.625	100	T+322.2	4.625
Feb 20 2020	BCI	SFr125m	Sep 18 2026	0.1	100.008	MS+70 / Eidg+86.2	0.099

Pricing steps	NIP (bp)	Book size	Ratings	Bookrunners	Distribution
3.55%, 3.1%/3.15%	-	US\$1bn	Unrated	StCh/ANZ/BNPP/CMBI/Haitong	Asia 97%, EMEA 3%. FM/AM 42%, PB 36%, Bks/FI 22%.
5.125% area	-	US\$1.25bn	Unrated	GS	Asia 93%, EMEA 7%. FM 72%, PB 17%, Corp 11%.
T+150 area, T+110/112.5	-	US\$4.1bn	A3/BBB+	CLSA /HSBC/MS/AMTD/BOCI / CNCBI/Miz/UBS	Asia 98%, Eur 2%. FM/Ins 46%, Bks 29%, Pub Sec 22%, PB/Other 3%.
T+175 area, T+132.5/135	-	US\$4.3bn	A3/BBB+	CLSA /HSBC/MS/AMTD/BOCI / CNCBI/Miz/UBS	Asia 95%, Eur 5%. FM 52%, Bks 19%, Pub Sec 19%, Ins 7%, PB/Corp/Other 3%.
9.25% area	-	US\$3.9bn	B2	Nomura/Guotai Junan/Haitong/ UBS/MS/HSBC/Admiralty Harbour/ CMBI/Orient	Asia 95%, EMEA 5%. Funds 81%, Bks 11%, PB/Corp 5%, Ins 3%.
6.5% area	-	-	Unrated	Guotai Junan/Industrial	-
106.75 area	-	US\$645m	Ba2/BB/BB+	StCh/HSBC/JPM	Asia 77%, EMEA 19%, US 4%. AM/FM/HF 93%, PB 6%, Bks/Other 1%.
3mBBSW+85 area, 3mBBSW+82 area	-	-	A1/A/A	ANZ/ICBC/NAB/WBC	Oz 53%, Asia 47%. Bks 84%, AM 12%, MM/PB 2%, Other 2%.
1.76% (#)	-	-	Aaa	DBS/Maybank/StCh/UOB	-
T+150 area	-	US\$1.7bn	Baa1/-/A	ANZ/BoC/BoCom/CMBCHK/DBS/ GS/Huarong Fin/Miz/StCh/ABCI/ Bison/CCBI /CNCBI/Citi/CLSA /CMBI/ Wing Lung Bank /CMBC Cap/CS/ Guotai Junan/HSBC/ICBCA/Industrial	Asia 81%, EMEA 19%. FM 61%, Bks 36%, Corp/PB 3%.
3mL+145 area	-	US\$3.3bn	Baa1/-/A	ANZ/BoC/BoCom/CMBCHK/DBS/ GS/Huarong Fin/Miz/StCh/ABCI/ Bison/CCBI /CNCBI/Citi/CLSA /CMBI/ Wing Lung Bank /CMBC Cap/CS/ Guotai Junan/HSBC/ICBCA/Industrial	Asia 95%, EMEA 5%. FM 47%, Bks 51%, Corp/PB 2%.
3mL+160 area	-	US\$2.8bn	Baa1/-/A	ANZ/BoC/BoCom/CMBCHK/DBS/ GS/Huarong Fin/Miz/StCh/ABCI/ Bison/CCBI /CNCBI/Citi/CLSA /CMBI/ Wing Lung Bank /CMBC Cap/CS/ Guotai Junan/HSBC/ICBCA/Industrial	Asia 94%, EMEA 6%. FM 52%, Bks 46%, Corp/PB 2%.
T+215 area	-	US\$3.6bn	Baa1/-/A	ANZ/BoC/BoCom/CMBCHK/DBS/ GS/Huarong Fin/Miz/StCh/ABCI/ Bison/CCBI /CNCBI/Citi/CLSA /CMBI/ Wing Lung Bank /CMBC Cap/CS/ Guotai Junan/HSBC/ICBCA/Industrial	Asia 89%, EMEA 11%. FM 71%, Bks 26%, Corp/PB 2%, SWF/SSA 1%.
13.5% area	-	US\$2.7bn	B3/-/B	CS/DB/Guotai Junan/HSBC/MS/ BOCOMI/Heungkong/Haitong	Asia 99%, EMEA 1%. FM 66%, PB 24%, FI 10%.
12.75% area	-	US\$1.75bn	-/-/B	UBS/Barc/CS/Guotai Junan/Haitong /BOCI /CCBI /Everbright HK/CMBI/ Heungkong/Kaisa/Orient	Asia 96%, EMEA 4%. FM 67%, Bks/FI 18%, PB/UHNWI 15%.
6.125% area	-	US\$3bn	Unrated	HSBC/CCBI /CLSA /DB/GS/Haitong /StCh	Asia 95%, Eur 5%. FM/Bks/Corp 84%, PB 16%.
T+200 area	-	US\$567m	-/BBB-	CA-CIB/DBS/ING/MUFG/ABN/ BcalMI/BNPP/SMBC Nikko	Asia 27%, Eur/US O/S 73%. FM 84%, Bks 13%, PB/Other 4%.
5.375% area	-	-	Unrated	CS/DBS/UOB	-
3.65% area	0	US\$5.5bn, 304acs	Baa1/-/BBB	DBS/Citi/SG	Asia 77%, EMEA 23%. AM/FM 73%, PB 11%, Ins/PF/Public Inst 11%, Bks 5%.
5.625% area	-	US\$2bn	Ba2/BB	BofA/JPM/MUFG/Rabo/UBS/ANZ/ Barc/Citi/DBS/SG	Asia 67%, EMEA 33%. AM/FM/HF 87%, Bks/PB 11%, Other 2%.
6.3% area	-	-	Ba1/-/BB+	CICC/BoC/BOCOMI/CMBC Cap/ Haitong/Guotai Junan/Industrial/ Orient/Shenwan Hongyuan	-
5.875% area	-	US\$1.7bn	Unrated	UBS/StCh	Asia 95%, EMEA 5%. PB/Bks 69%, AM/FM 31%.
T+170 area	-	US\$3bn	Baa3	GCs JPM/ICBCI/Barc/UBS, JBS SPDBI/BNPP/Silk Road	APac 96%, EMEA 4%. FM 50%, Bks/FI 48%, PB/Ins/Other 2%.
4.75% area	-	US\$1.6bn	BB/BB+	DB/StCh	US 50%, Asia 38%, Eur 13%. FM 89%, PB 6%, Bks/Ins 3%, SWF/Other 2%.
3.625% area, 3.375%/3.5%, 3.25%/3.3%	3	~US\$4bn	Baa2/BBB-/BBB	Gaz/JPM/Uni	-
MS+225 area, MS+200 area	-ve	>US\$8.3bn, >280acs	Baa3/NR/BBB-	GCs JPM/StCh/Riyad, JLMs 1ADB/ HSBC	Eur/UK 28%, Asia 28%, KSA 17%, RoMENA 18%, US/Other 9%. FM 55%, Bks/PB 26%, CB/Agcy 12%, Ins/PF 7%.
7.375%/7.5%, 7.125%/7.25%	-	US\$1.1bn	B1	Alkhair/Citi/DB/DIB/ENBD/ Mashreq/Nomura/StCh/Warba	-
ASW+205/210, ASW+200 area	-	-	A3/A+	ANZ/ENBD/Miz/Nomura	-
5.25% area, 4.75% (+/-5)	-	-	B2/B	BofA/BTG/GS/Itau/JPM	-
MS+70 area	-4	>SFr125m, 44acs	A2/A	CS/ZKB	Switz 100%. AM 71.25%, PB 20.5%, Ins 5%, PF 3.25%.

S&P believes local governments are unlikely to use their own financial resources to aid toll operators and creditors, given pressure from decreased tax revenue and slowing growth.

Potential support measures include an extension of concession periods for toll-road operations, which is in line with the previous proposal to compensate operators for other existing toll-free policies.

However, extending the concession period merely helps long-term cashflow generation and provides little short-term relief, it said.

ICBC PRINTS FIRST POST-VIRUS NOTE

INDUSTRIAL AND COMMERCIAL BANK OF CHINA (A1/A/A), Sydney branch, achieved a strong result from last Tuesday's A\$500m sale of three-year floating-rate notes, the first issuance by a Chinese bank globally since the coronavirus outbreak.

ANZ, ICBC, NAB and Westpac were lead managers for the notes, which priced inside the initial 85bp area and revised 82bp area guidance at three-month BBSW plus 77bp.

The clearing margin is a full 23bp tighter than the 100bp spread for ICBC Sydney's identical A\$500m three-year FRN in March 2019 and around 2bp inside China's Bank of Communications' pre-coronavirus crisis US dollar bonds issued on January 10, according to ICBC.

Australian investors bought 53% of the new notes with Asia taking the rest. Banks were allocated 84%.

HALF OF QPIG'S BONDS TENDERED

Holders of more than half of **QINGHAI PROVINCIAL INVESTMENT GROUP**'s US dollar bonds have submitted them under a tender offer, despite protests from some bondholders at the steep haircuts involved.

Aluminium producer QPIG, in which the Qinghai provincial government owns a 69.3% stake, last month failed to pay a coupon due January 10 on its US\$300m 6.40% July 2021 bond and was also unable to make payment within the five-business-day imputed grace period.

The missed coupon on the 6.40% 2021s is considered an event of default for two other bonds – the US\$300m 7.25% February 2020 and the US\$250m 7.875% March 2021.

An entity called Qinghai Provincial Investment and Development on February 5 announced an offer to repurchase QPIG's bonds for cash at a steep discount of up to 63%.

Under the plan, **GUOZHEN INTERNATIONAL TRADE CONSULTING**, a subsidiary of QPID, offered to pay US\$411.90 per US\$1,000 in principal amount for the 7.25% 2020s, and

US\$367.50 per US\$1,000 in principal amount for both the 7.875% 2021s and 6.40% 2021s.

Holders of US\$168.331m of the 2020s, US\$83.25m of the 7.875% 2021s and US\$207.86m of the 6.4% 2021s submitted them under the tender offer.

CICC was sole dealer manager for the tender offer.

The high take-up rate is bad news for other bondholders who had hoped to press for a better offer.

A minority group of Hong Kong retail investors, unhappy with the steep haircut on offer, last week published an open letter to the Central Commission for Discipline Inspection of the Communist Party of China and the State-owned Assets Supervision and Administration Commission of the State Council, calling for them to intervene.

INDIA

DELHI AIRPORT DODGES RATING HEADWINDS

DELHI INTERNATIONAL AIRPORT reopened its 6.45% 2029 senior secured notes last week for an additional US\$150m, drawing strong demand even though S&P revised down its outlook on the issuer on the day the deal was announced.

The tap, which brought the bond's total to US\$500m, priced at a cash price of 108 plus accrued interest, above initial guidance of 106.75 area plus accrued interest, to yield 5.343%. The original US\$350m notes were bid at 107.85 to yield 5.36% ahead of the tap.

The 144A/Reg S offering was more than four times covered at final pricing despite S&P changing its outlook to negative from stable. The ratings agency cited the airport's high spending plans amid tariff and commercial property development delays.

S&P, however, affirmed the BB rating for the issuer and its senior secured notes.

Proceeds of the tap will be used to part-fund the expansion of Indira Gandhi International Airport, which is expected to cost around Rs98bn (US\$1.37bn) and take about three to four years to complete, according to Moody's.

DIA is the concessionaire for the airport. "The deal remained intact from the outlook revision as investors looked at the fundamentals of the issuer as a defensive name, combined with the strong market," said a lead banker.

The tap received final orders of US\$645m from 59 accounts, including US\$27m from the bookrunners.

Asian investors took 77% of the deal, EMEA 19% and the US the rest. Asset managers, fund managers and hedge funds bought 93%.

The tap has expected ratings of Ba2/BB/BB+ and has a change of control put option at 101.

Standard Chartered, HSBC and JP Morgan were lead managers and bookrunners.

EUROPE/AFRICA

EGYPT

SOVEREIGN SENDS REQUEST FOR PROPOSALS FOR BOND

EGYPT is asking banks for recommendations for an international bond offering after sending a request for proposals, according to sources.

In December, the finance minister said the sovereign would consider issuing three bond offerings during the 2019-2020 fiscal year that ends on June 30.

The possible offerings could include green, Islamic and variable-yield bonds, Mohamed Maait said during a local financial newspaper conference.

Egypt plans to raise US\$3bn-\$7bn in 2019-2020, Maait said in September.

The sovereign visited the market in November, pushing into uncharted territory with a rare 40-year tenor as part of a US\$2bn triple-tranche offering.

Egypt is rated B2/B/B+.

ESTONIA

LUMINOR READINGY ESTONIAN COVERED BOND OPENER

LUMINOR BANK is set to open Estonia's covered bond market next month, lining up a €500m deal at the vanguard of a push to establish pan-Baltic covered bonds.

ALL INTL EMERGING MARKETS BONDS

BOOKRUNNERS: 1/1/2020 TO DATE

Europe/Africa				
	Managing bank or group	No of issues	Total US\$(m)	Share (%)
1	JP Morgan	11	3,894.76	17.0
2	Citigroup	5	2,195.74	9.6
3	SG	4	1,798.35	7.8
4	BNP Paribas	5	1,738.07	7.6
5	Deutsche Bank	3	1,737.76	7.6
6	UniCredit	3	1,607.91	7.0
7	Morgan Stanley	2	1,345.85	5.9
8	Raiffeisen Bank Itl	3	1,250.17	5.4
9	Indl & Comm Bk China	4	1,160.74	5.1
10	Gazprombank	3	793.65	3.5
	Total	18	22,958.10	

Excluding equity-related debt.

Source: Refinitiv

SDC code: L2

Luminor, created in 2017 from the merger of the Baltic units of Nordea and DNB, will be the first bank to issue a covered bond in the Baltic region.

The bank has mandated *Citigroup*, *LBBW*, *Luminor*, *Nordea* and *UniCredit* to arrange a European roadshow that began on February 21 and ends on March 2. The deal will have an intermediate tenor.

Luminor's only international capital market appearances have come in the form of two senior unsecured transactions, in October 2018 and June 2019.

Luminor, which is registered in Estonia with branches in Latvia and Lithuania, ultimately aims to issue pan-Baltic covered bonds.

The ministries of finance of Estonia, Latvia and Lithuania are working to establish a pan-Baltic capital market to overcome constraints the individual countries face because of their small sizes.

This incorporates efforts to establish a Baltic covered bond market, which would allow banks to issue covered bonds backed by assets pooled from across the three countries.

Estonia was the first of the three countries to get its covered bond law over the line. Latvia and Lithuania are still working on their frameworks.

So Luminor's first deal will be backed purely by Estonian mortgage loans though the bank has said it will potentially add Latvian and Lithuanian mortgages to its cover pool later this year.

IVORY COAST

SOVEREIGN SENDS RFP FOR BOND

IVORY COAST is asking banks for recommendations for a euro-denominated bond offering, having sent a request for proposal, according to sources.

The West African sovereign was last in the market in October when it raised €1.7bn

ALL INTL EMERGING MARKETS BONDS

BOOKRUNNERS: 1/1/2020 TO DATE

Managing bank or group	No of issues	Total US\$(m)	Share (%)
1 Citigroup	50	11,250.52	7.2
2 JP Morgan	49	10,667.18	6.8
3 Standard Chartered	47	9,336.38	5.9
4 Deutsche Bank	34	7,718.27	4.9
5 BNP Paribas	33	7,479.66	4.8
6 HSBC	63	7,303.63	4.6
7 BofA	30	7,033.79	4.5
8 Goldman Sachs	28	6,286.71	4.0
9 Morgan Stanley	25	6,199.46	3.9
10 Credit Suisse	42	6,161.86	3.9
Total	232	157,286.46	

Excluding equity-related debt.

Source: Refinitiv

SDC code: L1

through an €850m October 2031 and an €850m October 2040 issue.

Ivory Coast is rated Ba3 by Moody's and B+ by Fitch.

MIDDLE EAST

BAHRAIN

REQUESTS SENT FOR PROPOSAL FOR BOND

BAHRAIN is asking banks for recommendations for a US dollar-denominated bond offering after sending a request for proposals, according to sources.

The Gulf sovereign was last in the market in September when it printed a US\$1bn March 2027 sukuk transaction at a profit rate of 4.5%, one half of an offering that also included a US\$1bn September 2031 conventional bond that was priced at 5.625%.

Bahrain is rated B+ by S&P and BB- by Fitch.

SAUDI ARABIA

DAR AL-ARKAN IN QUICK SUKUK RETURN

DAR AL-ARKAN issued US\$400m seven-year sukuk on Wednesday, which came through fair value, in its second deal in less than six months.

The sukuk priced at a profit rate of 7%. A lead said fair value was in the low 7s based on an extrapolation of the issuer's curve. Al-Arkan's February 2025s were bid at 6.78%.

"This market is stronger than I thought it was," said the lead.

ALL INTL EMERGING MARKETS BONDS

BOOKRUNNERS: 1/1/2020 TO DATE

Middle East			
Managing bank or group	No of issues	Total US\$(m)	Share (%)
1 Standard Chartered	10	5,186.61	26.7
2 Citigroup	8	3,246.05	16.7
3 Morgan Stanley	2	1,833.06	9.4
4 BofA	1	982.04	5.1
5 Goldman Sachs	1	982.04	5.1
6 HSBC	5	796.43	4.1
7 First Abu Dhabi	4	579.21	3.0
8 Credit Suisse	1	461.02	2.4
9 Nomura	4	384.03	2.0
10 JP Morgan	2	383.26	2.0
Total	26	19,408.87	

Excluding equity-related debt.

Source: Refinitiv

SDC code: L5

The tenor was the Saudi real estate company's longest. "I'm not sure they would have been able to print seven years that long ago," said the lead.

Dar Al-Arkan was last in the market in October when it issued the US\$600m February 2025s. But with conditions so supportive and the company eager to add liquidity for potential land acquisitions, it made sense to return.

"There's definitely a pull factor from this market, though they are adding liquidity too," said the lead.

The sukuk were the maximum the company had sign off for and were at the top end of the US\$300m-US\$400m range it had targeted.

There was a good local bid but also decent participation from real money accounts, especially in Europe.

The 6.875% notes are expected to be rated B1 by Moody's. The sukuk, which priced at 99.317, traded sideways on the break but fell to below reoffer in a weaker market on Friday.

AlKhair Capital, *Citigroup*, *Deutsche Bank*, *Dubai Islamic*

Bank, *Emirates NBD Capital*, *Mashreqbank*, *Nomura*, *Standard Chartered* and *Warba Bank* were leads.

UAE

EMIRATES NBD BREAKS RECORD

EMIRATES NBD BANK attracted strong demand for its fifth Kangaroo bond and third successive 10-year Australian dollar offering, and raised a regional single-tranche record A\$700m from last Wednesday's sale.

ANZ, *Emirates NBD Capital*, *Mizuho* and *Nomura* were lead managers for the 3.05% February 2030s, which was priced at 99.445 to yield 3.115%, inside the initial 205bp-210bp area guidance at asset swaps plus 200bp.

INTERNATIONAL ISLAMIC FINANCE DEBT

BOOKRUNNERS: 1/1/2020 TO DATE

Managing bank or group	No of issues	Total US\$(m)	Share (%)
1 Standard Chartered	8	1,544.12	22.3
2 HSBC	4	751.63	10.9
3 First Abu Dhabi	3	438.82	6.3
4 Islamic Dev Bank	3	424.54	6.1
5 Citigroup	3	412.44	6.0
6 Dubai Islamic Bank	3	385.34	5.6
7 Riyadh Bank Ltd	1	300.00	4.3
8 JP Morgan	1	300.00	4.3
9 Landesbanken	1	285.71	4.1
10 Natixis	1	285.71	4.1
Total	9	6,925.31	

Excluding equity-related debt.

Source: Refinitiv

SDC code: J27

“The transaction proves the depth of appetite for the issuer at this long duration. Tighter pricing was possible, but the bank was keen to underline its commitment to a strategic market with a performing, liquid benchmark,” said one banker close to the deal.

Emirates NBD Bank, the UAE’s largest banking group by assets, previously issued a A\$450m 4.75% 10-year Kangaroo in February 2018.

ENBD was formed in October 2007 from the merger of Emirates Bank and National Bank of Dubai, the nation’s second and fourth-largest lenders at the time.

DP WORLD CURVE WIDENS AFTER DELISTING ANNOUNCEMENT

DP WORLD’s bonds ended the week about 30bp wider after it said it will delist and return to full state ownership in a deal valuing the company at US\$13.9bn.

The port operator has a mix of conventional bonds and sukuk across US dollars, euros and sterling.

A banker said the announcement was credit negative in the short term “as to go private they will need to increase leverage.

“However they have stated they intend to bring leverage to below 4.0 times [by the end of] 2022. There will likely be some action from ratings agencies but I fully expect DP World to remain investment-grade,” he said.

After the announcement Fitch said it was placing DP World’s long-term issuer default rating of BBB+ on negative watch. Moody’s also placed its Baa1 rating on review for downgrade.

“DP World has extensive balance sheet flexibility to deleverage and we expect it to maintain its investment-grade ratings. However, we note that there is still limited visibility and execution risk on its deleveraging plan,” said Fitch.

Port and Free Zone World, a subsidiary of state investment vehicle Dubai World, will acquire the 19.55% of DP World’s shares listed on Nasdaq Dubai.

Port and Free Zone World already owns 80.45% of ordinary share capital of DP World.

Each listed share will be acquired for US\$16.75, a 28.8% premium on closing price of US\$13 per share on February 16.

Port and Free Zone World will finance the transaction with funding arranged by Citigroup and Deutsche Bank (see Top News for more).

Port and Free Zone World will also provide US\$5.15bn in funds to Dubai World, helping it meet outstanding obligations to lenders so that DP World can implement its strategy without restrictions, it said.

DP World subsidiaries face certain restrictions due to agreements it has with creditors. DP World had been exempt from those restrictions as long as it was listed.

Proceeds will also be used to allow DP World to fund the potential redemption of its convertible bonds.

DP World is delisting to focus on its medium-to-long-term strategy of becoming “the world’s leading logistics provider”, said chairman Ahmed bin Sulayem.

ABU DHABI EXPECTED TO RETURN TO BOND MARKET SOON

ABU DHABI is poised to return to international bond markets, according to sources, less than six months after selling a US\$10bn triple-tranche offering.

One source said the emirate has mandated banks, although the precise timing of the potential deal is unclear.

In September, Abu Dhabi (Aa2/AA/AA) issued a US\$3bn 2024, US\$3bn 2029 and US\$4bn 2049. The bonds struggled on the break but all three notes are now trading above par.

DIB EYES SUKUK

DUBAI ISLAMIC BANK has hired banks for a long five or seven-year US dollar sukuk.

The bank, rated A3/A (Moody’s/Fitch), held a call with investors last Thursday and will be in London on February 25.

Leads are Bank ABC, Dubai Islamic Bank, Emirates NBD Capital, First Abu Dhabi Bank, HSBC, ICBC, KFH Capital, Sharjah Islamic Bank and Standard Chartered.

Dubai Islamic Bank is the second-largest Islamic bank in the world and the largest Islamic bank in the United Arab Emirates by total assets.

The bank was last in the primary in November when it printed a US\$750m February 2025 sukuk deal. Demand for that trade settled at US\$2bn.

AMERICAS

BRAZIL

ITAU ENJOYS STRONG DEMAND FOR NEW AT1 DEAL

ITAU UNIBANCO ratcheted in pricing on a new US\$700m perpetual non-call five AT1 note last week.

Starting at initial price thoughts of the 5.25% area, leads were quick to move guidance to 4.75% (+/-5bp) and then priced

inside that at 4.625% after garnering a US\$5bn order book.

“Anything - whether it is EM or high-grade - that has a bit of yield is flying out the door,” said a syndicate banker.

The bond issue came just a month after Itau - the country’s largest private bank - raised US\$1.5bn through a two-part senior deal, comprising a 2.9% 2023 and a 3.25% 2025.

The Brazilian bank’s latest foray comes as investors hunting for yield show a strong preference for subordinated instruments in the bank sector.

That bid is being reflected in the secondary where subordinated debt is often outperforming senior bonds, and Itau is no exception.

Its senior 2023 and 2025, which were issued at par in January, have nudged higher to trade around 100.50 and 101.50 or yields of 2.72% and 2.92%.

That compares to the bank’s Tier 2 4.5% 2029, which priced at par in November and has since jumped to 103.45 for a yield of 3.7%, according to MarketAxess data.

Last week’s Basel III-compliant note was issued by the holding company and is rated B2/B.

The structure gives the bank the option to defer payments on a non-cumulative basis under certain conditions.

Principal can also be fully written down if its Common Equity Tier 1 capital ratio falls below 5.125% or if the state needs to come to its rescue.

As of December 31, Itau’s Tier 1 Capital - a measure of a bank’s financial health - stood at 14.4% after combining Common Equity Tier 1 at 13.2% and Additional Tier 1 at 1.3%, according to the bank.

With that capital base and a good 180bp pick-up to its senior debt, investors had no qualms about taking on the subordination risk.

“People see it as the best bank in Brazil and relative to its senior bonds it looks attractive,” said the syndicate banker.

ALL INTL EMERGING MARKETS BONDS

BOOKRUNNERS: 1/1/2020 TO DATE

Latin America

	Managing bank or group	No of issues	Total US\$(m)	Share (%)
1	JP Morgan	15	4,378.57	11.0
2	Deutsche Bank	5	3,600.29	9.0
3	BNP Paribas	7	3,552.17	8.9
4	Goldman Sachs	13	3,294.16	8.3
5	BofA	14	2,883.68	7.2
6	BBVA	6	2,335.53	5.9
7	Scotiabank	9	2,262.22	5.7
8	Citigroup	7	2,038.55	5.1
9	Santander	8	1,995.92	5.0
10	Itau Unibanco	7	1,609.23	4.0
	Total	43	39,789.41	

Excluding equity-related debt.

Source: Refinitiv

SDC code: L3

Argentina bonds sink on IMF comments

■ LATIN AMERICA Multilateral has US\$44bn exposure to nation

ARGENTINA bonds took another hit last week after a statement from the International Monetary Fund suggested that upcoming debt talks may prove tougher than expected for private creditors.

Argentina's 7.125% century bond touched a new low for the year at 42.00 on Thursday, while at the other end of the curve the 6.875% 2021 also tumbled over two points to hit 51.600, according to MarketAxess data.

"A definitive debt operation — yielding a meaningful contribution from private creditors — is required to help restore debt sustainability with high probability," the IMF said in a statement on Wednesday following talks with the government.

The IMF's comments were seen mirroring the tough rhetoric from Economy Minister Martin Guzman the week before who warned of a "deep" restructuring ahead and said creditors would be frustrated.

"It is an endorsement of what Guzman said last week," said Siobhan Morden, head of Latin America fixed-income strategy at Amherst Pierpont Securities.

The tone dampens earlier hopes that bondholders would emerge with a relatively creditor-friendly agreement given the tight schedule set by the government to complete talks by the end of March.

"I welcome the IMF's recognition of Argentina's position regarding the debt process," Argentina's President Alberto Fernandez, tweeted.

The IMF noted that Argentina's debt load is now unsustainable after gross public debt reached close to 90% of GDP at the end of 2019 and international reserves fell by about US\$20bn over the second half of last year.

The IMF, the country's largest creditor, has had a strained relationship with Argentina and has often been blamed for worsening earlier debt crises in the country.

In an article in the Financial Times last week, the IMF's new managing director Kristalina Georgieva said it was rethinking its approach, with a goal "to provide country-specific advice on the appropriate mix of policies needed to preserve growth and financial stability".

That new approach could mean it might be more lenient on how the country makes payments on some US\$44bn of IMF loans.

"As the single largest creditor (the IMF) will have to show some flexibility on their loan repayment," said Morden.

And while bonds have slipped on the IMF's statements, it remains unclear whether the government's tough stance will ultimately translate into steep haircuts, especially if it wishes to wrap up its debt restructuring by the end of March.

"It is either a precondition to a big haircut or it is negotiating tactic to talk down bond prices so that the terms look better," said Morden.

Some investors think that circumstances will ultimately give Argentina bondholders the upper hand.

"The IMF is seriously exposed to Argentina and seriously stuck — the only way they get paid back is if Argentina regains market access," said a holder of Argentina bonds.

"That reality will set a floor on the pain that can be inflicted on bondholders, and I expect that level will be comfortably higher than current trading levels."

Paul Kilby

In February, it posted a return on equity of 23.7%, higher than analyst expectations, and according to a Morningstar report, the bank finished 2019 with a recurring net income of R\$7.3bn, a 12.6% jump from the year prior.

"This is impressive, considering that Brazil's central bank decreased its Selic interest rate from 5.5% to 4.5% during the quarter," wrote analysts at Morningstar.

■ SUZANO LOOKS TO BROADEN ISSUANCE BEYOND GREEN BONDS

Brazilian pulp and paper company **SUZANO** is exploring alternatives to green bonds and examining bonds tied to key performance indicators, CFO Marcelo Bacci told IFR last week.

While still early in conversations with banks, Bacci said the company was looking for broader ways to implement sustainable financing.

In 2016, the company became the first issuer to sell a green bond denominated in Brazilian Reals.

It is now looking to expand beyond the green market's limitations and apply sustainable financing towards broader goals, said Bacci in an interview during the

company's investor day presentation in New York City (see loans section for more).

"The problem with green bonds is that the way they have been defined is based on use of proceeds," said Bacci.

"But we believe that we should structure it differently. Instead of linking the green seal to the use of proceeds, we could link it to specific goals that we want to achieve over time."

The issuance which could be "in line with a KPI-linked bond", could come as soon as this year, he said.

"We want to be a global reference in sustainable finance and redefine it, using a more modern approach that is more linked to tangible results than to use of proceeds."

Suzano, which completed its merger with fellow pulp and paper company Fibria early last year, is also getting ready to tap the bond market again in a separate transaction, said Bacci.

While there is no timeline yet, Bacci said the company was holding conversations regarding size and maturity for a potential issuance in the coming months.

Use of proceeds would go towards debt refinancing, specifically loans.

The company is unlikely to do a traditional liability management exercise because of the high dollar price on its bonds.

The company's 7% 2047 bond is changing hands at a price of 125.780, while its 5.75% 2026 note was trading at 115.075, as of Wednesday, according to MarketAxess data.

Suzano was last in the market last May when it sold a two-tranche 2030 and 2047 bond.

CHILE

■ BCI GETS IT CHEAP IN SWISS FRANCS

BANCO DE CREDITO E INVERSIONES popped up in the Swiss market on Thursday with an upsized 6.5-year note that came well inside fair value.

Books opened for a minimum SFr100m at the 70bp area over swaps, and it swiftly printed the issuer's maximum allowed size - SFr125m - in line with guidance, equivalent to Eidg+86.2bp or a 0.099% yield. A drop in rates over the morning saw a 0.1% coupon rather than the initially mooted 0.125%.

The bond came inside its curve by around 4bp, with its 2025s bid at a Z-spread of 74bp and 2029s at plus 75bp.

More than 70% went to asset managers. Banks and private banks came a distant

second with just over 20% and insurers/pension funds took the rest. In total, 44 accounts took part.

Proceeds will likely go to part-refinance a SFr150m 0.25% note due in June. **BCI** is rated A2/A.

Credit Suisse and *ZKB* were bookrunners.

COLBUN HITS THE ROAD

Power generation company **COLBUN** has started meetings to market a senior unsecured bond with a medium to long maturity as it looks to take out short-term debt.

Bank of America, *JP Morgan* and *Scotiabank* are global coordinators.

The issuer will head to Miami on February 24, Boston and London on February 25 and New York and London on February 26.

Proceeds are going towards an any and all cash tender for its US\$500m of 4.5% 2024 notes. The borrower is offering a purchase price 108.75. The bonds have been trading at around 107.625, according to MarketAxess data.

Expected ratings are Baa2/BBB/BBB (stable/stable/positive). Moody's highlighted the credit's strong liquidity position last week, with a cash balance of US\$797m as of December against short-term obligations of US\$82m.

"This cash balance is present to support potential acquisitions/investments in accordance with the company's growth strategy," said Moody's.

"The proposed liability management strategy will further lengthen the company's already healthy debt profile, but also provide debt service savings."

COLOMBIA

ECOPETROL EYES CAPITAL MARKETS RETURN

State-controlled oil firm **ECOPETROL** has received authorisation to raise up to US\$2bn in the international capital markets, according to a local filing.

Proceeds will go towards strengthening the company's liquidity position to guard against unexpected fluctuations in oil prices, to finance growth and to lessen refinancing risks, the filing said.

Ecopetrol has had little need to tap the international bond market in recent years. It was last in the dollar market in 2016 when it tapped its 5.875% 2023s for US\$500m through Bank of America and HSBC, pricing the deal at 101.612 to yield 5.6%.

Those bonds have since rallied to a dollar price of 111.70 or a yield of 2.43%.

MEXICO

CREDITO REAL MANDATES SWISS

CREDITO REAL, a specialty finance company, has hired banks for a Swiss franc bond.

The financial institution, rated BB+ (negative) by S&P and BB+ (stable) by Fitch, has mandated *BNP Paribas* and *Credit Suisse* to arrange investor meetings on February 25 and 26.

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■ FRONT STORY US MIDDLE MARKETS

Private credit growth boosts unitranchees

» Size of unitranchees are increasing

» MRI Software's US\$1.6bn loan is the latest sizeable deal

Years of sustained private debt fundraising and the growth of credit funds have allowed direct lenders to offer loans that are increasingly growing larger in size.

Known as unitranchees, these facilities combine different loans into one, and pay an interest rate that sits between the highest and lowest rate on the individual loans. They are appealing to borrowers that need access to credit quickly for acquisitions and want to seize the available capital and flexibility that traditional lenders such as banks are unable or not willing to provide.

As a borrowing tool in the middle market, unitranchees had stayed below the US\$300m mark. But as more borrowers choose to bypass the more broadly syndicated market for credit, loan sizes are growing quickly.

"I would say every year that limitation gets higher," said Ryan Lynch, a KBW analyst covering business development companies, which have been providers of the loans.

"Several years, it seems like a couple hundred million [dollars] for a private credit manager was a large deal, then it was US\$500m. Then Ares [Management] did the first US\$1bn with [data analytics company] Qlik; it felt like, 'Wow they just broke that ceiling'."

Seven unitranchees of at least US\$1bn have been extended in 2019 and the opening months of 2020, according to Refinitiv LPC data. Golub Capital's US\$1.6bn loan to **MRI SOFTWARE** this month is just the latest. In November, Golub made a loan of the same size to insurance broker **RISK STRATEGIES**.

In the third quarter of last year, Owl Rock lent US\$1.25bn to **INTEGRITY MARKETING GROUP** and US\$1.13bn to **CONNECTWISE**, an information-technology service provider.

Goldman Sachs and HPS Investment Partners made a US\$1.25bn unitranche to **ION GROUP**, an automation technology company, while KKR lent US\$1.08bn to **ACPRODUCTS**, a home furnishing company.

Ares led the first 10-figure unitranche deal in 2016, a US\$1.08bn unitranche to **QLIK**, which was an anomaly until last year.

"There are few players that can hold US\$500m or greater in a single transaction," said Kipp deVeer, head of the Ares Credit

Group. "Because there is less competition on larger unitranche transactions, private credit managers can often receive better terms in these situations than they could in a more competitive situation."

Last year Golub tracked 23 one-stop executions in excess of US\$500m, president David Golub said on the earnings call for his firm's publicly traded BDC, Golub Capital BDC.

"I think what we're also seeing is as sponsors do try one stops in these larger executions, they're finding that they like them," he said. "And so, in my opinion, we're at the beginning of the adoption curve."

Market observers expect unitranchees to get even larger.

"One of the benefits of the direct lending market is they do extensive diligence on their borrowers"

"It becomes a much more common tool in the toolkit, meaning sponsor XYZ a couple of years ago wouldn't have dreamed of doing a US\$1bn unitranche," one large direct lender said, estimating unitranche deals could be as large as US\$3bn, though it depends on the number of investment vehicles a firm has and how much they can put in each.

A US\$1bn unitranche stands as good a chance at getting done as a US\$10m unitranche, KBW's Lynch said.

CAVEATS

Unitranchees can offer flexibility, but some have concerns about the liquidity of these loans.

Direct lenders are mainly "buy-and-hold" investors, meaning they will hold most or all of a loan in their portfolio rather than syndicating it to other financial firms, so there is no readily available market should a direct lender wish to sell a position.

Some market participants may not want to hold "illiquid paper with liquid terms",

according to a credit manager. The result could be a troubled loan on a firm's book with documentation that is more advantageous to the borrower than the lender.

But the research and homework direct lenders can counter that, some say.

"More leverage or greater flexibility on terms does not equate to higher risk," said Gary Creem, a partner at law firm Proskauer. "One of the benefits of the direct lending market is they do extensive diligence on their borrowers. They meet with management teams and have strong relationships with the sponsors. These are safeguards, among others, of the unitranche product."

Questions also arise about economics, or compensation to the lender. Larger borrowers typically tap the syndicated loan market at much lower interest rates, while direct lenders generally extend credit to smaller companies at higher rates. With these larger unitranchees, some in the market are asking if direct lenders are receiving adequate compensation for holding unitranche loans.

Borrowers that use larger unitranche loans are sometimes seeking provisions that the syndicated market cannot give them, such as a "good size" delayed-draw term loan, an untapped portion of facility often used to fund future acquisitions, KKR's co-head of private credit Dan Pietrzak said.

For the most part, borrowers have accepted that seeking a private financing will require more structural protections than the syndicated market might offer, he said.

Lenders pitching these large deals are saying it's a secular trend, according to Finian O'Shea, a Wells Fargo analyst who covers BDCs.

"They're saying the world of middle market loan economics is expanding," he said. "These are, on the one hand, people who know what they're talking about, but they're going to talk their books. So, you're seeing a debate in the industry of whether these deals are going to sustain."

Andrew Hedlund

ASIA-PACIFIC

AUSTRALIA

JUMBO VODAFONE-TPG LOAN ON CARDS

A jumbo financing backing the proposed merger between **VODAFONE HUTCHISON AUSTRALIA** and **TPG TELECOM** is expected, reviving hopes for lenders following the setback from a cancelled A\$4.75bn (US\$3.2bn) loan for the same purpose last year.

Market participants are now hopeful of a new borrowing following approval last week from an Australian court of the A\$15bn merger between the two companies, overruling an earlier move by the antitrust regulator that had blocked the deal.

The Australian Competition and Consumer Commission has 28 days to lodge an appeal against the court ruling and said it was considering the judgement.

The ACCC had said earlier the merger would discourage Vodafone, Australia's second-largest mobile phone company, from entering the internet market and discourage TPG Telecom from building a mobile phone network.

TPG Telecom had started rolling out a network before Australia banned the use of parts from China's Huawei Technologies due to security concerns.

Vodafone Hutchison Australia had cancelled a self-arranged A\$4.75bn loan last year following the ACCC's rejection of the merger proposal with TPG Telecom.

The cancelled deal comprised a A\$2bn three-year term loan (Facility A), a A\$2bn five-year loan (Facility B) and a A\$750m five-year revolving credit facility (Facility C) and had attracted 16 banks.

The deal had offered initial interest margins of 110bp over BBSY for Facility A and 130bp over BBSY for Facilities B and C. At the top level, the all-ins based on the initial margins were 125bp for the three-year tranche and 145bp for the five-year portions.

LOAN FOR CITADEL'S UK BUY

Software and services company **CITADEL GROUP** plans to partially fund an acquisition in the UK with a A\$100m multi-currency borrowing.

ANZ and Royal Bank of Canada have underwritten the financing, which comprises a A\$90m underwritten senior secured term loan and a A\$10m undrawn revolving working capital facility based on pro forma net leverage at closing of 2.1 times Ebitda.

Citadel is also planning to raise about A\$127m from an underwritten and conditional equity placement to new and existing institutional investors.

Citadel announced it has entered into a binding agreement to acquire Wellbeing Software Group, a UK-based provider of radiology and maternity software solutions that manages patient workflows and data, for an enterprise value of £103m.

CHINA

CHINA MERCHANTS PORT SEEKS BILATERALS

Hong Kong-listed **CHINA MERCHANTS PORT HOLDINGS** is in talks with banks for separate bilateral bridge loans totalling up to US\$1bn for its proposed acquisition of port assets from French shipping company CMA CGM.

The bridge loans with 12-month tenors are likely to pay as low as 50bp–60bp.

On December 20, China Merchants Port announced the acquisition of a portfolio of 10 port terminals from CMA Terminals, a wholly owned subsidiary of CMA CGM, for a total consideration of US\$968m.

However, China Merchants Port would only have to fork out US\$468m as the acquirer is Terminal Link, its 49:51 joint venture with CMA, according to the announcement, although its 49% share of the consideration equals US\$474m.

As part of the agreement, Terminal Link will issue as much as US\$468m of convertible bonds to China Merchants Port, which also agreed to provide an eight-year loan of up to US\$500m to the former. The loan carries a guarantee from CMA CGM.

Repayment of the eight-year loan will be through capital increases in the JV from CMA CGM throughout the tenor of the borrowing, while China Merchants Port will have to convert the CBs into equity.

The Chinese and French companies will maintain their respective 49% and 51% stakes in Terminal Link.

The 10 terminals being acquired are located in China, India, Iraq, Jamaica, The Netherlands, Singapore, Thailand, Ukraine and Vietnam.

In 2018, the 10 terminals posted a net profit after tax of US\$5.12m, according to the December announcement from China Merchants Port.

The company said the proposed acquisition is consistent with its strategy of international expansion. It also has a growing presence in South Asia, Africa, Mediterranean countries and South America.

China Merchants Port operates several coastal hub ports in Hong Kong, Taiwan and

the Chinese cities of Dalian, Ningbo, Qingdao, Shanghai, Shenzhen, Shantou, Tianjin, Zhangzhou and Zhanjiang.

BCEG DEBUT HITS SYNDICATION

State-owned Beijing Construction Engineering Group has launched its debut US\$100m three-year loan into limited syndication.

Natixis is the sole mandated lead arranger and bookrunner of the transaction, which has a greenshoe of US\$50m.

The deal offers all-in pricing above 200bp via an interest margin of 195bp over Libor.

The borrower is **BCEGI (HONGKONG)**, a subsidiary of BCEG, which is the guarantor.

BCEG is a construction and engineering firm that provides services in construction, real estate, property management and environmental protection.

CHINA FORESTRY UNIT CLOSES LOAN

A unit of China Forestry Group has closed a four-year loan at US\$145m, after the state-owned parent obtained requisite consents to amend a covenant of a separate 2018 syndicated loan that had restricted it from providing guarantees for new debt facilities.

The borrower on the latest transaction is **CHINA FORESTRY TREASURY CENTER**, a Hong Kong-incorporated financing vehicle of China Forestry, which is the guarantor.

Mandated lead arrangers and bookrunners *China Everbright Bank* and *Far Eastern International Bank* had launched the deal into syndication in September last year at an original US\$100m target.

Lenders *Huaxia Bank* and *Ping An Bank* joined the deal.

Completion of the latest deal was conditional upon the guarantor obtaining consent from two-thirds of the lenders (by value) of another loan for the borrower's affiliate signed in 2018. The consent related

ASIA-PACIFIC LOANS BOOKRUNNERS – FULLY SYNDICATED VOLUME (INCLUDING JAPAN)

BOOKRUNNERS: 1/1/2020 TO DATE

Managing bank or group	No of issues	Total US\$(m)	Share (%)
1 Mizuho	19	4,623.10	22.6
2 MUFG	37	2,801.25	13.7
3 Sumitomo Mitsui	35	1,919.61	9.4
4 HSBC	6	1,253.43	6.1
5 China Merchants Bk	3	1,083.29	5.3
6 Standard Chartered	7	872.94	4.3
7 Citigroup	2	666.36	3.3
8 DBS Group	6	546.38	2.7
9 United Overseas	3	488.12	2.4
10 Bank of China	5	480.52	2.4
Total	118	20,411.52	

Proportional credit
Source: Refinitiv

SDC code: S3a

to China Forestry being exempted from restrictions on guaranteeing debt for other group companies.

China Forestry International Resource is the borrower on the HK\$4bn (US\$513m) three-year offshore loan signed in 2018. China Forestry is the guarantor.

China Forestry obtained consent for the exemption as well as to amend an ownership covenant that required China's State-owned Assets Supervision and Administration Commission of the State Council to directly or indirectly own all of China Forestry throughout the term of the HK\$4bn borrowing.

The amendment to the ownership covenant followed SASAC's transfer of a 10% stake in China Forestry to the National Council for Social Security Fund in January 2018, which stemmed from a November 2017 directive from the State Council of the People's Republic of China.

The increased US\$145m loan offered top-level all-in pricing of 210bp based on an interest margin of 195bp over Libor.

» LUFAX ATTRACTS NINE

Online wealth management company Lufax Holding has closed a three-year bullet loan at US\$1.19bn after attracting nine lenders in syndication.

Citigroup and HSBC were the mandated lead arrangers and bookrunners of the transaction, which was launched at a base size of US\$1bn and carried a US\$500m greenshoe option.

Bank of China Hong Kong, Bank of America, Bank of China Macau branch, Goldman Sachs, JP Morgan, Mizuho Bank, Tai Fung Bank, UBS, Morgan Stanley Senior Funding and Industrial Bank Shanghai Pilot FTZ branch are the other lenders.

The deal offered top-level all-in pricing of 148bp based on an interest margin of 125bp over Libor.

The borrowing entity is **WINCON HONG KONG INVESTMENT**, while Lufax is providing a guarantee.

Proceeds are for general corporate purposes.

HONG KONG

» SF HOLDING TO PRE-PAY HK\$5bn LOAN

Shenzhen-based logistics services provider SF Holding is looking to pre-pay a HK\$5bn (US\$640m) five-year loan it closed five months ago.

The company informed lenders last week of the pre-payment, which will take place before the end of the month and follows a US\$700m 10-year bond issue SF Holding completed the week before.

The bond offering, which was priced on February 13, helped SF Holding extend its maturity curve and achieved the tightest all-in yield in the offshore market this year for a privately owned Chinese issuer, according to IFR Asia.

The 2.875% bonds were priced at 98.935 to yield 2.999%, or US Treasuries plus 137.5bp.

The HK\$5bn loan being repaid was completed in September last year and offered top-level all-in pricing of 107.05bp based on an interest margin of 90bp over Hibor and an average life of 4.75 years.

ANZ, Credit Agricole CIB, Credit Suisse, HSBC, MUFG and Standard Chartered Bank were the mandated lead arrangers, bookrunners and underwriters of the loan, which attracted 13 other banks in syndication.

The facility replaced a bridge facility that helped fund SF Holding's purchase of the Greater China supply chain operations of Deutsche Post DHL Group.

The borrowing entity is **SF HOLDING**, a wholly owned subsidiary of Shenzhen-listed SF Holding, which is the guarantor.

» DATANG SWITCHES ON FOR HK\$5bn LOAN

State-owned China Datang is seeking a HK\$5bn one-year loan for refinancing purposes.

Wing Lung Bank is the mandated lead arranger and bookrunner of the transaction, which offers an interest margin of 140bp over Hibor.

MLAs joining with tickets of HK\$600m or more earn an all-in pricing of 160bp based on a 20bp fee, while lead arrangers taking HK\$100m–\$599m receive an all-in of 155bp based on a 15bp fee.

CHINA DATANG OVERSEAS (HONG KONG), a subsidiary of China Datang, is the borrower.

In February 2018, the borrower raised a HK\$5.3bn three-year bullet term loan. Wing Lung also led that deal, which attracted two banks in general syndication.

China Datang is a power generation group established after State Power Corp of China was split into five different groups in 2002.

» CITIC CAPITAL RAISES HK\$3.5bn

CITIC CAPITAL HOLDINGS has raised a HK\$3.5bn three-year club loan from a dozen banks.

Bank of China (Hong Kong), Bank of Communications, China Citic Bank International, China Construction Bank (Asia), China Everbright Bank, China Minsheng Banking Corp, CTBC Bank, Dah Sing Bank, Hang Seng Bank, HSBC, Shanghai Pudong Development Bank, and Sumitomo Mitsui Banking Corp are the lenders to the transaction.

Funds are for general corporate purposes and refinancing.

Citic Capital's previous loan market visit was in August 2018 for a HK\$4bn three-year

loan, that offered top-level all-in pricing of 240bp via an interest margin of 200bp over Hibor.

The borrower, a unit of Hong Kong-listed Chinese state-owned conglomerate Citic, is an investment management and advisory company.

» AOYUAN RAISES US\$231m LOAN

Hong Kong-listed property developer **CHINA AOYUAN GROUP** has raised a US\$231m-equivalent dual-currency three-year loan.

Hang Seng Bank, HSBC and Nanyang Commercial Bank were the mandated lead arrangers and bookrunners of the transaction, while Bank of East Asia, China Construction Bank (Asia) and Chong Hing Bank came in as MLAs. China Guangfa Bank Macau branch joined as lead arranger.

The deal, which is split into a HK\$1.055bn (US\$136m) portion and a US\$95m piece, offers an interest margin of 430bp over Libor or Hibor.

Certain subsidiaries of Aoyuan are providing joint and several guarantees.

Funds will be mainly used for refinancing existing offshore indebtedness of Aoyuan.

Aoyuan's previous loan market visit was in July last year for a US\$204m-equivalent three-year dual-currency loan after exercising an accession option. It offered top-level all-in pricing of 555.6bp via an interest margin of 495bp over Libor or Hibor.

Aoyuan is rated B1/B+/BB-.

INDIA

» IOC REFI DRAWS ONE BANK

State-owned Indian Oil Corp has closed a C\$580m (US\$437m) five-year loan with only one bank joining in general syndication.

Shanghai Commercial and Savings Bank took C\$25m of the loan for IOC's wholly owned subsidiary **INDOIL MONTNEY**.

Bank of Baroda, State Bank of India, Scotiabank and Sumitomo Mitsui Banking Corp were the mandated lead arrangers and bookrunners, and ended up with more than 95% of the transaction.

The deal had offered top-level all-in pricing of 115bp and an interest margin of 89bp over CDOR.

Proceeds will be used for refinancing and capital expenditure.

In 2015, Indoil Montney closed a C\$600m five-year bullet loan maturing in March 2020, which paid a top-level all-in of 140bp via a margin of 105bp.

Parent IOC's last visit to the loan markets was in February last year for a syndicated US\$1.7bn five-year financing, which paid top-level all-in pricing of 114bp based on a

margin of 100bp over Libor and an average life of 4.75 years. The deal was increased from the original US\$1.3bn target after attracting 17 banks in general syndication.

INDONESIA

INDOMOBIL FINANCE IN TALKS

INDOMOBIL FINANCE INDONESIA is in talks with lenders for an up to US\$300m three-year amortising loan, returning to the syndicated loan markets less than a year after a successful visit last June.

Bankers said the structure could be similar to previous underwritten loans that have been increased following a strong response in general syndication.

Last year, the borrower nearly tripled the size of its three-year loan to US\$290m from US\$100m after nine banks joined in general syndication.

The borrowing paid top-level all-in pricing of 135bp (onshore) and 125bp (offshore) based on interest margins of 105bp (onshore) and 95bp (offshore) over Libor respectively, and an average life of 1.625 years.

ANZ, CTBC Bank, DBS Bank, OCBC Bank, Sumitomo Mitsui Banking Corp, Taipei Fubon Commercial Bank and United Overseas Bank were the mandated lead arrangers and bookrunners on that loan.

Pricing on the 2019 deal was tighter than on a US\$275m three-year amortising loan completed a year earlier in July 2018, which offered top-level all-in pricing of 133.4bp (onshore) and 123.4bp (offshore) based on margins of 110bp (onshore) and 100bp (offshore) over Libor. The facility has an average life of 1.625 years.

The borrower, controlled by the Indomobil Group, provides motor vehicle and heavy-duty equipment financing services.

JAPAN

SOFTBANK TO RAISE ¥500bn

SOFTBANK GROUP plans to raise ¥500bn through a two-year margin loan with part of its stake in Softbank Corp as security, the Japanese telecoms giant said in a statement on Wednesday.

Sixteen domestic and foreign financial institutions are providing the loan to **HINODE 1 GK**, SoftBabk Group's wholly owned subsidiary.

Credit Suisse, JP Morgan, Mizuho Bank and securities firms are among the lenders, while Japanese banks have not participated as they are generally not keen on share-backed financings.

The loan has a one-year extension option and is slated for drawdown on February 25.

Funds will be used to boost the group's cash on hand and for general business purposes, according to a Reuters story on Wednesday, which also said Softbank Group is pledging a 20% stake in its telco unit as collateral.

Meanwhile, there has been no progress in its talks to obtain US\$3bn from Japanese megabanks Mizuho Bank, MUFG and SMBC to fund a bailout of office sharing start-up WeWork, which stalled in December.

HITACHI RAISES BRIDGE FOR BUY

HITACHI is raising a ¥532bn (US\$4.844bn) six-month bridge loan to back its bid to acquire all of listed industrial equipment unit Hitachi High-Technologies.

MUFG is sole provider of the jumbo bridge supporting the ¥531.1bn bid launched on Monday.

Hitachi is offering ¥8,000 a share for the remaining stake in the unit, of which it currently owns 51.73%. The offer ends on April 6.

Hitachi High-Technologies said in a statement last month that its board had approved the takeover and recommended that its shareholders tender their shares to Hitachi.

The conglomerate has been the most aggressive among its peers in Japan in reorganising its businesses.

In December, the company said it would sell Hitachi Chemical for ¥494bn to Showa Denko and the diagnostic imaging business to Fujifilm Holdings for ¥179bn. Showa Denko is raising a loan of up to ¥695bn for its planned acquisition.

SINGAPORE

APRIL CLOSES AFTER EIGHT MONTHS

Two dozen lenders have joined **ASIA PACIFIC RESOURCES INTERNATIONAL**'s self-arranged US\$1bn multi-tranche financing, which has finally closed after eight months.

Launched in June last year, the deal encountered a slow phase following environmental concerns relating to several Indonesian forestry product companies over fires in Indonesia's peatlands in late 2019.

The borrowing has been increased from a US\$650m base size and is expected to be signed at the end of February.

Participants are Bank of China, Shanghai Pudong Development Bank, Shanghai Pudong Development Bank Singapore branch, Nanyang Commercial Bank, China Minsheng Banking Corp, E.Sun Commercial Bank, ABN AMRO, MUFG, China Merchants Bank, China Citic Bank International,

Mega International Commercial Bank, State Bank of India, Bank of Communications, China Construction Bank, Intesa Sanpaolo, Taiwan Cooperative Bank, Hua Nan Commercial Bank, Taishin International Bank, Chang Hwa Commercial Bank, Land Bank of Taiwan, Taiwan Business Bank, Yuanta Commercial Bank, Bank of Shanghai, Chiyu Banking Corp and Credit Suisse.

It comprises a US\$90m three-year bullet Tranche 1, a US\$830m five-year amortising Tranche 2 and a US\$80m seven-year amortising Tranche 3.

The loan initially comprised a US\$100m three-year bullet Tranche 1, a US\$350m five-year amortising Tranche 2 and a US\$200m seven-year amortising Tranche 3. It also carried a greenshoe option of up to US\$350m.

MLABs earned fees of 80bp, 85bp and 105bp for Tranches 1, 2 and 3, respectively, based on interest margins of 200bp, 215bp and 240bp over Libor.

APRIL International Enterprise, a unit of Cayman-incorporated AP International Resources (API), is the borrower. API is a unit of APRIL.

Proceeds will be used for general corporate purposes of APRIL Group and API, including but not limited to refinancing, working capital and maintenance capital expenditure requirements.

APRIL's last visit to the loan markets was in December 2018, when it raised a US\$835m self-arranged loan that attracted 21 lenders.

That facility comprises a US\$725m five-year portion (Facility A) and a US\$110m seven-year piece (Facility B) that pay margins of 215bp and 240bp over Libor, respectively. The average lives are 3.125 and 4.125 years. Top-level fees were 80bp for Facility A and 105bp for Facility B.

APRIL, part of privately owned industrial group RGE, produces pulp and paper, and has operations in Indonesia and China.

THAILAND

MITR PHOL SIGNS THAILAND'S FIRST SLL

MITR PHOL SUGAR CORP and its wholly owned subsidiary have raised US\$170m through a sustainability-linked revolving credit facility, the first such loan in Thailand.

Thailand's largest sugar producer and its **MITR PHOL TREASURY** unit **CORP** are the borrowers on the 364-day loan, which has two 364-day extension options.

Rabobank Singapore Branch acted as sole sustainability coordinator, mandated lead arranger and bookrunner for the transaction.

Mandated lead arrangers are SMBC, OCBC and Kasikornbank. Lead arranger is Standard Chartered Bank.

Proceeds will finance the general working capital and corporate funding requirements of Mitr Phol and its subsidiaries.

The interest margin on the facility is linked to the achievement of pre-determined improvement targets for key performance indicators, which will be tracked and reported in line with the company's annual sustainability report.

Mitr Phol has identified specific KPIs centred on improvements in greenhouse gas emissions, energy consumption, water usage, and promoting the use of green/fresh cane for its sugar mills.

The company has operations in China, the Laos People's Democratic Republic, Australia and Indonesia. The group has also expanded into other bio-based industries, including bio-power, ethanol, wood substitutes, and fertilisers.

VIETNAM

TECHCOMBANK LAUNCHES DEBUT

VIETNAM TECHNOLOGICAL & COMMERCIAL JOINT STOCK BANK (Techcombank) has launched a US\$300m three-year debut loan into general syndication.

ANZ Bank, CTBC Bank, First Abu Dhabi Bank, Taishin International Bank and United Overseas Bank are the mandated lead arrangers, underwriters and bookrunners.

Mega International Commercial Bank has joined as MLA prior to general syndication.

The facility offers an interest margin of 150bp over Libor.

Lead arrangers committing over US\$25m earn top-level all-in pricing of 163bp via an upfront fee of 39bp, while arrangers coming in for US\$10m–\$25m receive an all-in of 159bp through fees of 27bp.

Techcombank is one of the biggest private-sector lenders in Vietnam. Its largest shareholder currently is Masan Group with a 14.98% stake.

EMEA LOANS BOOKRUNNERS – FULLY

SYNDICATED VOLUME

BOOKRUNNERS: 1/1/2020 TO DATE

Managing bank or group	No of issues	Total US\$(m)	Share (%)
1 BofA	7	3,223.88	14.7
2 Citigroup	5	2,354.19	10.7
3 Commerzbank	8	2,257.18	10.3
4 HSBC	7	1,474.32	6.7
5 Deutsche Bank	6	1,193.83	5.4
6 UniCredit	5	1,068.67	4.9
7 Santander	7	904.12	4.1
8 LBBW	4	771.65	3.5
9 ING	3	682.91	3.1
10 Indl & Comm Bk China	1	672.73	3.1
Total	35	21,949.86	

Proportional credit
Source: Refinitiv

SDC code: R17

EUROPE/MIDDLE EAST/AFRICA

FRANCE

ALSTOM TAPS FOR BOMBARDIER UNIT

Train maker **ALSTOM** is backing its acquisition of Canada's Bombardier Transportation with €3.9bn of underwritten loans.

The financing includes a €2.4bn bridge loan that will be refinanced through an up to €2bn rights issue and around €400m of debt.

Alstom is also reinforcing its liquidity through a €1.5bn revolving credit facility, which will replace Alstom's and Bombardier Transportation's RCFs.

The RCF will have a five-year maturity with two one-year extension options.

Societe Generale is structuring and coordinating bank on the financing and has underwritten the bridge loan and the RCF with Credit Agricole CIB and HSBC.

Alstom said on Monday that it has signed a memorandum of understanding with parent Bombardier Inc and shareholder Caisse de depot et placement du Quebec for the acquisition.

The acquisition price will be €5.8bn–€6.2bn, which will be paid via a mix of cash and new Alstom shares.

The total equity component of the financing will represent around €5bn.

CDPQ will reinvest around €2bn of the proceeds from the sale of its stake in Bombardier Transportation and invest €700m in Alstom, becoming Alstom's largest shareholder with around 18% of its capital.

The financing structure is in line with Alstom's plan to maintain a strong credit profile and commitment to its Baa2 rating.

After the acquisition, Alstom will have an order backlog of around €75bn and revenues of around €15.5bn.

APRR AND EIFFARIE AGREE SLLS

Construction group **EIFFAGE** said its subsidiary **EIFFARIE** and its toll-road concession **AUTOROUTES PARIS-RHIN-RHONE** have agreed €3.07bn of loans linked to social and environmental criteria.

Eiffarie has agreed a €1.07bn term loan to replace an existing loan of the same amount on improved terms. The loan will amortise with increased repayments starting in 2023.

APRR has agreed a €2bn revolving credit facility it will use for general corporate purposes, replacing an existing undrawn €1.8bn credit line, also on improved terms.

Both facilities have five-year maturities and two one-year extension options.

Margins are partially linked to APRR's performance in two non-financial areas: health and safety and carbon footprint.

An improvement in either one will lead to a reduction in the credit margin, while a deterioration would lead to an increase in margins.

Proceeds from the adjusted margins will be used for associations or foundations working in the general interest, Eiffage said.

The loans closed more than 50% oversubscribed from a syndicate of 18 banks.

Banco Sabadell, BBVA, BNP Paribas, CaixaBank, CIC, Credit Agricole CIB, Intesa Sanpaolo, Mediobanca, Mizuho, MUFG, Natixis-Groupe BPCE, Santander, Societe Generale and UniCredit were bookrunners and mandated lead arrangers.

Commerzbank, HSBC, La Banque Postale and SMBC were mandated lead arrangers.

The financing brings the group's total sustainability-linked credit lines to €5.07bn over the past 12 months after Eiffage agreed a €2bn credit line in May 2019 that was linked to the same social and environmental criteria.

VALLOUREC LINES UP REFI

Steel tubing manufacturer **VALLOUREC** has agreed an €800m revolving credit facility as part of a balance sheet strengthening and refinancing plan that also includes an €800m rights issue.

The RCF, which was agreed with a group of Vallourec's relationship banks, is for an initial four years with a one-year extension option.

The facility has a financial covenant of a maximum gearing ratio of 100%, similar to Vallourec's existing facilities.

The RCF is conditional on the completion of the rights issue, which is expected to be launched in the second quarter.

Pro forma to the rights issue and RCF, Vallourec would have had €1.7bn of liquidity at the end of 2019, comprising around €900m in cash and the undrawn €800m RCF.

Previously, Vallourec had a €1.1bn RCF set to mature in February 2021; a €450m RCF that was due to mature in February 2020, €300m of which was extended to February 2021; a €90m revolving bilateral loan due to mature in February 2021; and a €110m line of credit from the EIB due to mature in April 2027.

NETHERLANDS

FUGRO LINES UP €200m RCF

Geophysical services company **FUGRO** has agreed a €200m 4.5-year revolving credit facility as it looks to refinance its €575m RCF

Investec Bank mulls fundraising options for 2020

■ SOUTH AFRICA Several banks have recently successfully raised loans

INVESTEC BANK is deciding whether it will extend or refinance US\$765m of loans that were raised in 2018 and mature this year.

The bank has a US\$600m loan that was coordinated by Bank of America, MUFG and Mizuho, and matures in July, and a US\$165m loan from Asian banks that matures in November. Both loans have the option to be extended by a year.

"The bank is looking to extend it or to refinance it for a lesser amount, maybe around US\$400m," said one banker.

The US\$165m loan was coordinated by ICBC and Standard Chartered and paid a margin of 120bp over Libor.

"If this is refinanced they could raise US\$200m-\$250m," the banker said.

A number of South African banks have successfully raised funds in the syndicated loan market in recent months, including **STANDARD BANK**, which agreed a US\$1bn three-year deal in October.

NEDBANK signed a US\$500m three-year loan in November, while **ABSA BANK** sealed a US\$500m loan last June, its first syndicated loan in more than 10 years.

Earlier this month, Moody's cut its 2020 growth forecast for South Africa to 0.7% from 1.5% in September, saying the economy remained stuck in low gear due to lacklustre private sector demand.

Moody's attributed the downgrade in part to the detrimental impact of widespread power outages on manufacturing and mining activity, due to well-publicised problems at state-owned utility Eskom, which has struggled to keep up with domestic demand.

Moody's is the last of the major international ratings firms to keep an investment-grade rating on the sovereign and is scheduled to review that assessment in March.

Against this backdrop, there has been a lot of liquidity in the loan market chasing a limited number of quality assets. This has led to hefty oversubscriptions on syndicated loans for South Africa banks, but has not translated into a decrease in pricing.

"Lenders are saying that pricing is at the right level now," the banker said. "I don't think refinancing for better pricing is going to work now."

Sandrine Bradley

and repurchase €190m of convertible bonds that are due to mature in 2021.

As part of the transaction the company is looking to issue €500m-€550m of senior secured bonds and may also issue new shares.

The new RCF, which is conditional on the successful issue of the bonds, is arranged by ING, Rabobank, Credit Suisse, BNP Paribas, HSBC and Bank of China.

The margin on the RCF will be based on consolidated net debt to Ebitda.

The previous five-year RCF was arranged in December 2015 for €500m. The financing was increased by €75m in 2017.

It paid 190bp over Euribor/Libor, depending on leverage.

NORWAY

■ PGS COMPLETES US\$800m REFI

Geophysical company **PETROLEUM GEO-SERVICES** has completed a roughly US\$800m-equivalent refinancing.

The refinancing comprises an extension of around 90% of a US\$377m term loan B to March 2024 from March 2021; a US\$150m incremental

term loan B with the same maturity as the extended TLB; and the extension of US\$215m of a revolving credit facility to September 2023 from September 2020.

PGS has also issued US\$95.3m of equity through a private placement arranged by Nordea Bank, JP Morgan, Pareto Securities, ABN AMRO, Barclays, and DNB Markets.

PGS withdrew a proposed US\$675m refinancing in June citing volatility in the capital markets and weaker investor sentiment towards the oil field services sector.

■ ARCHER NEARS A&E

Oslo-listed drilling and oil services company **ARCHER** is close to agreeing an amend and extend on its US\$610.8m multicurrency syndicated loan that matures at the end of September.

Archer expects to agree the refinancing in the first quarter.

The financing comprises a US\$372.8m term loan and a US\$238m revolving credit facility.

The financing pays a margin of 225bp-435bp over one, three or six-month Nibor, Libor or Euribor.

A total of US\$515m was drawn on the financing as of December 31.

At the end of September, the financing was reclassified as short-term finance.

Archer agreed a comprehensive restructuring of its debt in the second quarter of 2017 via Danske Bank, DNB Bank, Nordea Bank, SEB, Swedbank and Wells Fargo.

SPAIN

■ NATURGY RENOVABLES GOES GREEN

NATURGY RENOVABLES, the renewable energy arm of Spanish utility Naturgy Energy Group, has agreed a €600m green loan.

The financing comprises €500m of seven-year term loans and a €100m five-year revolving credit facility.

BBVA and Caixabank coordinated the financing as bookrunners and green agents.

Naturgy, previously Gas Natural Fenosa, was formed in 2008 from Gas Natural's acquisition of Union Fenosa. The company's core business is in the gas and electricity markets.

In 2017, the company agreed a €330m sustainability-linked loan with ING.

That four-year financing had a one-year extension option and a margin partially linked to the company's ESG performance as assessed by independent ratings agency Sustainalytics.

UK

■ BHP UPS RCF TO US\$5.5bn

Global miner **BHP GROUP** has increased its syndicated revolving credit facility to US\$5.5bn from US\$5.25bn after an additional bank joined the facility.

The undrawn RCF, which was agreed in October 2019, backs BHP's US\$5.5bn commercial paper programme.

The financing has a five-year maturity with two one-year extension options.

Joint coordinators on the original RCF were Banco Santander and Citigroup.

ANZ, Bank of America, Bank of China, Barclays, BNP Paribas, CIBC, China Construction Bank, Credit Agricole, DBS Bank, Deutsche Bank, Goldman Sachs, JP Morgan, Mizuho Bank, MUFG, National Australia Bank, Scotiabank, SMBC, UBS and Westpac were bookrunners and mandated lead arrangers.

BHP is rated A by S&P and A2 by Moody's.

■ CONTOURGLOBAL TAPS FOR MEXICAN BUY

London-listed power company

CONTOURGLOBAL has completed the syndication of a US\$570m loan to support its acquisition of two power assets in Mexico.

The seven-year facility is split between a US\$535m term loan and a US\$35m letter of credit facility.

Scotiabank is the lead arranger on the deal and received commitments from seven other lenders.

Mexico's state-owned *Banco Nacional de Comercio Exterior*, *Bank of China* and *BNP Paribas* joined as senior mandated lead arrangers.

ING and *Credit Agricole* signed up as MLAs, while Taiwan's *Mega International Commercial Bank* and *ICBC* were participants.

In January last year, ContourGlobal agreed a US\$724m deal to acquire two natural gas-fired heat and power plants from Mexican petrochemical company Alpek.

The acquisition also comprised the development rights and permits for a third plant, ContourGlobal said in a press release at the time.

Scotiabank underwrote the deal.

Net debt to adjusted Ebitda was expected to be between 4.0-4.5 times within 12 months of closing the deal.

» RAC NETS £350m REFI

Roadside services firm **RAC** has agreed a £350m loan refinancing, increasing and extending the company's term loan and working capital facilities on improved terms.

The financing includes a £300m senior term loan maturing in January 2025, which replaces a £280m loan that was due to mature in May 2021.

The loan pays a margin of 250bp over Libor, which has been hedged through an interest rate swap. The previous loan paid 275bp over Libor.

An accordion facility on the loan may be used to increase the financing by £80m.

There is also a new £50m working capital facility that is available until January 2025, replacing a facility of the same size.

Barclays coordinated the financing alongside *Banco Santander*, *Deutsche Bank*, *JP Morgan* and *NatWest* as bookrunners and mandated lead arrangers.

BNP Paribas, *Lloyds Bank* and *HSBC* were mandated lead arrangers, while *M&G Investment* also participated.

» BRITVIC SIGNS £400m SLL

More details have emerged on soft drinks company **BRITVIC**'s £400m sustainability-linked revolving credit facility.

The financing, which replaced Britvic's £400m RCF that was due to mature in 2021, has a five-year maturity with two one-year extension options.

Margins on the facility are linked to three of Britvic's annual key performance targets including 50% of all plastic bottles in Britain and Ireland to be made of recycled plastic; a 50% reduction in carbon emissions when compared to 2017; and 75% of Britvic's global drinks portfolio to be either low or no sugar.

Under the mechanism, if Britvic meets two or three of its sustainability targets the margin will decrease and Britvic will pay any saving to charity.

If Britvic meets one target the margin will remain unchanged.

If Britvic fails to meet any of the three sustainability targets, the margin will increase and the lenders will pay the difference to charity.

Rabobank coordinated the facility, which is being provided seven banks.

KPMG advised Britvic on the transaction.

The previous financing was arranged in November 2014 via a club syndicate of *Barclays Bank*, *BNP Paribas*, *HSBC Bank*, *Lloyds Bank*, *Royal Bank of Scotland* and *Santander*.

» LOAN FOR DAEJAN OFFER

A cash offer for UK property company **DAEJAN HOLDINGS** is being backed with a £225m loan from *Barclays* and *NatWest*.

Centremenor, part of family-owned Freshwater Group that owns around 79.5% of Daejan, is looking to acquire the rest of the shares it does not already own.

The offer values Daejan at around £1.3bn and the 20.5% free float at around £269.5m.

The acquisition will also be funded through its cash resources.

After the acquisition, the loan is expected to be refinanced with funding secured on certain Daejan properties.

Freshwater Group has held a majority stake in Daejan since a reverse takeover in 1959.

Daejan was originally formed in 1935 to acquire several rubber and coffee plantation businesses in the Dutch East Indies.

After Indonesian independence, the company sold its commodity assets and Indonesian real estate and became a dormant shell company by 1955.

In 1959 Freshwater, which had acquired several landmark buildings in London, put the assets into Daejan through the reverse takeover.

NORTH AMERICA

UNITED STATES

» WW GRAINGER SEALS REFI

Industrial supply company **WW GRAINGER** has agreed a US\$1.25bn syndicated revolving credit facility, replacing its US\$750m unsecured RCF from October 2017.

The financing has a five-year maturity with two one-year extension options.

The RCF may be increased to US\$1.875bn at the request of the company.

The margin and facility fee are based on ratings.

For AA-/Aa3 the margin is 58bp over Libor with a 4.5bp facility fee; for A+/A1 it is 70bp and 5bp; for A/A2 it is 81bp and 6.5bp; for A-/A3 it is 91bp and 9bp; and for BBB+/Baa1 it is 102.5bp and 10bp.

There is a 0% floor.

WW Grainger is rated A+ by S&P and A3 by Moody's.

JP Morgan is administrative agent with *US Bank*, *Bank of America*, *Wells Fargo* and *Citigroup* as co-syndication agents, lead arrangers and bookrunners.

Northern Trust, *Royal Bank of Canada* and *PNC Bank* are co-documentation agents.

Bank of China, *TD Bank*, *Lloyds Bank* and *BBVA* are also lenders.

The previous facility was due to mature in October 2022.

» OMNICOM BAGS US\$2.5bn RCF

Advertising and marketing company **OMNICOM** has detailed a US\$2.5bn amended and restated credit facility.

The transaction has extended the tenor on the loan by five years to February 2025.

Citigroup, *JP Morgan* and *Wells Fargo* led the deal.

They were joined by *Bank of America*, *Barclays*, *BNP Paribas*, *Deutsche Bank*, *HSBC*, *BBVA*, *ING*, *Mizuho*, *MUFG*, *Societe Generale*, *Sumitomo Mitsui*, *TD Bank*, *US Bank*, *Intesa Sanpaolo*, *RBC*, *Standard Chartered*, *Scotiabank*, *Northern Trust*, *ANZ*, *Bank of China*, *Danske Bank*, *National Australia Bank*, *UniCredit* and *Westpac*.

The bank group is unchanged from the previous deal.

Pricing is tied to a ratings-based grid. It opens at 102.5bp over Libor with a 10bp facility fee. The agreement includes two one-year extension options.

Omnicom is rated Baa1/BBB+.

The previous revolving credit line had the same all-in pricing, with a 100bp margin and a 12.5bp facility fee.

AMERICAS LOANS BOOKRUNNERS – FULLY

SYNDICATED VOLUME

BOOKRUNNERS: 1/1/2020 TO DATE

Managing bank or group	No of issues	Total US\$(m)	Share (%)
1 BofA	90	24,882.66	11.4
2 JP Morgan	77	23,681.00	10.9
3 Citigroup	53	21,425.26	9.9
4 Wells Fargo	65	19,198.12	8.8
5 Credit Suisse	36	15,028.81	6.9
6 Goldman Sachs	46	11,460.42	5.3
7 Morgan Stanley	28	9,554.55	4.4
8 RBC	38	8,927.64	4.1
9 Barclays	39	6,601.09	3.0
10 Deutsche Bank	31	5,778.51	2.7
Total	252	217,463.24	

Proportional credit
Source: Refinitiv

SDC code: R7

Suzano considering green-linked bank debt

■ BRAZIL Paper company has also signed a US\$850m PXF

Brazilian pulp and paper exporter **SUZANO PAPEL E CELULOSE** has started discussions with its relationship banks over potential green or sustainability-linked loans, a move that comes as the company looks to reduce its carbon footprint and drive the development of new products from renewable sources.

Suzano, which has already issued green bonds in the capital markets, is one of Latin America's largest producers of printing and packaging paper, and the company is under pressure from stakeholders and lenders to introduce more sustainable measures in an industry not typically known for environmentally friendly business practices.

"We have several relationship banks that are worried about sustainability in our portfolio," Marcelo Bacci, Suzano's chief financial officer, said in an interview with IFR on Wednesday. "We want to turn (sustainability) into a point of differentiation for us. This can be in the way of using a structure similar for a green bond into a green loan. This is under discussion and may be used in the future."

Suzano has prioritised the research and development of renewable-based products that could replace fossil-based materials in sectors the company is active in, such as textiles, construction and fuels. Green or environmental, social and governance financing instruments, which must align with sustainability-linked loan or green bond principles, is one way the company can fund these investments, said Bacci.

"We may come up with loans linked to sustainability in some way. The more the bar is raised (by lending banks asking Suzano for

more sustainable practices) this is better for us because we have conditions to do more than what they request," Bacci said in the interview on the sidelines of Suzano's investor day at the New York Stock Exchange.

Interest in green loans has gathered momentum among corporate borrowers looking to not only diversify their lender base, but also enhance their reputation with investors and consumers that place a higher priority on sustainability. But unlike Europe, where ESG financing has a longer track record, green loans have been slow to take off in the Americas as companies are yet to gain a deeper understanding of the debt instruments.

ROADBLOCK

ESG-linked bank loans remain rare throughout Latin America's corporate borrowing base, with only a handful coming to the US dollar market in the last two years.

In April 2018, Spanish utility **IBERDROLA** raised a US\$400m loan for its Mexican subsidiary, and in November of that year Peruvian conglomerate **FERREYCORP** signed a US\$70m loan with BBVA. Last July Mexican real estate investor **FIBRA UNO** signed a US\$1.1bn five-year loan linked to sustainable practices, while Argentine wind farm operator **PARQUE EOLICO** closed a US\$475m three-year green loan with five banks in the same month. In September, Chilean paper company **EMPRESAS CMPC** closed a US\$100m five-year green loan in Japan.

Hurdles stifling the growth of ESG-linked finance in Latin America include the extra documentation costs involved in obtaining

certification and the lengthy education process that lenders must undertake to inform the region's companies of new financing instruments, banking sources said.

Given that ESG-linked loans are still in their infancy in Latin America, bankers are likely to rely on well-known corporations such as Suzano to advance a green agenda. Companies with greater cashflow can easily cover the costs of raising ESG-linked money and, as a frequent bond issuer, Suzano will be scrutinised by lenders over its compliance with ESG guidelines, the sources said. (see Emerging Markets)

Earlier this month, Suzano signed an US\$850m loan that will be linked to export contracts.

The six-year pre-export financing will pay 115bp over Libor and refinance Suzano's current PXF facility.

Credit Agricole committed a US\$150m ticket to the facility, while *Export Development Canada*, *Goldman Sachs*, *MUFG*, *Morgan Stanley*, *Rabobank* and *SMBC* came in with US\$75m each.

BNP Paribas, *Bank of America* and *Mizuho* lent US\$60m each to the facility, while *KfW* provided a US\$50m commitment and *Scotiabank* rounded out the banking group with US\$20m.

Suzano wrapped up a merger with fellow Brazilian pulp and paper company **FIBRIA CELULOSE** in January last year to become one of the world's largest paper producers. A group of banks led by *BNP Paribas*, *JP Morgan*, *Mizuho* and *Rabobank* underwrote US\$9.2bn in acquisition financing in March 2018.

Aaron Weinman

LATIN AMERICA

CHILE

■ MINERA CENTINELA NETS US\$500m

Mining company **MINERA CENTINELA** has signed a US\$500m five-year loan, arranged by *BNP Paribas*, *Export Development Canada*, *KfW*, *Scotiabank* and *SMBC*. Pricing opens at 95bp over Libor.

Proceed will be used for general corporate purposes.

Minera Centinela is a part of Antofagasta Minerals, the largest private mining company in Chile, and produces copper concentrate and cathodes.

LEVERAGED LOANS

UNITED STATES

■ BAUSCH HEALTH EYES REFI

Pharmaceuticals company **BAUSCH HEALTH** has launched a US\$5.144bn term loan B that will be used to refinance debt.

The seven-year TLB is being offered at 225bp over Libor with a 0% floor, 99.5-99.75 OID and 101 soft-call protection for six months.

Barclays and *Citigroup* are arranging the deal. The TLB will refinance Bausch's TLBs maturing in June 2025 and November 2025.

Proceeds will also redeem the company's senior secured bonds maturing in 2022 and 2024.

Corporate ratings are B2/B+, first-lien secured debt is rated Ba2/BB and unsecured debt is rated B3/B.

Bausch, formerly known as Valeant, raised seven-year debt in November and May of 2018.

Corporate financial adviser **DUFF & PHELPS** has scheduled a bank meeting in New York on Tuesday to discuss a financing package to back its acquisition by a global investor consortium led by Stone Point Capital and Further Global Capital Management.

Equity sellers include Permira, which will continue to hold a significant stake in the company as part of the consortium.

The US\$2.2bn financing package comprises a US\$200m revolving credit facility, a US\$1.55bn dollar-equivalent term loan B facility, including a €300m tranche, and US\$450m in other unsecured debt.

Goldman Sachs is the left lead. *UBS*, *Bank of America*, *Morgan Stanley*, *Stone Point Capital*

Markets, KKR Capital Markets, CapitalOne and Credit Suisse are also leading the transaction.

In January, the company announced the US\$4.2bn acquisition by the consortium, which is expected to close in the second quarter of 2020.

Alternative asset management firm **GROSVENOR CAPITAL MANAGEMENT** has launched a repricing of a US\$344m term loan B.

Goldman Sachs is the sole lead.

The term loan B was priced at 275bp over Libor, with a 1% floor and a 99.75 OID in March 2018.

› SUNDYNE SEEKS US\$635m

Industrial products manufacturer **SUNDYNE** has set terms for a US\$635m debt package that will support the company's buyout by private equity firm Warburg Pincus.

The financing comprises a seven-year US\$535m first-lien term loan B and a US\$100m five-year revolving credit facility.

The TLB is being offered at 375bp over Libor with a 0% floor, 99.5 OID and 101 soft-call protection for six months.

Pricing will step down by 25bp once the net first-lien leverage ratio is at 5.0 times or less. A further step-down will be applied on the completion of an IPO.

Debt to Ebitda is expected to be 6.0 times after the transaction and decrease to roughly 5.5 times by the end of this year, Moody's said.

Corporate and first-lien ratings are B2/B.

Morgan Stanley, BMO Capital Markets, Citigroup, Deutsche Bank and Credit Suisse are arranging the transaction.

Sundyne manufactures industrial pump and compressor products for the gas and fluid industries.

Sales and marketing firm **ADVANTAGE SOLUTIONS** has set terms for a US\$1.825bn dual-currency term loan B financing that will be used to address upcoming debt maturities.

US LEVERAGED LOANS

BOOKRUNNERS: 1/1/2020 TO DATE

Managing bank or group	No of issues	Total US\$(m)	Share (%)
1 BofA	65	12,541.77	9.5
2 Citigroup	37	12,310.41	9.3
3 JP Morgan	44	11,417.43	8.7
4 Credit Suisse	29	10,748.14	8.1
5 Goldman Sachs	43	10,044.23	7.6
6 Wells Fargo	35	8,995.38	6.8
7 RBC	26	6,454.10	4.9
8 Barclays	30	5,984.65	4.5
9 Deutsche Bank	28	5,504.94	4.2
10 Morgan Stanley	22	4,739.64	3.6
Total	151	131,970.71	

Excluding Project Finance.

Source: Refinitiv

SDC code: P2

The debt comprises a US\$1.525bn first-lien TLB and a US\$300m-equivalent first-lien loan in euros.

The six-year debt is being offered at 475bp over Libor/Euribor with a 99 original issue discount and 101 soft call protection for six months.

Bank of America is leading the deal.

Audio-visual technology provider **AVI-SPL** has outlined terms of its US\$370m first-lien term loan B.

The seven-year TLB is being offered at 475bp over Libor with a 1% floor, 99 OID and 101 soft-call protection for six months.

Bank of America, Barclays, Guggenheim, KKR and Macquarie are arranging the transaction.

Proceeds will cover fees related to the transaction and repay debt owed by Marlin Equity Partners' audio-visual firm Whitlock, which is in the process of merging with AVI-SPL.

The merger is expected to close in the first quarter.

› TOSCA SHOPS FOR POLYMER DEAL

Packaging company **TOSCA SERVICES** has launched a US\$325m loan that will support its purchase of Polymer Logistics.

The seven-year TLB is being offered at 450bp-475bp over Libor with a 0% floor, a 99 OID and 101 soft-call protection for six months.

The loan comprises US\$250m in funded debt and a US\$75m delayed-draw term loan.

Credit Suisse, UBS, KKR, Rabobank and Goldman Sachs are leading the transaction.

Corporate and first-lien ratings are B2/B.

Tosca acquired Polymer Logistics from a consortium of private investors.

In addition to the debt, Tosca's private equity sponsor Apax Partners will provide a US\$188m equity contribution to support the acquisition.

Tosca's debt to Ebitda is expected to be around 4.0 times by the end of 2020, when accounting for a draw on the DDTL, S&P said.

VEEAM SOFTWARE is in the market with a US\$1.25bn term loan B that will support the buyout of the company by Insight Partners.

The seven-year TLB is being shopped at 325bp over Libor with a 0% floor, 99.75 OID and 101 soft-call protection for six months.

JP Morgan leads the deal.

Corporate ratings are B2/B-.

Pro forma debt to Ebitda on closing of the transaction will be roughly 10.0 times, including certain one-off costs, but this is expected to decrease to approximately 6.6 times on a cash Ebitda basis, Moody's said.

Power generator **INVENERGY** launched a transaction to reprice its US\$390m term loan B.

The debt is being offered at 275bp-300bp over Libor with a 0% floor, no OID and 101 soft-call protection for six months.

Invenergy's loan currently pays 350bp over Libor with a 0% floor.

The loan matures in August 2025.

Credit Suisse and Goldman Sachs are arranging the transaction.

In June 2018, Invenergy raised a US\$350m first-lien seven-year TLB at 350bp over Libor.

Corporate and first-lien ratings are Ba2/BB.

Invenergy has a 2.68GW portfolio of seven operating gas-fired power plants.

› KISSNER MARKETS ACQUISITION DEAL

Salt supplier **KISSNER GROUP** has launched US\$1.225bn in debt that will support its acquisition by Stone Canyon Industry Holdings.

The financing comprises a US\$900m seven-year first-lien term loan B, a US\$200m second-lien term loan and a US\$125m five-year revolving credit facility.

The TLB is being offered at 450bp over Libor with a 0% floor, 99-99.5 OID and 101 soft-call protection for six months.

The margin also includes two 25bp step-downs once the first-lien net leverage ratio is 0.5 times and 1.0 times inside of where the leverage ratio is when the transaction closes.

Morgan Stanley, Goldman Sachs, BMO Capital Markets, KKR and Citizens Bank are arranging the deal.

Corporate and first-lien ratings are B3/B.

Healthcare services company **VIZIENT** is repricing its existing US\$496m term loan B.

The debt is being offered at 200bp over Libor with a 0% floor, an OID between 99.75 and par and 101 soft-call protection for six months.

Barclays, Bank of America, Goldman Sachs and JP Morgan are arranging the deal.

Existing corporate ratings are Ba3/BB-, secured ratings are Ba2/BB- and unsecured ratings are B2/B.

The TLB matures in May 2026.

In April 2019, Vizient raised a US\$500m seven-year TLB at 275bp over Libor with a 0% floor.

Proceeds refinanced the company's debt.

TECOMET, a privately held contract manufacturer of medical devices and surgical instruments, detailed the discount on its US\$135m incremental first-lien loan for syndication.

The OID on the add-on loan is 99.5.

The US\$135m add-on loan is fungible with the company's existing senior credit facilities priced at 350bp over Libor and due May 2024.

Proceeds of the loan will be used to fund a shareholder distribution.

Jefferies, Antares and KKR Capital Markets are arrangers of the loan.

Auto-cures casts shadow over private debt market

■ US MIDDLE MARKET Feature buys borrowers time to assess lender reaction in default situation

A provision that loosens restrictions on a private equity-owned company's ability to remedy an event of default is raising concerns among many in the private debt market.

Known as an auto-cure, the feature has started appearing in some of the large unitranche loans. It is an addition to documentation highlighting the continued weakening of lenders' protections.

Auto-cures allow private equity sponsors to put more capital into a company in the event of a default outside the traditional default cure period. The feature buys borrowers time to assess the reaction of a lender in a default situation, whether they pursue a foreclosure or amendment, and then make the cure, effectively pushing the default further down the road.

"It's popping up in some of the big unitranches. It's problematic and it's something we hope that does not become a trend," said Ian Walker, an analyst at credit research firm Covenant Review.

Such a provision was included in the US\$1.6bn unitranche financing of **MRI SOFTWARE** led by Golub Capital in February, according to two people familiar with the deal.

GREEN SHOOTS

The use of auto-cures is raising alarms among lenders and market analysts that say it further erodes lenders' protections at what could be the end of the economic cycle.

"When the credit is troubled, that is when lenders' antennas should be up. This is the very thing you're trying to protect against as a lender and that leverage is being taken away," Walker said.

It is, however, a "relatively new term," according to Stephen Gruberg, a partner at law firm Proskauer.

"Still seldom seen in the direct lending market" the feature remains "the exception not the norm", he said.

In the direct lending market, where covenant-lite loans are unusual, questions remain about how such a provision would be used when the borrower trips a financial covenant. The feature applies to situations specifically outside the customary allotted time for borrowers to cure such breaches – usually 10 to 15 business days.

"Private equity borrowers could argue that meeting the required leverage level at any time following a breach in the financial covenant would cure the event of default, but lenders could argue that an event of default could never be cured because the financial covenant is

tested as of a specific date, not some date in the future," Gruberg said.

The increased focus on the new clause may be a sign of borrowers' fear that debt investors are taking creative approaches to collect remedies from companies facing difficult situations. The legal battle over a financing package for homebuilder **HOVNANIAN** that required it to skip an interest payment resulting in a payout to CDS buyers is a template for sponsors' fears about borrower's actions. That lawsuit was settled in 2018.

Net-short provisions, for instance, have been tightened in recent months in the leveraged finance market in reaction to this, as well as limiting the time for making a claim after a borrower enters a default.

"The headline to me is that we have been through a decade-long bull run in the leverage finance market. As a result, there has been a relentless march of sponsor and borrower-friendly terms that have afforded borrowers ever greater flexibility and weakened traditional creditor protections," said Jason Kyrwood, a partner at law firm Davis Polk.

"Now, partly in response to recent debt activism, some borrowers are pushing to impose limits on traditional creditor remedies," he said. **David Brooke**

■ ZAYO UPS BUYOUT LOAN

Communications infrastructure provider **ZAYO GROUP** has upsized its buyout loan by US\$500m to US\$5.56bn-equivalent and tightened pricing.

The firm has increased the dollar-denominated tranche to US\$4.75bn from US\$4.235bn, while the euro-denominated tranche has been slightly reduced to US\$810m-equivalent from US\$825m.

Pricing on the dollar tranche has been tightened to 300bp over Libor from 325bp, and the euro tranche is now at 325bp over Euribor from guidance of 325bp–350bp.

Both tranches have seven-year tenors with a 0% floor and 101 soft call protection for six months.

On the dollar tranche, the OID has also been tightened to 99.75, while the euro tranche was issued at par. Both tranches were guided at 99.5 at launch.

Credit Suisse, Morgan Stanley, Citigroup, Deutsche Bank, SunTrust and TD Bank were arrangers on the deal. BNP Paribas, Citizens Bank, CoBank, Fifth Third Bank, ING, MUFG,

Natixis, Nomura and Scotiabank were co-managers.

Corporate ratings are B2/B and the first-lien debt is rated B1/B.

Proceeds will support the company's buyout by investment firms Digital Colony Partners and EQT.

In May last year, Digital Colony and EQT received commitments from the banks for debt financing to back its US\$8.2bn cash purchase of Zayo.

The acquisition is valued at more than US\$14bn when accounting for Zayo's US\$5.9bn in debt.

Utility and telecommunications infrastructure provider **SABRE INDUSTRIES** has wrapped a US\$411m Term Loan B.

A US\$30m portion from the Term Loan B, which was initially sized at US\$443m, is expected to be used for debt repayment.

The loan, which matures April 2026, was priced in line with guidance at 350bp over Libor, at par with 0% floor.

There will also be a 25bp margin step-down, at 2.8 times total net leverage.

The loan will be reset at 101 soft call for six months.

Goldman Sachs led the transaction.

The company and tranche are rated B2/B.

Entertainment services provider **CAST & CREW** has increased its fungible add-on Term Loan B to US\$175m from US\$125m, and repriced an existing facility.

Pricing on the existing US\$759m TLB was tightened to 375bp over Libor with a 0% floor, from original guidance of 400bp. For existing and new money lenders the repriced debt was issued at par.

The add-on loan was priced in line with guidance at 375bp over Libor with a 0% floor. It was issued at par from an OID of 99.75 at launch. There is a 25bp margin step-down to 350bp over Libor when first-lien net leverage hits 4.75 times.

Both the add-on and existing facility will mature in February 2026.

Both tranches amortise at 1% per year and 101 soft call for six months was reset.

Goldman Sachs (left lead) and *RBC Capital Markets* coordinated the financing.

Corporate ratings are B3/B and the first-lien loan is rated B2/B+.

Proceeds from the fungible add-on will support Cast & Crew's acquisition of Media Services, a payroll and production management company for the film and television industries.

» TIBCO FINALISES DEAL

Business software maker **TIBCO SOFTWARE** has finalised a US\$2.83bn transaction that will refinance and reprice existing facilities.

The transaction involves the repricing of TIBCO's existing US\$1.82bn term loan B, a US\$360m fungible add-on to the same TLB and a US\$650m second-lien term loan.

JP Morgan led the deal.

The first-lien TLB was priced at 375bp over Libor with a 0% floor and 101 soft-call protection for six months.

The repriced debt came with no OID, while the add-on was issued at a 99.75 OID.

The eight-year second-lien loan was priced at 725bp over Libor with a 0% floor, 99.5 OID and 102, 101 hard-call protection.

Proceeds from the US\$360m add-on and the new second-lien loan will redeem US\$950m in senior notes and pay fees and expenses related to the transaction, Moody's said.

Corporate ratings are B3/B, the first-lien TLB is rated B2/B and the second-lien loan is rated Caa2/B-.

The transaction will leave TIBCO's debt to Ebitda slightly above 8.0 times, but will save the company more than US\$25m in annual interest savings, Moody's said.

In June 2019, TIBCO raised the US\$1.82bn seven-year, first-lien TLB at 400bp over Libor with a 0% floor.

Broadband provider **VAST** has priced a two-part US\$268m transaction that will repay debt and fund cash to the company's balance sheet.

The transaction comprises a US\$30m fungible add-on and a concurrent repricing of the existing US\$238m term loan B.

The debt priced at 425bp over Libor with a 0% floor and 101 soft-call protection for six months.

The add-on loan was issued with a 99.75 OID, while the repriced debt came with no OID.

SunTrust arranged the transaction, which matures in 2026.

Corporate ratings are B3/B.

In June 2019, Vast Broadband raised a US\$238m TLB, a US\$75m second-lien term loan and a US\$75m revolving credit facility.

Vast Broadband's owner at the time, Pamlico Capital, agreed to sell 50% of the company to Oak Hill Capital Partners.

The co-owners both contributed new common stock to fund the transaction alongside the debt financing.

Proceeds at the time also helped fund the acquisition of a Texas-based communications provider NTS Communications.

Insurance broker **HUB INTERNATIONAL** has privately placed a US\$150m incremental term loan that will be used for future acquisitions.

The fungible, incremental transaction is priced at 300bp over Libor with a 0% floor.

Proceeds from the *Morgan Stanley*-led deal will also go towards general corporate purposes.

Corporate ratings are B3/B and the debt is rated B2/B.

In April 2018, Hub raised a US\$2.68bn seven-year TLB at 300bp over Libor with a 0% floor.

» THOUGHTWORKS SEALS REPRICING

Global software developer and consultant **THOUGHTWORKS** finalised the terms of a US\$450m transaction that will reprice its existing term loan B.

The TLB priced at 375bp over Libor with a 1% floor, no OID and 101 soft-call protection for six months.

The *Credit Suisse*-led loan matures in October 2024.

Corporate and first-lien ratings are B2/B.

In May 2019, ThoughtWorks priced a US\$185m incremental term loan at 400bp over Libor with a 1% floor.

ThoughtWorks is a portfolio company of private equity firm Apax Partners.

International healthcare education provider **MEDFORTH** set final pricing terms for a US\$788m first-lien term loan B repricing.

The loan, which matures in July 2025, was priced at 325bp over Libor, at par, with a 0% floor.

Soft-call protection of 101 was reset for six months.

Goldman Sachs was left lead. *Credit Suisse*, *Deutsche Bank*, *Morgan Stanley*, *Macquarie* and *HSBC* were also leading the transaction.

Medforth is a portfolio company of Carlyle Group.

EUROPE/MIDDLE EAST/AFRICA

» MICRO FOCUS MARKETS REFI

UK software company **MICRO FOCUS INTERNATIONAL** has launched a US\$1.435bn-equivalent senior secured term loan B refinancing and extension of its US\$500m revolving credit facility.

The seven-year TLB, arranged by *JP Morgan*, will comprise a minimum US\$500m tranche and a minimum €500m tranche. The final split will be cleared in the later stage of syndication. The RCF will be extended to June 2024 from September 2022.

The dollar tranche is guided at 375bp-400bp over Libor and at 99 OID, while the

euro tranche is offered at 325bp-350bp over Euribor and at 99.5 OID.

Both tranches include a 0% floor and 101 soft-call protection for six months. Amortisation is at 1% per year.

Proceeds will be used to refinance its senior secured TLB due November 2021 and pay fees and expenses in connection with the transaction.

Current corporate and facility ratings are B1/BB-/BB-.

The original US\$5.5bn financing was agreed in 2017 to back its acquisition of Hewlett Packard Enterprises' software business.

» INOVYN SEEKS REFI, ADD-ON

Chemicals and plastics company **INOVYN** is in the market with a €1.064bn term loan that will refinance debt and fund expenditure at parent level.

The term loan B, which includes a €250m fungible add-on, will refinance a €823m TLB that it repriced in November 2018 at 200bp over Euribor.

The loan is guided at 200bp over Euribor, the same as existing loan, with a 0.5% floor and at OID of 99.75-par.

Apart from raising additional debt, the firm is extending the maturity of the loan to February 2027 from November 2025. It is also seeking covenant amendments.

The TLB includes 101 soft call for six months.

Existing ratings are B13/BB-.

Bank of America and *JP Morgan* are global coordinators and physical bookrunners. *JP Morgan* is admin agent.

Inovyn is owned by chemical company Ineos.

» POLYNT-REICHOLD MARKETS REFI

Chemicals group **POLYNT-REICHOLD** is raising a €475m term loan to refinance debt.

The seven-year loan is guided at 425bp over Euribor, with a 0% floor and at 99-99.5 OID.

The loan will have 101 soft call for six months.

Apart from the euro TLB, the firm also has a pre-placed US\$60m term loan B.

JP Morgan is physical bookrunner and admin agent, and global coordinator and bookrunner alongside *Goldman Sachs* and *UniCredit*.

Bookrunners are *Bank of America*, *Credit Suisse*, *Intesa Sanpaolo*, *Morgan Stanley* and *Natixis*.

Proceeds will be used to refinance debt, pay closing date dividend and pay fees and expenses incurred with the transaction.

In May 2016, Investindustrial-owned Polynt and Black Diamond Capital-backed Reichhold agreed to combine their

businesses to form a global chemicals company focused on coating and composite resins with more than €2bn in revenues.

The firms tapped the market with a €625m unitranche loan backing the merger. Around €300m-€400m was contributed from GSO Capital Partners' senior debt fund and the rest came from limited partners and co-investors, a person close to the deal said.

Investindustrial and Black Diamond Capital are equal investors in the company.

BOELS SCHEDULES MEETING

Dutch equipment rental firm **BOELS** has scheduled a lender meeting for a €1.81bn financing that will back its €614m acquisition of Finland's Cramo.

The financing comprises a €1.61bn term loan B and a €200m revolving credit facility that will be used to fund the acquisition, refinance all of Boels' and Cramo's debt and pay transaction costs.

Pricing will emerge after the lender meeting on Tuesday.

The TLB, due February 2027, includes soft-call protection for six months, while the RCF will mature in August 2026.

Both TLB and RCF will have a maintenance leverage covenant.

Expected corporate and issue ratings are BB-/BB-/B1 with a stable outlook.

Credit Suisse, *ING*, *ABN AMRO*, *Rabobank* and *BNP Paribas* are physical bookrunners on the financing.

The combined company will have annual revenues of around €1.25bn, according to bank syndicate adviser White & Case.

STAGE ENTS WRAPS REPRICING

Dutch music theatre producer **STAGE ENTERTAINMENT** has completed the repricing of its €335m term loan B.

The covenant-lite loan priced at 325bp over Euribor, cut from 362.5bp, with a 0%

floor and at par. The OID was guided at 99.875.

The loan has also been extended by six months to May 2026.

The firm offered 12.5bp as a repricing fee and the loan includes a soft call reset for six months.

Goldman Sachs is physical bookrunner, alongside *ABN AMRO* and *ING*, which is also agent.

The firm last tapped the loan market in November 2018 when it repriced the €335m TLB at 362.5bp over Euribor from 400bp.

CVC bought a 60% stake in Stage Entertainment in 2015 from Dutch media tycoon Joop van den Ende, who retained a minority stake. Van den Ende co-founded Endemol in 1993 and then transferred all of its live entertainment activities to Stage Entertainment.

In August 2018, New York-based media, communications and technology group Advance Publications agreed to buy 100% stake in Stage Entertainment from CVC and van den Ende.

SCENIC UPS REFI TO €350m

Luxury travel firm **SCENIC** has increased its loan refinancing to €350m from €315m.

The seven-year covenant-lite term loan B priced in line with guidance at 375bp over Euribor with a 0% floor. The loan was issued at a 99.75 OID having launched at 99.5-99.75.

The deal includes 101 soft call for 12 months.

Credit Suisse was physical bookrunner, alongside *HSBC* and *JP Morgan* as passive bookrunners.

Proceeds will refinance the company's TLB and pre-fund further cruise vessel investments.

Scenic last tapped the loan market in September when it raised a €27.68m add-on that was fungible to €210m term loan it raised in June 2018.

EMEA SPONSORED LOAN BOOKRUNNERS

BY VOLUME: 1/1/2020 TO DATE

Europe, Middle East, Africa

Managing bank or group	No of issues	Total US\$(m)	Share (%)
1 BofA	2	283.42	9.7
2 Barclays	2	283.42	9.7
3 Credit Suisse	2	283.42	9.7
4 Goldman Sachs	2	283.42	9.7
5 HSBC	2	283.42	9.7
6 Sumitomo Mitsui	1	216.61	7.4
7 Citigroup	1	216.61	7.4
8 UBS	1	216.61	7.4
9 RBC	1	216.61	7.4
10 Wells Fargo	1	216.61	7.4
Total	2	2,933.38	

Excluding project finance.

Source: Refinitiv

SDC code: P13

The add-on, due July 2024, priced at 475bp over Euribor with a 0% floor and at par.

Scenic operates river cruises, land tours and ocean cruises.

SWISSPORT BAGS REPRICING, ADD-ON

Swiss airport cargo handling company **SWISSPORT** has allocated a €50m add-on and a €850m term loan B repricing.

The TLB repricing and add-on, arranged by *Barclays*, priced at 450bp over Euribor, the wide end of 425bp-450bp guidance, with a 0% floor and at par.

The add-on is for general corporate purposes and to pay related transaction fees and expenses.

Corporate ratings are B3/B-, while issue ratings are B2/B-.

Swissport refinanced the €850m TLB in September at 475bp Euribor, with a 0% floor and at a 99 OID.

In March 2018, it raised a €325m term loan. It was incremental to a €460m term loan B raised in July 2017 to refinance debt following a technical breach of covenants.

Swissport initially raised a €660m term loan B backing its SFr2.7bn (US\$2.75bn) acquisition by HNA Group in 2015 from PAI Partners.

SALT CUTS SIZE, MARGIN

Swiss telecoms operator **SALT** has reduced the size of its Term Loan B repricing and tightened pricing.

The covenant-lite TLB, due September 2026, now totals €400m, cut from €500m at launch. The company is raising €100m of privately placed 2026 secured notes to partially repay the existing TLB.

The loan was priced at 287.5bp over Euribor, down from 300bp at launch, with a 0% floor. It was issued at par, tightened from a 99.875 OID, and 101 soft call for six months will be reset.

Corporate ratings remain unchanged at B2/B+.

Goldman Sachs and *BNP Paribas* were bookrunners, Lucid is agent.

In September 2019, the firm raised a €500m Term Loan B that was priced at 350bp over Euribor and used for refinancing and general corporate purposes. Apart from the TLB, Salt also raised €825m through secured bonds and a five-year revolving facility of up to SFr75m as part of the refinancing plan.

Salt is the third largest mobile network operator in Switzerland.

GERFLOR RAISES €850m TLB

French flooring and interior finish company **GERFLOR** has backed its acquisition by

EUROPEAN LEVERAGED LOANS

BOOKRUNNERS: 1/1/2020 TO DATE

Managing bank or group	No of issues	Total US\$(m)	Share (%)
1 Deutsche Bank	4	773.12	11.4
2 Goldman Sachs	3	668.12	9.9
3 Santander	3	591.90	8.7
4 JP Morgan	3	573.70	8.5
5 BofA	3	518.23	7.6
6 Barclays	3	375.81	5.5
7 HSBC	2	283.42	4.2
8 Credit Suisse	2	283.42	4.2
9 MUFG	1	273.42	4.0
10 BBVA	1	234.81	3.5
Total	9	6,779.64	

Excluding project finance. Western Europe only included.

Source: Refinitiv

SDC code: P10

investment firm Cobepa with an €850m senior secured term loan B, according to Moody's, which assigned B2 rating to the loan.

Apart from the seven-year TLB, there is also a €125m 6.5-year revolving credit facility.

Cobepa agreed to buy a majority stake in Gerflor last month. After the transaction, it will control the firm alongside Intermediate Capital Group, the previous majority shareholder, and management. ICG bought Gerflor in 2011 from AXA Private Equity.

The sale, subject to regulatory approval, is expected to close this month.

Moody's adjusted opening leverage is 6.5 times in December 2019 pro forma for the transaction and the full-year effect of acquisitions, but before any future synergies and expected cost savings. The ratings agency expects leverage to fall to below 6 times in the next 18 months.

ESMALGLASS EXTENDS

Spanish ceramic products maker **ESMALGLASS** has extended the maturity on its existing €375m Term Loan B to February 2027 from September 2024.

The TLB3 was priced at 450bp over Euribor, the same as the existing TLB1 and the €300m acquisition TLB2 it raised earlier this month.

The loan was issued with a 99.75 OID, the tighter end of 99.5–99.75 guidance, with a 0% floor.

Lenders received a 25bp extension fee.

Credit Suisse, Deutsche Bank, UBS and Banca IMI were bookrunners. Credit Suisse is agent.

In early February, the firm allocated a €300m TLB at 450bp over Euribor and at 99.25 OID to back an acquisition.

Esmalglass tapped the loan market in September 2017 when it raised a seven-year €375m Term Loan B at 450bp over Euribor to back its €605m buyout by private equity firm Lone Star.

DIEBOLD NIXDORF SEEKS AMENDMENT

ATM machine maker **DIEBOLD NIXDORF** is seeking an amendment to its existing senior secured credit facilities.

The amendment permits new forms of secured and unsecured debt to refinance credit facilities at some time in the future.

Currently, permitted refinancing facilities are limited to its RCF and pari passu term loans.

The amendment requires a 51% vote across its existing senior secured credit facilities - a US\$69m revolving credit facility maturing in December 2020, a US\$344m RCF maturing in April 2020, a US\$370m term loan A maturing in April 2022, a US\$619m TLA1 due August 2022, a US\$409m term loan B due November 2023, and a US\$400m-equivalent euro-denominated TLB due November 2023.

Lenders of those credit facilities were offered a consent fee of 12.5bp.

JP Morgan, as lead arranger and administrative agent, is supportive of the amendment.

The proposed amendment will also amend the definition of permitted indebtedness to allow the company to refinance certain unsecured debt with secured debt, subject to a secured total leverage ratio at or less than 3 times.

Amendment consents were due by February 21.

The firm last tapped the loan market in August 2018 for a US\$650m four-year senior secured institutional term loan. It also amended its existing loans in a bid to improve the company's liquidity.

ASIA-PACIFIC

GENESIS CARE SEEKS US\$1bn TL

The US\$1.002bn-equivalent first-lien term loan B backing Australia-based cancer and cardiac service provider **GENESIS CARE's**

acquisition of US-based 21st Century Oncology is in the market.

The seven-year covenant-lite incremental term loan B comprises euro, US dollar and Australian dollar-denominated tranches, with a minimum US dollar tranche size of US\$350m and an A\$150m (US\$100m) carve-out.

The euro loan is guided at 425bp-450bp over Euribor with a 99.5 OID, while the US dollar loan is guided at 475bp-500bp over Libor with a 99 OID.

Commitments are due by March 4.

The Australian dollar tranche has also launched into general syndication.

A bank presentation was held in Sydney earlier this month with commitments due by the end of February.

KKR and Morgan Stanley are global coordinators and active bookrunners. *Jefferies* is global coordinator, while *Bank of America* and *HSBC* are joint bookrunners.

In December, Genesis Care said it would acquire 21st Century Oncology, which provides cancer care treatment in the US.

The deal, valued at about US\$1.1bn, will see Genesis Care becoming one of the largest providers of high quality radiotherapy and cancer care services worldwide.

The same month, S&P placed the B+ rating of Genesis Care on credit watch with negative implications ahead of the acquisition.

S&P said the proposed acquisition could increase Genesis Care's forecast leverage significantly if the transaction were to be largely debt-funded.

Genesis Care will invest US\$300m additionally in the US over the next three years after the proposed acquisition, which is expected to be completed by mid-2020 subject to regulatory approvals.

China Resources owns 41% of Genesis Care, while KKR Core Fund owns 21%. Genesis Care's management team and doctors own 38% combined.

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AIRTRUNK LAUNCHES TLB

Data centre company **AIRTRUNK** is seeking a multi-currency term loan B of around A\$1.60bn-equivalent after undergoing a change in its majority shareholder.

Deutsche Bank is the underwriter and arranger of the five-year financing, which is split into tranches of around A\$1.30bn, S\$250m (US\$179m) and HK\$180m (US\$23m).

The borrowing has an average life of 4.75 years and pays an interest margin of 375bp over BBSY/SOR/Hibor.

The loan is targeted mainly at institutional investors in the US and Australia.

Proceeds are for refinancing, working capital and capital expenditure.

Last month, Macquarie Infrastructure and Real Assets signed a deal to acquire a stake of more than 90% in AirTrunk, valuing the company around A\$3bn, according to sources and media reports.

MIRA acquired the stake from Goldman Sachs and TPG Sixth Street Partners.

Airtrunk founder and CEO Robin Khuda will retain a minority stake.

In April 2019, the company completed a S\$450m financing to begin expansion across Asia Pacific with the development of a 60+MW hyperscale data centre in Singapore, according to its announcement.

Deutsche, Goldman and Natixis arranged a S\$246.7m loan that formed part of the financing, while the remainder was through equity capital from Khuda and then shareholders Goldman and TPG SSP.

The debt comprises a S\$123m five-year first-lien loan with an interest margin of 275bp over SOR and a S\$123.7m 5.5-year second-lien facility with a margin of 800bp over SOR and secured over the company's Singapore data centres, sources said.

In August 2018, the company completed a A\$850m senior secured loan for the expansion of data centres in Sydney and Melbourne. Deutsche was the underwriter.

The company opened Australia's first hyperscale data centres, and facilities in Singapore, Hong Kong and Sydney are under development, according to its website.

RESTRUCTURING

EUROPE/MIDDLE EAST/AFRICA

DONCASTERS GETS GREEN LIGHT

UK engineering group **DONCASTERS** has been given the go-ahead for its debt restructuring after an English court sanctioned a scheme of arrangement on Friday.

The scheme, which is being used to implement the debt restructuring, received 100% approval from first and second-lien lenders after a lock-up agreement was signed in November.

Under the terms of the debt-for-equity deal, the company will pass into the hands of its lenders in return for £900m of liabilities being written off, including 50% of its first-lien debt and 80% of its second-lien debt. This will leave around £240m of net debt on Doncasters' balance sheet post-restructuring.

It also includes the provision of a £65.2m-plus working capital facility to provide liquidity for the company.

The financial restructuring is due to be completed during the first week of March.

Doncasters said its day-to-day operations will continue without interruption and with

no foreseen adverse impact on employees, customers and suppliers.

A group of funds, including CVC, Carlyle, Brigade, Barings and CSAM, which bought into the company's US\$615m first-lien loan in Europe's secondary loan market, formed an ad hoc group early last year and hired financial restructuring advisers PJT Partners and legal advisers Latham & Watkins.

As well as the first-lien loan that matures in March, there is a US\$290m second-lien loan maturing in September and a US\$153m ABL facility from banks, including Bank of America, Credit Suisse, Royal Bank of Scotland and Wells Fargo that matured last month.

As part of its turnaround plan, the company appointed Deloitte to help it sell a number of assets to pay down the debt.

These disposals have included its Doncasters USA Fabrications, Doncasters SETTAS, Belgium, its UK Fabrications division in Sheffield and Shrewsbury, Doncasters Blaenavon, Pontypool and Doncasters Precision Castings, Sheffield.

Last month it sold its Centrifugal Castings Division, comprising Firth Vickers Centrispinning and Paralloy, to capital investment firm Nimbus for an undisclosed sum.

Doncasters is the last remaining asset of Dubai International Capital, which acquired Doncasters Group in 2006, and has ceased trading after finalising its own US\$1bn debt restructuring in May last year.

Loan notes held by various affiliates of DIC and former management of Doncasters do not form part of the scheme of arrangement and, after the financial restructuring is finalised, they will have no claims against entities that hold an interest in the business operations of the company.

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■ FRONT STORY US

GFL back with renewed IPO effort

Surging comps, mandatory convertible improve chance of success

GFL ENVIRONMENTAL is close to relaunching a US\$2bn-plus TSX/NYSE IPO, less than four months after it pulled the deal late in the process amid heavy investor price sensitivity.

In a filing on February 18, the acquisitive Canadian waste management company gave a strong hint a fresh IPO attempt was imminent by reinstating lead bookrunners (the same as the November effort) and updating its financials.

JP Morgan, BMO Capital Markets, Goldman Sachs, RBC Capital Markets and Scotiabank, as well as the capital markets arm of GFL's major shareholder and private equity firm BC Partners, are once again running the IPO.

GFL has already flagged in previous filings this year it plans to price a mandatory convertible bond alongside the IPO, a key change that will allow it to market to a broader audience of investors.

Bankers close to the deal confirmed GFL was considering a near-term launch but played down the extent of the changes to the deal's structure.

GFL aborted the November IPO attempt just as it was scheduled to price because investors were only willing to buy the

shares at prices well below the US\$20-\$24 marketing range.

BC Partners, which recapitalised GFL in April 2018 with the help of Ontario Teachers' Pension Plan, was not prepared to price the deal at a steep discount to that range.

"The company didn't like the price last time around, but that was in a trickier market," an ECM banker close to the deal said. "We know this is the second time around and that something has to get done."

LEVERAGE

GFL comes with high leverage, but debt supported by steady cashflows is not beyond the norm in an industry where acquisitions are the main driver of growth.

Last year GFL generated adjusted Ebitda of US\$826m from sales of US\$3.3bn, the latter up 150% in two years.

Under CEO Patrick Dovigi, GFL remains highly acquisitive in a still fragmented but consolidating industry, its biggest deal being the US\$2.8bn purchase of Waste Industries in late 2018.

One challenge is that GFL needs to raise a large amount of capital at the IPO since it

carries US\$7.2bn of net debt, a hefty 8.7 times trailing adjusted Ebitda but a figure likely to come down materially on a post-IPO basis.

Helpfully, GFL has easily definable and strongly performing comps in the form of Waste Management, Republic Services and Waste Connections.

Each of those hit record highs in recent weeks alongside their earnings releases.

Waste Management's US\$4.9bn acquisition of Advanced Disposal Services, expected to close some time this quarter, has further highlighted the industry's consolidation push.

Investor appetite for ESG-related investments, with Waste Management devoting part of its website to ESG - may also increase GFL's chances of success second time around.

In a busy March, it faces competition from other large IPOs, with music label Warner Music and building products company Azek ready to launch, while shoe company Cole Haan and industrial technology carve-out Vontier may not be far behind them.

Anthony Hughes

Acleda Bank eyes Cambodia IPO record

Frontier market in line for major liquidity boost

ACLEDA BANK is planning to launch Cambodia's largest flotation to-date and the first from the banking sector.

So shallow is the Cambodian stock market currently that the listing is likely to more than treble the total market capitalisation from 2.6% to 9% of GDP, a person with knowledge of the deal said.

"We are hoping this IPO will take Cambodia to where Vietnam was in 2006," the person said.

Acleda is planning to raise CR328bn-CR381bn (US\$81m-\$93m) at a range of CR15,000-CR17,400 per share.

Institutional books will open between March 3 and March 14 and the retail offer between March 23 and April 4. Trading on the Cambodia Securities Exchange will start on April 27. The timetable is subject to approval from the

Securities and Exchange Commission of Cambodia this week.

The stock exchange only started operations in 2012 and has just five listings. Cambodia's largest IPO to-date was that of Sihanoukville Autonomous Port for CR108bn in June 2017.

"Although the focus of the bank is to get as many local investors, we are hoping that foreign investors will also see the potential of Cambodia and buy the IPO. Some Chinese and Korean investors have shown interest so far," the person said.

Neighbouring Vietnam launched a stock market in 2000, but progress remained slow until 2006, when a surge in valuations unleashed more IPOs from state-owned companies. In a little over a decade the market saw billion-dollar IPOs from the likes of Vietnam Technological and Commercial

Joint Stock Bank, Vincom Retail and Vinhomes.

Some analysts, however, are unsure about the response from foreign investors. Ruchir Desai, a fund manager at Asia Frontier Capital, said the European Union's decision to revoke duty-free rights for certain garments and shoes made in Cambodia could have a negative impact on the country's economy and the outbreak of coronavirus will have an adverse impact on tourism, a key driver of the economy.

Acleda's valuation is also not cheap compared with peers in other frontier markets. The top of the range implies a price-to-book multiple of two while banks in the more developed markets of Bangladesh, Pakistan, Sri Lanka and Vietnam are trading at 1.5 times or below.

Taiwanese-owned *Yuanta Securities* is the sole financial adviser on the transaction. Anuradha Subramanyan

ASIA-PACIFIC

AUSTRALIA

VIVA ENERGY EXITS REIT VIA BLOCK

ASX-listed Viva Energy has raised A\$734.3m (US\$485m) from the sale of its stake in **VIVA ENERGY REIT** in a clean-up trade.

A total of 276m units, or 35.5% of outstanding, were sold at A\$2.66 each, or a 3.6% discount to the pre-deal close.

Charter Hall Group and Charter Hall Long Wale REIT each acquired 5% stakes for a combined A\$207m.

The rest of the units were sold to institutional investors.

The REIT, which has a portfolio of 469 service stations, demerged from Viva Energy in 2016. Viva Energy leases 440 of these service stations.

Viva Energy will seek shareholder approval to use the proceeds to buy back shares.

Viva Energy REIT units fell 0.36% to close at A\$2.75 last Friday.

Bank of America and UBS underwrote the block trade.

ORICA BAGS FUNDS FROM PLACEMENT

Mining explosives company **ORICA** has raised A\$500m (US\$335m) from a follow-on share placement.

The deal drew support from existing and new institutional investors.

The company sold 23.6m new shares, or 6.2% of its existing issued capital, at A\$21.19 each, representing a 5% discount to the pre-deal close of A\$22.31 on February 18.

Orica is also seeking an additional A\$100m through a share purchase plan in which each eligible shareholder can subscribe to up to A\$30,000 of new shares from February 26 to March 17.

ASIA-PACIFIC EQUITIES

BOOKRUNNERS: 1/1/2020 TO DATE

Managing bank or group	No of issues	Total US\$(m)	Share (%)
1 Morgan Stanley	14	3,267.86	12.1
2 China Secs	5	2,702.20	10.0
3 CICC	15	2,677.38	9.9
4 Citic	7	2,024.37	7.5
5 HSBC	7	946.49	3.5
6 Citigroup	7	924.24	3.4
7 Goldman Sachs	8	921.85	3.4
8 UBS	6	838.24	3.1
9 BofA	6	693.15	2.6
10 Sinolink Securities	3	642.11	2.4
Total	246	27,054.50	

Including all domestic and international deals and rights issues

Source: Refinitiv

SDC code: C4a1

The capital raising will support the purchase of Exsa, which provides technical assistance to the gold and copper mining industries in Peru, for US\$203m. The remaining funds will be used to help increase balance sheet flexibility to support growth.

Goldman Sachs is the sole lead manager and bookrunner.

BENDIGO & ADELAIDE BANK RAISES FUNDS

ASX-listed **BENDIGO AND ADELAIDE BANK** has raised A\$250m (US\$167m) from a placement to strengthen its balance sheet.

There was strong support for the deal from a range of domestic and international investors.

The placement of 26.8m new shares, or 5.4% of existing issued capital, was sold at a fixed price of A\$9.34 each, representing an 11.6% discount to the pre-deal close of A\$10.57.

The bank is looking to raise an additional A\$50m via a share purchase plan for each eligible shareholder to subscribe to up to A\$15,000 of new shares at A\$9.34.

Proceeds will also be used to expand the bank's residential mortgage business and provide an increased buffer above APRA's strong CET1 capital ratio requirements.

The offer is expected to add about 67 to 81 basis points to the bank's Common Equity Tier 1 capital ratio.

Goldman Sachs is the lead manager and underwriter.

CITADEL SEALS FIRST PART OF PLACEMENT

Software and services company **CITADEL GROUP** has raised A\$34m as part of a dual-tranche placement of A\$127m (US\$85m).

The deal drew support from a group of existing and new institutional investors.

The first tranche of the placement involves 7.4m shares at the issue price of A\$4.65, representing a 21.2% discount to the pre-deal close of A\$5.90 on February 17.

ASIA-PACIFIC EQUITIES (EX-JAPAN)

BOOKRUNNERS: 1/1/2020 TO DATE

Managing bank or group	No of issues	Total US\$(m)	Share (%)
1 Morgan Stanley	10	3,056.10	12.0
2 China Secs	5	2,702.20	10.6
3 CICC	15	2,677.38	10.5
4 Citic	7	2,024.37	8.0
5 HSBC	7	946.49	3.7
6 Citigroup	7	924.24	3.6
7 Goldman Sachs	7	862.22	3.4
8 UBS	6	838.24	3.3
9 BofA	5	664.90	2.6
10 Sinolink Secs	3	642.11	2.5
Total	228	25,424.28	

Including all domestic and international deals and rights issues

Source: Refinitiv

SDC code: C4a2

The second tranche of A\$93m will involve the sale of 20m shares at the same issue price, pending shareholder approval at an EGM on March 30.

The 27.4m shares on offer represent about 56% of the existing shares on issue.

Citadel has entered into a binding agreement to acquire Wellbeing Software, a UK-based provider of radiology and maternity software that manages patient workflows and data, for an enterprise value of £103m (US\$134m).

The acquisition is also partly funded by a A\$100m multi-currency borrowing and a A\$10m share purchase plan.

RBC Capital Markets is the underwriter.

CH RETAIL REIT DOES UPSIZED PLACEMENT

CHARTER HALL RETAIL REIT has raised A\$100m (US\$66m) from an upsized share placement to increase its stake in a portfolio of BP-leased petrol stations.

The REIT sold 20.8m units, instead of the planned 18.7m, at A\$4.81 each or a 4.8% discount to the pre-deal close.

The deal drew strong demand from new and existing institutional investors.

The REIT will also undertake a A\$10m unit purchase plan allowing unitholders to subscribe for up to A\$15,000 in additional units at the same issue price.

Charter Hall Retail REIT is buying a further 17.5% interest in a portfolio of convenience retail properties leased to BP Australia from Charter Hall Group for A\$77m, increasing its total stake to 23.3%.

The additional proceeds will be used to repay debt.

JP Morgan and UBS are the joint lead managers and underwriters.

CHINA

BOHAI BANK APPLIES FOR IPO

CHINA BOHAI BANK has applied to China's securities regulator for approval of a Hong Kong IPO that could raise about US\$2bn–\$3bn.

The national joint-stock commercial bank made the application on February 14 to the China Securities Regulatory Commission, according to the regulator's website.

The Chinese lender is planning to file its listing application to the Stock Exchange of Hong Kong as early as the end of this month, said people close to the deal.

IFR reported last September that the bank was planning a Hong Kong IPO. ABC International, CCB International, CLSA and Haitong International are leading the transaction.

Founded in 2005, Bohai Bank counts Tianjin TEDA Investment, Standard Chartered Bank (Hong Kong), China Shipping Investment and State Development & Investment among its shareholders.

StanChart is the bank's second largest shareholder with a 19.99% stake, behind TEDA, which holds 25%.

The Chinese lender posted a 2018 net profit of Rmb7.08bn (US\$991m), up 4.8% from 2017. Its total assets stood at Rmb1trn as of December 31 2018. Its non-performing loan ratio and Core Tier 1 capital adequacy ratio were 1.84% and 8.61%, respectively.

A spokesperson from Bohai Bank told IFR in September that the lender's business was expanding rapidly and it was considering a range of fundraising plans to fund its growth and replenish capital.

CRCC STAR SPIN-OFF EYES

Rmb6bn–Rmb7bn

CHINA RAILWAY CONSTRUCTION HEAVY INDUSTRY GROUP aims to raise about Rmb6bn–Rmb7bn (US\$858m–\$1bn) from a Star board IPO, according to a person close to the deal.

The company, a subsidiary of Hong Kong-listed China Railway Construction Corporation, plans to complete the offering in the fourth quarter of the year.

Last Monday, CRCC said it had won approval from the Stock Exchange of Hong Kong for the proposed spin-off.

Hong Kong and Shanghai-listed CRCC announced its spin-off plan soon after China's securities regulator released final rules in December allowing A-share companies to spin off units through an IPO or backdoor listing in the domestic markets.

CRCHI is a manufacturer of tunnelling machine, rail transit and special equipment. It posted a 2018 net profit of Rmb1.64bn (US\$234m), while its parent company earned a net profit of Rmb19.8bn.

The proposal still needs approvals from Chinese regulators.

JIANGXIAOBAI PICKS TRIO

Liquor maker **JIANGXIAOBAI** has picked three banks to help with restructuring ahead of a planned IPO, according to people with knowledge of the matter.

The manufacturer and seller of the distilled spirit baijiu last month invited potential advisers to pitch for the deal before it selected Citigroup, Goldman Sachs and JP Morgan.

The potential IPO could raise about US\$500m–\$1bn, IFR reported last month.

The timing will depend on the progress of the restructuring and the share sale will come next year, said the people.

The company has not decided where to list as yet, but the people said Hong Kong seems a more likely venue than the US.

The company counts Hillhouse Capital, IDG Capital, Tiantu Capital and BA Capital among its investors.

Founded in 2011, Chongqing-based Jiangxiaobai targets younger drinkers than its more traditional rivals with spirits that have a less spicy taste. Its products are sold in more than 20 countries including China, India, Germany and the UK.

HYGEIA PLANS HK IPO

Warburg Pincus-backed **HYGEIA HEALTHCARE** is planning to raise about US\$300m–\$500m from a Hong Kong IPO as early as the first half of the year, according to people close to the deal.

The Chinese hospital operator and radiotherapy equipment maker filed a listing application to the Stock Exchange of Hong Kong last Monday.

Haitong International and Morgan Stanley are the joint sponsors.

Hygeia owns seven hospitals and also manages three hospitals for third parties. The company posted adjusted net profit of Rmb136m (US\$19m) for the 10 months ended October 31 2019, up 82% from the same period in 2018.

Warburg Pincus owns a 17.2% stake in the company.

BENEMAE PHARMA FILES FOR STAR IPO

SHANGHAI BENEMAE PHARMACEUTICAL has filed to the Shanghai Stock Exchange for a proposed Rmb3bn (US\$430m) Star IPO.

The biopharmaceutical company will offer 57.4m A-shares for a 25% free-float. There is a 15% greenshoe.

Proceeds will be used to research new drugs, translational medicine and structural biology, as well as to build a new production line, replenish working capital and repay bank debt.

The company posted net losses of Rmb169m and Rmb214m in the first nine months of 2019 and full year 2018, on revenues of Rmb41.7m and Rmb27m.

It has been listed on the National Equities Exchange and Quotations since August 2014.

Guotai Junan Securities is the sponsor.

HEPALINK PHARMA PLANS IPO

SHENZHEN HEPALINK PHARMACEUTICAL plans to raise about US\$400m from a Hong Kong IPO as early as the first half of the year, according to people close to the deal.

The Shenzhen-listed company filed a listing application for the Hong Kong share

sale last month. It did not specify the fundraising size or timeline for the potential listing.

Hepalink's A-shares changed hands at Rmb24.46 on Thursday morning, giving it a market capitalisation of Rmb31bn (US\$4.4bn). The stock is up 25% this year.

The company has a portfolio of drugs to treat blood clots and immune system disorders. Three drugs are being commercially manufactured, 24 candidates are at the clinical trial stage and 12 projects are at the discovery stage.

For the first nine months of 2019, it posted a profit of Rmb749m, up 60% from the same period a year earlier. It had an annual profit of Rmb617m in 2018.

Goldman Sachs and Morgan Stanley are the joint sponsors.

TWO STAR STOCKS SURGE

BEIJING ROBOROCK TECHNOLOGY and **BIO-THERA SOLUTIONS** soared on their debut on the Shanghai Star market last Friday.

Beijing Roborock Technology, which raised Rmb4.5bn (US\$652m) from its IPO, closed at Rmb500.1 on its debut, up 84.5% from the IPO issue price of Rmb271.12. At one point, the stock reached as high as Rmb538.88.

Roborock sold 16.7m A-shares or 25% of its enlarged capital at Rmb271.12 each, a record price per share for an A-share IPO.

The company sold 2.2% of the IPO to sponsor Citic Securities and allotted 60.2% and 39.8% of the remaining shares to institutional and retail investors, respectively.

It will use the proceeds on a data platform, the launch of a robot project, the development of commercial cleaning robot products, and for working capital.

Before the float, founder Chang Jin was the largest shareholder in the company with a 30.99% stake, followed by Xiaomi founder Lei Jun's Shunwei Capital with a 12.85% stake and Xiaomi's Tianjin Jinmi with 11.85%.

Bio-Thera Solutions' shares jumped 98% to Rmb64.88 on Friday morning, before closing at Rmb60.2. Its IPO comprised 60m A-shares for a 14.5% free-float, at an issue price of Rmb32.76.

Bio-Thera is only the second pre-revenue company to list on the bourse, after it raised Rmb1.97bn from its float.

The company posted a net loss of Rmb715m for the first half of 2019 and an annual loss of Rmb533m for 2018. It has forecast a 2019 net loss of Rmb1.05bn–Rmb1.15bn.

It will use the proceeds for research, marketing and working capital.

Tax plan threatens REITs

■ INDIA Mindspace REIT listing may become first casualty of government proposal

The Indian government's planned overhaul of the taxation of dividends has put a dampener on the country's nascent real estate investment trust and infrastructure investment trust markets.

Finance Minister Nirmala Sitharaman's proposal in her 2020-21 budget to scrap the dividend distribution tax currently paid by companies and replace it with a dividend withholding tax paid by shareholders has been broadly welcomed as a move to bring India's equity market in line with other major markets – notably the US.

However, the move would also end a tax exemption for REIT investors, who would become subject to tax at a rate of 10% for local retail investors, rising to as much as 40% for sponsors and other high-net-worth investors. This would put at risk a market that was expected to increase its asset size to US\$50bn over the next few years from US\$10bn now, analysts said. Parliament is set to vote on the plan before the end of April.

With investor demand muted for infrastructure and property shares, InvITs and REITs have been the only way to attract investors to these sectors because of the promise of high dividends, analysts say. REITs and InvITs pay 90% of their income as dividends.

Sponsors of REITs and InvITs have appealed to the government to exclude these instruments from the proposals and are awaiting a response.

The proposed tax change could have a far-reaching impact in India as InvIT and REIT plans have been drawn up for road, power transmission, commercial estate and gas pipeline assets since 2017.

"The dividend, which is proposed to be taxable for the unit-holders, is going to have a long-term impact on the investments in REITs or InvITs," said Sigrid Zialcita, CEO of the Asia-Pacific Real Estate Association. "The step will project an unstable picture of India as an investment destination especially in the real estate and infrastructure space, which are at this point of time reeling under pressure. There are chances that the investments may be diverted elsewhere."

FIRST VICTIM

MINDSPACE BUSINESS PARKS REIT, which plans to become the second listed REIT in India, was

targeting a first-quarter launch for its Rs40bn (US\$560m) IPO, encouraged by the success of the Embassy Office Parks REIT.

However, the REIT, sponsored by K Raheja Corp and Blackstone, is likely to miss the deadline as it awaits clarification on the proposed dividend tax change.

"The March deadline will be difficult to achieve if no clarification comes from the government," a person with knowledge of the transaction said. "Although the new tax rule does not affect foreign investors and local mutual funds, sponsors and high-net-worth investors will be badly hit."

Typically, sponsors own 75% of a REIT or InvIT and hence receive most of the dividend. Foreign investors in various low-tax countries will not face a heavy burden under the proposal, while local mutual funds are not required to pay taxes on dividends.

The government will also be hit indirectly by the tax measures having only recently allowed state-owned companies to set up InvITs.

POWER GRID CORPORATION OF INDIA is planning an InvIT IPO of up to Rs100bn later this year and the country's largest toll-road operator, **NATIONAL HIGHWAYS AUTHORITY OF INDIA**, was given cabinet approval last year to form an InvIT. State-owned **PTC INDIA** (formerly Power Trading Corp) is also planning an InvIT.

In the REIT sector, new listings are expected from **PRESTIGE ESTATES**, **RMZ**, **GODREJ PROPERTIES** and **PANCHSHIL REALTY**, although the companies have not disclosed details.

According to its draft prospectus, Mindspace plans to sell Rs10bn primary shares and an undisclosed number of secondary shares in the IPO.

The REIT comprises commercial properties with a total leasable area of 29.5m square feet. The properties are located in the Indian cities of Mumbai, Pune, Hyderabad and Chennai.

Axis, Ambit, Bank of America, Citigroup, CLSA, HDFC Bank, ICICI Securities, IDFC Bank, JM Financial, Kotak, Morgan Stanley, Nomura and UBS are the lead managers.

Anuradha Subramanyam

IFR reported last month that CR Land invited potential advisers to submit proposals for the potential float, which could raise about US\$500m.

Several Chinese property developers have spun off their property management service arms in the past two years. Those who have done so include Country Garden, Agile Group and Poly Developments and Holdings Group.

Hong Kong-listed Shimao Property is also considering spinning off its property management service unit in a Hong Kong IPO to raise about US\$500m–\$600m this year, IFR reported last month.

» AK MEDICAL BUILDS WAR CHEST

AK MEDICAL has raised HK\$803m (US\$103m) from a top-up placement after pricing the shares above the mid-point of the price range.

The company sold 53.5m shares or 4.8% of the enlarged share capital at HK\$15 per share, compared with the HK\$14.65–\$15.15 range.

The price represents a discount of 7.9% to the pre-deal close.

Shares of AK Medical rose 6.4% last Thursday to HK\$16.28, taking the year-to-date gain to 85%.

There is a 90-day lock-up.

The company will use the proceeds for general corporate purposes.

Goldman Sachs was the bookrunner.

» SIZE TO SPIN OFF UNIT FOR STAR IPO

Shanghai-listed **SHANGHAI ZIJIANG ENTERPRISE** is looking at a spin-off of its new materials technology unit for a listing on the Shanghai Star market.

Zijiang New Material, a lithium battery manufacturer, plans to offer up to 25% of its enlarged capital and a 15% greenshoe in the float.

Proceeds will be used for research, to build a new production base, and replenish working capital.

Shanghai Zijiang Enterprise holds a 70% stake in the proposed spin-off.

The proposal still needs approvals from shareholders and Chinese regulators.

INDIA

» SBI CARDS SETS PRICE RANGE FOR IPO

SBI CARDS AND PAYMENT SERVICES has set the price range for an IPO of around Rs100bn (US\$1.39bn) at Rs750–Rs755 per share.

The deal size is higher than the previously estimated Rs80bn–Rs90bn and would make it the biggest Indian IPO since General Insurance Corp of India's Rs114bn issue in 2017. Coal India's Rs155bn IPO in 2010 is the country's largest to date.

CICC was the sponsor and bookrunner with *GF Securities* and *Morgan Stanley Huaxin Securities*.

Three other stocks have made their debut on the Star board since the coronavirus outbreak. Beijing Huafeng Test & Control Technology, Autel Intelligent Technology and Guangzhou Risong Intelligent Technology started trading at the beginning of February. All three have surged more than 200% from their IPO issue prices.

» CR LAND PRESSES ON WITH SPIN-OFF

CHINA RESOURCES LAND held a beauty contest last week through telephone calls for the planned Hong Kong IPO of its property management unit, according to people close to the deal.

The Chinese property developer decided against face-to-face pitches amid the coronavirus outbreak.

At the top of the range, the deal would also beat the Bt38bn (US\$1.2bn) float from Thailand's Central Retail as Asia-Pacific's biggest IPO this year excluding A-share issues.

The top of the price range implies a P/E of 35 for the financial year that ends in March 2021.

The IPO will be open for subscription between March 2 and March 5, according to a term-sheet. The anchor book will be open for one day on February 28.

The IPO, the first by a credit card company in India, will comprise up to Rs5bn new shares and 130.5m secondary shares. State Bank of India will be selling 37.3m shares (4% of current capital) and CA Rover Holdings, an affiliate of Carlyle Asia, 93.2m (10%).

The company reported revenue of Rs43.6bn for the six months ended September 30, up 35% from Rs32.2bn a year earlier. Net profit climbed 93% to Rs7.26bn from Rs3.77bn.

SBI Cards is a joint venture between State Bank of India (76%) and global private equity firm Carlyle Group (24%).

Axis Bank, Bank of America, HSBC, Kotak, Nomura and SBI Capital are the lead managers.

NSDL MEETS BANKS ON UP TO Rs10bn IPO

NATIONAL SECURITIES DEPOSITORY LIMITED is meeting banks for the management of an IPO of up to Rs10bn (US\$139m).

IDBI Bank, which owns a 26% stake, and the National Stock Exchange, which owns 24%, are expected to sell shares in the IPO.

NSDL was not immediately available to comment on the IPO plan.

The company provides depository services to end investors, stock brokers, stock exchanges, custodians, and issuer companies through its network of more than 276 depository participants and business partners.

As of January 31 2020, NSDL had 19.4m investor accounts and 31,248 service centres.

In 2017, BSE-owned Central Depository Services Ltd went public through a Rs5.2bn IPO at Rs149 a share.

BARBEQUE-NATION REHEATS IPO PLAN

BARBEQUE-NATION HOSPITALITY has resubmitted a draft prospectus for a Rs10bn–Rs12bn (US\$140m–\$168m) IPO.

The restaurant chain has been trying to launch an IPO for the past few years but investors have not been willing to pay the valuation it wanted. In 2017, it had targeted an IPO of up to Rs8bn.

There is also a change in the syndicate, with Axis and Ambit joining IIFL Holdings and SBI Capital. Edelweiss and Jefferies are no longer working on the IPO.

It plans to sell Rs2.75bn primary and 9.82m secondary shares in the IPO. It is also planning a pre-IPO placement of Rs1.5bn and if that is successful the primary component of the IPO will be reduced accordingly.

Founders Sayaji Hotels, Sayaji Housekeeping Services and Kayum Dhanani are among the vendors.

Barbeque-Nation's revenue rose 26% to Rs7.39bn in the financial year that ended March 31 2019 from Rs5.86bn in 2018. Its net loss widened to Rs404m from Rs67.9m following losses at the company's international operations.

The company said that since its 2017 filing it has opened 59 new outlets. Currently it operates 138 outlets in India and seven in the UAE, Oman and Malaysia.

JAPAN

DAIWA HOUSE REIT PRICES FOLLOW-ON

Residential real estate investment trust **DAIWA HOUSE REIT INVESTMENT** has priced its global follow-on offering of units at a narrow discount to raise ¥34.3bn (US\$312m).

A total of 121,000 primary units were priced at ¥283,670 apiece, representing a 2% discount to February 19's market close of ¥295,500, after deducting an expected dividend of ¥6,040, versus the marketed discount range of 2%–4.5%.

There is a greenshoe of 9,000 units for 7.4% of the base deal.

About 68% of the deal was allocated to domestic investors and the rest to international investors. A total of 2,000 units in the domestic portion have been earmarked for sponsor Daiwa House Industry.

There is a 90-day lock-up for the issuer and a 180-day lock-up for the sponsor.

Proceeds will be used to acquire assets and repay borrowings.

Daiwa, Morgan Stanley and Nomura are the joint global coordinators and international bookrunners.

CARLYLE REVIVES WINGARCIST IPO

Carlyle Group is planning to raise about ¥26bn (US\$233m) from a revived float of its Japanese data and software company **WINGARCIST**, after shelving the offering in March last year due to poor market conditions.

The base size of 15.5m secondary shares is being marketed at an indicative price of ¥1,670. There is a 1.3m share greenshoe. The price will give the company a potential market capitalisation of ¥52bn.

About 40% of the deal is earmarked for international investors, while domestic buyers will take up the rest at a split of 10% for institutions and 90% for retail investors.

Nasdaq-listed Carlyle Group, which acquired WingArc1st in full in 2016 for an undisclosed amount, intends to sell the shares through an affiliate, CJP WA Holdings. There is a 180-day lock-up on the seller.

Carlyle had planned to float WingArc1st last year, targeting ¥41.3bn from the sale of 21m secondary shares at a potential market capitalisation of ¥61.5bn.

Bookbuilding will take place from March 9 to 13. The deal will price on March 16 and the shares will start trading on the bourse on March 26.

Nomura and Morgan Stanley are joint global coordinators, and joint bookrunners for the international offering with the Bank of America.

PAKISTAN

PAKISTAN HIRES BANKS FOR STAKE SALES

The Privatisation Commission has appointed banks to manage share sales totalling Rs75bn (US\$486m) in **PAKISTAN PETROLEUM** and **OIL & GAS DEVELOPMENT COMPANY**, which are expected to launch in the second quarter of this year.

A consortium of *Credit Suisse*, *Arif Habib* and *AKD Securities* has won the OGDC mandate and a consortium of *Credit Suisse*, *Arif Habib* and *Topline* is the winner of the PP mandate.

A Citigroup, HBL and Next Capital consortium did not make the OGDC mandate, while the CLSA and Alfalah Securities combine lost out on the PP mandate.

The government plans to sell 10% of PP, worth up to Rs35bn at current prices, and around 7% of OGDC, currently valued at Rs40bn.

The government owns 67.5% of PPL and 74.97% of OGDC.

Pakistan's privatisation programme slowed down in recent years because of political uncertainty. The last major privatisation transaction was in 2015, when the state sold its residual 41.5% stake in Habib Bank for Rs102bn.

PHILIPPINES

BANKS PITCH WARBURG PINCUS FOR CONVERGE ICT IPO

Private equity firm Warburg Pincus is meeting banks to manage **CONVERGE ICT SOLUTIONS'** IPO of about US\$500m, people with knowledge of the transaction said.

Warburg Pincus invested US\$250m in the broadband service provider last year in its first investment in the Philippines.

Local businessman Dennis Uy is the founder of Converge ICT.

Converge ICT is planning a US\$1.8bn nationwide internet network.

The timing of the IPO has not yet been decided.

Warburg Pincus declined to comment on the IPO plan.

SOUTH KOREA

FIVE VIE FOR ROLES IN BIG HIT IPO

Five banks have applied for roles in the planned KRX IPO of music group **BIG HIT ENTERTAINMENT**, people with knowledge of the matter said.

The five are *Citigroup*, *JP Morgan*, *Korea Investment & Securities*, *Mirae Asset Daewoo* and *NH Investment & Securities*.

The South Korea company, which manages K-pop stars like boy band BTS and TXT, plans to list in the second half of this year.

Founder and executive producer Bang Si-hyuk is the company's largest shareholder with a 43% stake. Other major shareholders are gaming company Netmarble and venture capital firm STIC Investment.

Netmarble is the second biggest investor after it bought a 25.7% stake in 2018 for W201.4bn (US\$190m).

Big Hit, founded in 2005, had revenues of W214.2bn and net profit of W50.2bn in 2018, according to its website.

EUROPE/MIDDLE EAST/AFRICA

FINLAND

FULL EXERCISE FOR MUSTI GREENSHOE

Finnish pet care company **MUSTI GROUP**'s IPO has grown to €182m following full exercise of its 15% secondary greenshoe on Friday.

Stabilisation manager *Nordea* exercised the full 2.7m greenshoe shares from main seller EQT. The free-float increases to 62.1% from 54% upon admission.

Shares closed on Thursday at €11.04 pre-exercise of the greenshoe, 26.2% above the €8.75 IPO pricing. Shares have retained gains made on their February 13 debut when they shot up 25.7%.

Musti shares were down around 1.27% at €10.90 at 2:45pm on Friday in London.

Carnegie, *Jefferies* and *Nordea* were bookrunners.

FRANCE

NACON COVERED INSIDE TWO HOURS ON EURONEXT PARIS FLOAT

Gaming and accessories business **NACON** set a price range of €4.90–€5.80 per share on Thursday for its all-primary €81m–€96m Euronext Paris IPO, with the deal covered inside two hours on the full deal size, including upsize and greenshoe.

Initial orders came from London-based accounts, followed by French money.

Nacon comprises the bundling of the gaming assets of Paris-listed Bigben Interactive, a multimedia content and accessories (including mobile phone accessories) company. Proceeds from the float will go towards research and development for new games and for acquisitions of studios.

The company focuses on AA games, which comprise those between 200,000 and 3 million copies sold and budgets of €1m–€20m. It has a portfolio of more than 100 games.

Nacon is offering 16.5m primary shares at €4.90–€5.80, with the provision for an upsize of 1.65m shares dependent on demand from investors. There is also a 10% primary greenshoe.

Pricing represents estimated EV/Ebit for 2021 of 13.9–16.3, with a peer group including the UK's Codemasters, Frontier Developments and Team 17 trading at an average of 20 times.

If upsized, the deal size will rise to €89m–€105m and full exercise of the 10% primary greenshoe will lift the deal size to €98m–€116m. As the deal is all primary, the market capitalisation is a moving target at €400m–€474m on the base and €417m–€494m on the full upsize and greenshoe.

The free-float is 20.25%–24% on the base deal, and up to 23.5% on full exercise of the upsize and greenshoe. There is a retail offering.

A larger deal was considered, and understood to have been possible based on early feedback, but the owners did not want to push above a 23.5% free-float, having originally wanted to cap it at 20%.

There are also cornerstone commitments totalling €21.9m, of which €10m comes from state-backed Bpifrance. There was also potential for more cornerstone investors to be involved, but liquidity would have been an issue.

The company is locked up for 180 days, with Bigben Interactive locked up for 18 months. Bigben shares opened flat to the €16.10 Wednesday close on Thursday, rising 2.73% to €16.54 by 4pm in London.

Books are open until March 5, closing at 12pm locally, with a trading debut on March 10.

Management roadshows kicked off in London on Thursday and remained there on Friday, before taking in Switzerland on Monday, Paris on Tuesday, Brussels and Amsterdam on Thursday and Helsinki and Stockholm on Friday.

Given the current momentum, bookbuilding may wrap up at that point on February 28, but management is scheduled to meet investors in Frankfurt, Paris, London and Luxembourg in the final week.

Berenberg, *Gilbert Dupont* and *Louis Capital Markets* are bookrunners.

VALLOUREC PLANS €800m RIGHTS ISSUE

Steel tubes producer **VALLOUREC** will target €800m in a fully underwritten rights issue to strengthen its balance sheet, with its two largest shareholders already throwing their weight behind the capital increase.

The deal will launch in the second quarter and represents about 80% of Vallourec's market cap of approximately €1bn. Exact terms are still pending and a shareholder vote on the rights issue is due at an EGM on April 6.

BNP Paribas, *Morgan Stanley*, *Natixis* and *Societe Generale* are global coordinators, and bookrunners with *Commerzbank*, people close to the deal said.

Shareholder Bpifrance will subscribe to its 14.6% pro rata share while shareholder Nippon Steel Corporation, which also owns 14.6%, will subscribe for an amount to give it an approximately 10% stake in Vallourec post-money.

Proceeds will go towards strengthening the company's balance sheet and to allow Vallourec to achieve a pro forma leverage of 2.8 times by the end of 2020.

Vallourec posted full-year 2019 results on Wednesday, showing Ebitda more than doubled to €347m from €150m in 2018. Net debt was €2.031bn as of December 31.

EMEA EQUITIES

BOOKRUNNERS: 1/1/2020 TO DATE

	Managing bank or group	No of issues	Total US\$(m)	Share (%)
1	Credit Suisse	5	2,829.31	15.6
2	Barclays	10	1,464.78	8.1
3	JP Morgan	11	1,456.06	8.1
4	Morgan Stanley	9	1,382.41	7.6
5	Goldman Sachs	10	1,370.92	7.6
6	Citigroup	11	1,286.11	7.1
7	UBS	5	1,285.78	7.1
8	BofA	2	847.15	4.7
9	Jefferies	4	598.07	3.3
10	Nordea	7	468.44	2.6
	Total	105	18,084.57	

Including all domestic and international deals and rights issues

Source: Refinitiv

SDC code: C4cr

Shares in Vallourec closed down 8.6% at €2.17 last Thursday following news of the rights issue on Wednesday. By last Friday at 1pm they were slightly lower at €2.154 each.

Vallourec last tapped its shareholders for cash in April 2016, raising €480m in a rights issue that had an take-up of 96.7%.

Vallourec produces steel tubing for the energy industry, with operations across 20 countries.

GERMANY

EXASOL LAUNCHES UP TO €90m FRANKFURT IPO

Database analytics company **EXASOL** has launched a Frankfurt IPO targeting up to €90m.

Exasol helps large corporates rapidly crunch vast data reserves, going up against the likes of Microsoft, Oracle, SAP Teradata and IBM that dominate the industry and usually hold long-term contracts with clients.

Exasol is one of a handful of industry 'disruptors' and one of the only European firms making a major dent in the realm, alongside Silicon Valley companies including Snowflake, Amazon's Redshift and Google's Bigquery.

The company is aiming for around €50m in primary capital with €30m-€40m to be raised by secondary selling.

Pre-marketing started on Friday and following a typical four-week structure, bookbuilding could begin around March 6 with pricing around March 18.

Exasol has opted to go public over raising funds privately mainly for the benefits of brand awareness as well as the increased discipline and financial transparency from being a listed entity.

The company held a pre-IPO funding round in November, which saw the exit of a minority shareholder who had been blocking the company's ability to do any private funding.

The shareholder's stake was placed with pre-IPO blue chip investors, removing the issue of the blocking stake and paving the way for Exasol to kick-start its IPO process.

The focus will be on increasing liquidity in the stock, although minority shareholders are generally more keen on trimming their stakes rather than making a full exit.

As a subscription-based business model, investors are focused on multiples of Exasol's recurring revenue component as they determine a possible valuation.

Hauck & Aufhauser is bookrunner.

US peer Snowflake is also considering a listing after announcing it had raised

US\$479m privately in early February, valuing it at US\$12.4bn.

ITALY

SIA ON BRINK OF FINALISING IPO SYNDICATE

Italian payments firm **SIA** is on the brink of finalising its IPO syndicate, with presentations by vying banks set to take place this week in Milan.

A syndicate should be finalised by the end of the week, with *JP Morgan* and *UniCredit* seen as the most likely candidates to bag top line roles, according to a banker close to the deal.

The banker said there is also potential for two other global coordinator roles as well as bookrunner roles.

The IPO is set to be one of the largest in Italy this year, with reports suggesting a valuation of €4bn is on the cards with a potential deal size of US\$1bn-\$1.5bn.

SIA's IPO has been in the pipeline for some time. The firm had been leaning towards a merger as an alternative to a float, with bankers involved convinced an IPO was off the table as recently as January.

A merger between SIA and rival Italian payments firm Nexi is also a possibility. Nexi floated in Milan last April in a €2.01bn IPO that valued the company at €5.7bn. Nexi's share price on Friday represents a market cap of €10.22bn.

GIOCHI PREZIOSI IPO ON TRACK AFTER SPANISH ACQUISITION

The IPO of toy company **GIOCHI PREZIOSI** is on track for H1, according to a banker involved.

Giochi Preziosi had planned to float by Easter last year but pushed the potential listing to September and eventually to this year after initiating talks to acquire Spanish toy manufacturer Famosa.

The company has now completed the acquisition, which has had a material effect on its projected market cap.

It is now likely to have a market cap of around €800m-€1bn according to the banker. This time last year its market cap was said to be around €500m.

Banca Akros, Banca IMI, Barclays, Jefferies and *Santander* are bookrunners with *Rothschild* advising.

TIMONE FIDUCIARE TRIMS AZIMUT STAKE

Italian holding company Timone Fiduciare trimmed its shareholding in asset manager **AZIMUT HOLDING** in a €60m sale on Wednesday evening, part of a stake it acquired as part of a 2018 management buyout.

Proceeds will be used to repay loans that were taken out to fund the 2018 buyout of 7m shares. Timone Fiduciare already had a stake in Azimut at the time as part of a shareholders' agreement, and post-money holds 28m shares, representing a 19.57% shareholding, subject to a 180-day lock-up.

There was no wall-cross in advance of what is understood to have been a risk trade. The sale was launched well after the close, with guidance of €23.46 to the €24.19 market close, an up to 3% discount.

Timone Fiduciare offered 2.55m shares representing 1.78% of Azimut Holding and just one and a half days' trading.

The trade was covered in 10 minutes, with messaging that the deal was expected to be priced at €23.70 coming shortly before 8pm in London. At €23.70, the discount was 2% and books closed at 8:15pm.

Significant demand led to a multiple times covered book of fewer than 50 lines, with the top 10 orders representing approximately 80% of the trade. There was coverage at the €24.19 market close, but the decision was taken to allocate sensibly and with the aftermarket in mind.

Despite that, Azimut shares on Thursday opened down at €23.99 and closed down 2.2% at €23.66. The stock was trading at €22.86 on Friday afternoon.

Azimut is already well owned by locals, and the Wednesday trade had good traction from international accounts.

Bank of America and *Intermonte* were bookrunners.

This sale was the first in Azimut by Timone Fiduciare since the 2018 buyout. It had previously sold a 5.26% stake at €27.90 per share in a trade managed by Morgan Stanley and Credit Suisse.

NETHERLANDS

FUGRO RAISES €81.8m IN EQUITY ALONGSIDE CB BUYBACK

Geophysical services business **FUGRO** raised €81.8m in a 10% accelerated capital raise, with proceeds going towards refinancing its capital structure.

Fugro bought back €161.5m of its outstanding €191m convertible bonds due 2021 the same night, with *BNP Paribas* as dealer manager.

A small wall-cross was carried out for the equity offering on Wednesday, providing indications of interest for all the 8.35m shares on offer. Formal coverage came inside of half an hour and the deal was priced at €9.80, a 3.9% discount to the €10.20 close. Having flagged the capital increase, the stock had already come off from the €10.98 open.

The trade was driven by existing shareholders, with the top 10 accounts taking more than three-quarters of a book of 66 lines. Approximately one-third of orders were zeroed and some of those involved in the CB buyback participated in the equity.

The market liked what it saw, with the stock opening at €10.40 on Thursday and nearly returning to the Wednesday's level with a close of €10.965, up 7.5% on the day.

Most of that gain was reversed on Friday morning, with shares down nearly 7% at €10.20 following completion of the CB buyback.

ING and Rabobank/Kepler Cheuvreux were bookrunners on the equity trade.

NORWAY

› BW ENERGY BOBBLES AROUND STRIKE AFTER RESTRUCTURED FLOAT

BW ENERGY stock opened flat to the Nkr24.40 pricing on debut on Wednesday following its restructured Nkr1.14bn (US\$123m) Oslo IPO.

Despite an early rise to Nkr25, the shares stuck closely to pricing, falling below after midday. They closed down 1% at Nkr24.15, with just over 6m units changing hands, representing approximately 13% of the shares offered in the IPO.

The shares were trading above at the Nkr24.525 Thursday close and had fallen to Nkr24.37 on Friday.

Pricing was set below an original range of Nkr34.20-Nkr36.60 on February 13, when the deal was downsized from an original US\$175m target after failing to secure enough demand. A 15% secondary greenshoe survived the restructuring.

The float raised money from 700 institutional and retail investors. Parent BW Group came in with an order of US\$25m, subject to scaling back. It was allocated 6.4m shares representing an investment of approximately US\$16.8m. A further 11 insiders subscribed for shares in the offering. Around 95% of the offering was allotted to institutional investors while 5% went to retail investors.

DNB Markets and Pareto were bookrunners, with Arctic Securities, Danske Bank, Nordea Bank and Swedbank/Kepler Cheuvreux as co-managers.

SOUTH AFRICA

› EPE CAPITAL RAISES R750m FOR BRAIT INVESTMENT

ETHOS PRIVATE EQUITY has raised R750m (US\$50m) through a rights issue with proceeds part-funding its investment in fellow South African investment company Brait.

Ethos is injecting in total R1.35bn into Brait, of which R1bn will be used to participate in Brait's own R5.25bn capital increase.

There was 99.5% take-up for Brait's rights issue, which closed on February 14. Rand Merchant Bank underwrote the rights issue alongside Ethos and Brait's largest shareholder Titan, which had a pre-money 40% position.

As part of an agreement with Titan, Ethos provided the R1bn by exercising rights held by Titan, with Titan also committing to exercise rights totalling R750m. Titan and RMB also provided underwriting of R1.77bn, with a further R1.37bn of commitments from four major shareholders.

Ethos' R750m fully committed and underwritten rights issue got the green light after Brait's rights issue was approved on January 21.

The Ethos rights issue was launched with irrevocable commitments from 44% of shareholders, with underwriting for the balance from a mix of existing shareholders and new investors.

In total, there were acceptances for 46.38% of the 100m shares offered on a 58.47953-for-100 basis at R7.50 per share, leaving 53.6% underwritten.

The remaining R350m will come from a directed share issue of new Brait shares to Ethos. Brait is using the R5.25bn from the rights issue alongside a £150m five-year convertible bond and proceeds from a CB buyback to reduce leverage and term out maturities.

Ethos said the rationale behind its investment in Brait was the company's portfolio of high-quality assets, and that it would assume the role of adviser for the portfolio.

› FOUNDING TRIO SELLS 10.6% OF TRANSACTION CAPITAL

The founding trio of **TRANSACTION CAPITAL** sold a combined 10.6% of the company last Tuesday evening in a R1.62bn (US\$108.4m) accelerated bookbuild run by *Goldman Sachs* and *Standard Bank*.

Transaction Capital is a specialist financial services group and the main lender to South Africa's minibus taxi industry.

A total of 69m shares were sold at R23.50 each, representing a 9.3% discount on last Tuesday's close of R25.90. The deal was slightly upsized from the original 65m shares.

The share sale was a chunky 100 days of trading volume, making it a significant liquidity event and partly explaining the wide discount. The fact that it was a founder sell-down also played into the wide pricing, bankers involved said, as well as Transaction Capital's recent share rally.

Shares in the company have risen around 20% since the start of 2020 and about 55% since this time last year.

The company's founders Jonathan Jawno, Michael Mendelowitz and Roberto Rossi all sold the same amount, reducing their stakes to 5.9% each and a collective 17.7%. The lock-up is 90 days.

A wall-cross preceded launch of the deal that was covered on indications in excess of the deal size and launched with reference to market. The final book was fairly concentrated with the top 10 orders taking 75%. Half the demand came from long-only accounts and the majority was international.

Shares in Transaction Capital struggled to stay above ABB pricing on Wednesday morning following the sell-down, falling to R23 by 1pm. They recovered somewhat throughout the afternoon and were trading at R24.04 by 2:45pm in London. By 1pm last Friday they were 3% lower at R2.330.

The sell-down was largely unexpected, given that it was only the second time the founders have sold since the company floated in 2012. The last time they sold was in March 2018 when they disposed of 72m shares.

SWEDEN

› NYFOSA BOOSTS FINANCES WITH SKr601m ABB

Real estate investment company **NYFOSA** raised SKr601m (US\$61.6m) in a primary accelerated bookbuild last Monday evening run by *ABG Sundal Collier*.

A total of 6.46m new shares were sold at SKr93 each, representing a 3.1% discount to last Monday's close of SKr95.95. The deal was launched with reference to market and was preceded by a wall-crossing exercise.

Nyfosa is raising the cash to strengthen its balance sheet ahead of acquisitions. The company opted for a non-pre-emptive transaction to enable a quick fundraising so it can be opportunistic.

The increase corresponded to around 3.9% of Nyfosa's pre-money share capital and approximately 13 days' trading volume, according to Refinitiv data.

Shares rose slightly last Tuesday closing up 0.5% at SKr96.45 each. By last Friday at 1pm in London they were a fraction lower at SKr95.40 each.

A banker involved described very strong demand backed by a hot Swedish real estate market. Listed REITs in the country are generally trading at a premium to NAV, providing a strong incentive for capital increases.

The share issue was directed towards selected Swedish and international investors, including Bell Rock Capital,

Carnegie, Handelsbanken, Lansforsakringar Fastighetsfond, Odin and Swedbank.

Nyfosa primarily invests in offices and warehouse spaces near transport hubs in Sweden. As of December 31, its portfolio consisted of 230 properties valued at SKr19.6bn.

STORYTEL RAISES SKr948m IN FRESH CAPITAL

Audio and e-book streaming service **STORYTEL** raised SKr948m (US\$96.9m) on Thursday in a primary ABB run by *ABG Sundal Collier* and *Swedbank*.

A total of 5.96m shares were sold representing around 9.6% of the company's pre-money share capital. Pricing came at SKr159 per share, representing a 2.2% discount to Storytel's closing share price of SKr162.60 on Thursday.

Analysts covering Storytel had predicted a primary raise in the coming months, meaning the share sale was fairly expected although timing was unknown.

The final book was around 70 lines and showed strong regional demand as well as money from France, Poland and Germany. UK money was plentiful and US accounts were also present. The top 10 orders took about 70%.

The deal launched with reference to market close and within 40 minutes investors were guided to pricing of SKr158-SKr159, and soon moved to the top.

Demand was strong, with investors said to be focused on the rarity of a fast-growing tech name in Europe.

The tight 2.2% discount was a function of the heavy demand as well as the strong performance of Storytel's share price, which has rallied about 55.2% in the past nine months.

A handful of new and existing names were wall-crossed and the offering received strong shareholder support, with most coming in for their pro rata share or more, according to a banker involved.

Shares fell below ABB pricing on Friday, and closed down 3.6% on the day at SKr156.80.

Storytel last raised cash in a SKr500m ABB in September 2018. That deal was run by the same syndicate and priced at SKr115 per share.

UK

INVESTEC UNIT NINETY ONE STARTS PRE-MARKETING

INVESTEC has launched pre-marketing for the spin-off IPO of asset management arm **NINETY ONE**, which will be dual-listed in London and Johannesburg.

Analyst meeting schedules have been booked for a while given that Ninety One's registration document was posted on January 31.

Investec is selling 10% of Ninety One through the IPO, and although there is no official guidance on the deal size, Investec indicated a valuation of around £1.89bn for Ninety One in a shareholder circular on November 29.

Investec owns 80% of Ninety One, with management holding the balance. Investec will distribute 55% of Ninety One stock to its shareholders and sell 10% in the IPO leaving it with 15% of Ninety One.

Banks will therefore have to price the IPO based on a book of 10% of the company but an effective free-float of around 65%.

Pre-marketing runs until March 2 when books open and bookbuilding will last until March 13 with a result and trading on March 16.

Demand is already said to be strong and varied, given that the deal has been public knowledge for a while and investors have had time to do research. Interest is particularly strong from the UK, Europe and South Africa. Investors are looking at London-listed asset management firms, including Ashmore, Merian Chrysalis and Schroders.

Investec's shareholders approved the demerger and listing of Ninety One on February 10, with 97.75% voting in favour.

JP Morgan is global coordinator, alongside bookrunners *Bank of America* and *Investec*. *Fenchurch Advisory* is advising.

NIPPON ACTIVE VALUE FUND RAISES £103m

Japan-focused **NIPPON ACTIVE VALUE FUND** closed its London Stock Exchange specialist fund segment listing on Wednesday raising £103m, having reached the £100m minimum sizing a week previously.

The fund invests in quoted companies that have the majority of their operations in, or revenue derived from, Japan. The focus is on companies valued at up to US\$1bn, with the aim of taking advantage of an increased focus on good corporate governance in Japan.

Nippon Active Value Fund had been launched on January 7 with ambitions of raising up to £200m, with up to 200m shares on offer at 100p. The deal was initially due to close on February 5, but was extended and secured the £100m minimum on February 13.

Of the 103m shares placed, 6.9m were issued through an offer for subscription and the intermediaries' offer.

The fund is managed by Rising Sun Management, which has already identified a number of investee companies and the proceeds of the float are expected to be substantially deployed within six months of listing.

The shares debuted on Friday at 102.5p, falling to 102p in the afternoon.

Shore Capital was bookrunner, intermediaries offer adviser and financial adviser. On listing, Shore Capital becomes the fund's corporate broker.

WAREHOUSE REIT PREPARES TO RAISE EQUITY

WAREHOUSE REIT, which owns and manages urban and last-mile distribution centres in the UK, is gearing up to issue more equity following a period of acquisitions and development.

Warehouse REIT raised £76.5m through a follow-on in March 2019, having spent the £150m raised in its September 2017 IPO. The company said on Monday that it has fully invested proceeds from the previous fundraising.

Investment adviser Tilstone Partners is in negotiations or has identified a pipeline totalling £352m. The pipeline has a target investment yield in excess of 6%.

In October, the company acquired the 29-acre Midpoint Estate for £15.5m and secured a £220m five-year debt facility.

Peel Hunt is NOMAD and broker, having run the previous placing and IPO.

Early stage discussions with investors regarding an equity raise are underway. The previous equity raise followed around a week after Warehouse REIT said it had fully deployed the IPO proceeds.

Warehouse REIT shares opened at 117p on Monday from the previous close of 118p and ended down 1.7% at 116p.

Warehouse REIT will pay a third quarterly dividend of 1.6p per ordinary share for the financial year to March 31, up from 1.5p in the previous six quarters.

URBAN LOGISTICS, which invests in industrial and logistics properties, is also in the market with a £106.7m placing, open offer and offer for subscription to part-fund a pipeline of £300m.

BENCHMARK ACHIEVES £43m FUNDRAISING TARGET

BENCHMARK HOLDINGS, an aquaculture health and nutrition company, has achieved its £43m target capital increase with demand nearly twice the stock available in the open offer that followed a placing last month.

There was demand for 30.7m open offer shares compared with 16.4m offered on a 1-for-34 basis, though most of this represented excess demand from a minority of shareholders. Shareholders ordered 5.6m shares within their entitlement, and 25m in excess of their rights.

The open offer raised £6.6m at 40p per share with the bulk of the fundraising completed in January through a placing of 91m shares at the same price.

Benchmark raised £43m to fund the development of its water purification product Cleantreat. It is a companion product to Benchmark's medicinal bath treatment to combat sea lice in salmon farms, removing medical residue and allowing clean water to be released into the sea.

Benchmark stock opened on Monday at 42.5p, flat to the February 14 close, and closed up 1% at 43p.

Benchmark shareholders voted in favour of the capital increase at an EGM on Monday.

Numis managed the fundraising.

FRP ADVISORY AIM LISTING RAISES £80m

The London AIM listing of restructuring firm **FRP ADVISORY** has raised £80m, with its share trading debut set for March 6.

A total of 100m shares were placed at 80p each, giving the firm a market cap of £190m upon admission.

Primary proceeds totalled £20m while secondary selling amounted to £60m. All of the selling shareholders are partners in FRP.

Post-IPO, the firm's partners hold 50% of FRP, and they have agreed to a lengthy lock-up of 36 months.

The offer was oversubscribed and attracted demand from high quality institutional investors. Primary proceeds will go towards strengthening FRP's balance sheet and any opportunistic acquisitions.

Cenkos Securities was nominated adviser, broker and bookrunner.

AMERICAS

UNITED STATES

IPOS SET TO REFILL CALENDAR

US ECM syndicate desks are ready to restock the IPO calendar for March despite some signs the market backdrop may be about to get tougher.

At this stage, the only IPO on the calendar is biotech *Passage Bio's* up to \$133.2m Nasdaq offering pricing on Thursday, February 27.

Yet much larger IPOs are preparing to begin roadshows in the coming few weeks, providing a broader test of investor appetite for new issues.

Music label Warner Music and building products company Azek are both now eligible to launch their IPOs after recent filings, while Canadian waste management company GFL Environmental has sent some strong signals it is contemplating a near-term launch.

Flying Eagle Acquisition, whose sponsor has been a prolific creator of SPACs, is another strong candidate launching its IPO in the coming week.

Shoe company Cole Haan and Fortive carve-out Vontier are not yet ready to launch but, as recent filers, they shape as two high-profile IPOs likely to price in March.

Two tough sessions to end the week – the S&P 500 was on track for its first down week in three – and higher volatility could complicate the task for some issuers.

In a holiday-shortened week, ECM activity slowed but banks were still able to price some large offerings.

The most noteworthy trend in secondary ECM was the return of sponsor sell-downs now that the corporate earnings season is mostly complete.

Dynatrace returned with a two-day marketed secondary that raised US\$862.5m mostly for sponsor Thoma Bravo, while Cortec collected the bulk of the proceeds in cooler brand Yeti's US\$480m pre-open block trade. Calendar watchers expect more sponsor sell-downs in the coming week.

DMY TECHNOLOGY RIGHT-SIZES IPO AT US\$200m

DMY TECHNOLOGY, a mobile telecoms-focused SPAC, gained 3.5% to US\$10.35 in early first-day NYSE trading on its Friday debut.

An upsize on the US\$200m raised on the IPO of 20m units priced at US\$10 each was possible, but dMY management did not want more money.

Goldman Sachs and *UBS* were bookrunners.

"This is a funny market," a senior banker involved said. "Obviously 'bigger is always better' is the mantra in capital markets. But having too much capital can be problematic for SPACs, because of the sponsor promote. The view that dMY management took is that they can always raise capital on the back-end."

dMY Sponsor, a vehicle controlled by dMY chairman Harry You, holds a 20% stake in the SPAC that it purchased for US\$25,000. That stake, known as the sponsor promote, is always 20% on US SPACs, regardless of size.

The bigger the size of the IPO, the bigger the sponsor promote, increasing the costs of an acquisition because of higher dilution to a target's owners.

dMY, which is headed by former Glu Mobile CEO Niccolo de Masi and chaired by You, the former CFO of Accenture, has set its sights on a mobile app or consumer internet target with an enterprise value of US\$500m-\$1.5bn.

At a potential 3.5-times leverage, dMY can comfortably hit that range without

raising additional equity. If additional equity is needed, it can do a private placement to get to the target, diluting You in the process.

Each unit sold comprises one common share and one-half warrant exercisable at US\$11.50 per full warrant, a little more investor-friendly than the one-quarter or one-third warrant on other recent SPAC IPOs.

The vehicle has a 24-month investment horizon with 100% of the IPO proceeds held in trust.

Management are only holding back US\$1m of the capital raised for working capital, though it does have flexibility to borrow up to US\$1.5m by borrowing from the sponsor.

DYNATRACE MAKES RAPID RETURN TO ECM

Private equity firm Thoma Bravo returned for the second time in less than three months to cut its stake in IT monitoring software company **DYNATRACE**, selling the bulk of the shares in an US\$862.5m two-day marketed follow-on.

Active bookrunners *Goldman Sachs*, *JP Morgan* and *Citigroup* resisted the temptation to upsize before pricing the 25m-share all-secondary offering at US\$34.50, a slim 2.5% discount to last sale and 1.8% file-to-offer discount.

Thoma Bravo cut its Dynatrace stake to 52.1% from 59.6% via the sale of 21.3m shares or 85% of those offered.

The syndicate signalled early in the marketing effort the offering was oversubscribed with good demand from new and existing investors.

Yet in a tough tape, Dynatrace shares were trading at US\$34 or below the offering price in Friday's session.

The price of the latest offering was well above the US\$24.75 set on Dynatrace's first-time follow-on in December and more than double its US\$16 IPO price.

US EQUITIES

BOOKRUNNERS: 1/1/2020 TO DATE

	Managing bank or group	No of issues	Total US\$(m)	Share (%)
1	Goldman Sachs	22	3,506.24	16.8
2	Morgan Stanley	21	2,896.49	13.9
3	JP Morgan	23	2,382.26	11.4
4	BofA	18	1,925.73	9.2
5	Citigroup	12	1,307.25	6.3
6	Barclays	11	1,020.42	4.9
7	Jefferies	16	974.14	4.7
8	Cowen & Co	16	920.62	4.4
9	UBS	9	779.19	3.7
10	Wells Fargo	13	770.82	3.7
	Total	110	20,827.31	

Including all domestic and international deals and rights issues

Source: Refinitiv

SDC code: C3r

Shares of Dynatrace touched a record US\$36.49 just days before the offering launched, benefiting from analyst price target increases since its reported upbeat fiscal third-quarter results on January 30.

To enable the deal to happen, Goldman Sachs and JP Morgan released insiders from a 90-day lock-up put in place alongside the December offering that was due to expire in early March.

▶ YETI INSIDERS CHIP OFF US\$480m

Private equity backer Cortec switched to the block format to monetise part of its remaining holding in cooler brand **YETI**, selling the bulk of the shares in a US\$480m pre-open risk trade early on Tuesday.

Sole bookrunner *Bank of America* made quick work of the block of 15m Yeti shares or 17.3% of outstanding, pricing the offering at US\$32.00, the bottom of a US\$32.00–\$32.50 range and a 2.6% discount to last sale.

With momentum running against it in recent sessions and the overall market down, Yeti stock struggled a little to hold that mark in the aftermarket. The shares traded as low as US\$31.66 before finishing at US\$32.13.

Cortec took Yeti public at US\$18.00 in October 2018 before pricing a 9.5m share secondary at US\$28.50 in May last year and a 10m share secondary at US\$29.00 in November, both after marketing to investors.

Tuesday's third follow-on, Yeti's first block, saw Cortec sell 11.3m shares in the base deal (13m with the greenshoe) to cut its stake to 21.2% from 34.2% previously.

Yeti founders Roy and Ryan Seiders sold about 3m shares between them, leaving them with a combined 9.8% stake or 9.3% with the 'shoe.

There is a 60-day lock-up on further sales by insiders.

The deal came on the heels of the previous Thursday's fourth-quarter earnings release, which saw Yeti beat Street EPS estimates but underwhelm with its 2020 forecast of adjusted earnings of US\$1.34–\$1.39 a share versus the US\$1.38 consensus.

"This is still a good relative price," one banker away from the deal said. "The cost base from their initial investment is a few bucks a share or something silly like that."

Though it once seemed like Yeti would find it hard to sustain its growth as a public company (in fact the IPO was delayed by two years to address these concerns), drinkware sales (up 34% to US\$192m in the fourth quarter) have now overwhelmed cooler sales (up 12% to US\$102.3m) and helped to give the company a fresh growth spurt.

Yeti's overall 2020 sales are expected to grow 13% to 15%, easing from 17% last year.

Passage Bio launches year's fifth biotech IPO

■ US Passage Bio looks to extend biotech IPO winning streak

Gene therapy specialist **PASSAGE BIO** launched marketing of its all-primary IPO last week after refreshing financials through the fourth quarter and full year to December 31.

JP Morgan, Goldman Sachs and Cowen are marketing 7.4m shares at US\$16–\$18 each for pricing after the market close on February 27.

Passage Bio is targeting a valuation of roughly US\$800m on the up to US\$133m offering, the week's only IPO.

The biotech is in pre-clinical development of gene therapies, continuing a trend of earlier-stage biotech IPOs this year.

It will be the fifth biotech IPO this year following the well received debuts of Black Diamond Therapeutics (up 95%), Arcutis Therapeutics (up 58%), Beam Therapeutics (up 58%) and Revolution Medicines (up 82%).

Passage Bio reported a net loss last year of US\$45.6m after spending US\$29.7m on R&D. Finishing the year with US\$159m in cash, it is looking to the IPO to boost liquidity to about US\$275m.

Passage Bio completed a US\$110m Series B private round in August at a US\$14.50 per share valuation, so the IPO is coming at a reasonable 1.1-times to 1.24-times step-up to that crossover.

BLAVATNIK BACKING

Access Biotechnology, an investment vehicle for billionaire Len Blavatnik, anchored the crossover with a US\$30m investment to give it a 6.5% pre-IPO stake.

Blavatnik is also the controlling shareholder of IPO-bound Warner Music.

Passage Bio has strong VC support from OrbiMed (19.6%), Versant Venture Partners (14.8%) and Frazier Life Sciences (13.9%).

Passage Bio was founded in July 2017 as a partnership with University of Pennsylvania's Gene Therapy Program, which is led by gene editing pioneer Dr James Wilson.

Wilson, a co-founder of Passage Bio, holds a 7% pre-IPO stake.

Passage Bio uses techniques developed by Wilson and his team to correct genetic defects that are believed to be the root causes of many central nervous system disorders.

The biotech plans to launch a Phase I trial of its lead drug in the second half of this year for a rare inherited disease that destroys nerve cells in the brain and spinal cord.

Two additional Phase I trials for two other drugs are planned for the first half of 2021, one is a treatment for Krabbe disease and the other for an inherited form of dementia.

Robert Sherwood

▶ ARTISAN PARTNERS CRAFTS LATEST SELL-DOWN

Active asset manager **ARTISAN PARTNERS ASSET MANAGEMENT** priced a US\$63.4m synthetic secondary block trade that allowed insiders to cash out some of their holdings.

Sole bookrunner *Citigroup* reoffered 1.8m Artisan Partners Class A shares late Wednesday at US\$35.25 each, inside the US\$35.10–\$35.45 reoffer range and a slim 1.6% discount to last sale.

Though the offering of just 2% of outstanding was notionally primary, Artisan Partners used the proceeds to purchase limited partner interests, including some from employees.

Shares of Artisan Partners came under modest pressure in the aftermarket session, falling to US\$35.24 or just below the offering price.

The block was the first since insiders sold about 600,000 shares to JP Morgan at US\$33.33 each in February 2018, and the seventh follow-on since Artisan Partners went public at US\$30.00 a share in 2013.

The offering came a day after Franklin Resources agreed to buy rival Legg Mason in a US\$4.5bn deal that underscored the push for consolidation among active fund managers as passive investment management continues to attract new funds flows at the expense of stock pickers.

Artisan Partners earlier this month reported firm-wide assets under management of US\$120.2bn, down slightly from the 2019 year-end level of US\$121bn but up from US\$96.2bn at the end of 2018.

The firm's employee stockholder committee still controls about 20% of the voting power of the company.

▶ REITS HIT HOT MARKET

West Coast-focused office space owner **KILROY REALTY** returned to the ECM fold by raising US\$430m from an upsized overnight bookbuild late Tuesday.

Back for the first time in 19 months, the one-time serial issuer priced the forward sale of 5m shares at US\$86.00, near the

Fortive readies Vontier IPO

■ US Industrial tech carve-out set for March, full split later in the year

Fortive, a 2016 spin-off from industrial conglomerate Danaher, is taking a page out of the corporate finance playbook of its former parent by moving ahead with the carve-out IPO of industrial technology arm **VONTIER**.

Vontier filed with the SEC on February 14 for a NYSE IPO that could raise US\$1bn–\$2bn and price as early as next month.

At this stage, *Goldman Sachs* is the only bank named on the cover of the filing, though other banks are likely to join the syndicate closer to launch.

The IPO will be effected by way of a tax-effective debt-for-equity exchange over a roughly 20% stake in the company.

In the second half of this year or about six months after the IPO prices, Fortive plans to make a tax-free distribution of its remaining 80% holding to its shareholders in exchange for Fortive stock.

On this month's earnings call, Fortive said the IPO could happen by the end of the first quarter if market conditions were supportive. The deal would leave Fortive to focus on its professional/technical instrumentation business that has recurring revenue, high margins, and strong free cashflow.

Fortive confidentially filed for the listing of what was then called TTF on September 6 last year, but only unveiled the Vontier name

(a combination of “via” and “frontier”) in mid-January.

Vontier's portfolio of products and services includes retail and commercial fuelling, fleet management, and professional tools brands such as Gilbarco Veeder-Root, Matco Tools, and Teletrac Navman.

Last year the business grew revenues just 4% to US\$2.8bn and posted an operating profit of US\$563.7m (20.3% of sales).

DEBT

Vontier would take on about US\$2bn of Fortive debt and “a couple of a hundred million” of cash at separation, Fortive CFO Chuck McLaughlin said at an investment conference on Thursday.

This would leave Vontier with around 2.5 times net debt/Ebitda or similar to Fortive's leverage after it separated from Danaher four years ago, McLaughlin said.

Fortive's own leverage would come down to 1.5 times to two times, and therefore both companies would have “firepower” to consider M&A deals.

“Vontier going forward is going to have ... very stable [and] strong free cashflow for them to deploy towards M&A,” McLaughlin said.

Danaher's IPO in September of its mature dental arm Envista, whose shares are up about one-third since its September debut, could provide a guide to Vontier's potential.

Anthony Hughes

15,554 units and went public in 2013, recently forecast net operating income growth of 4%-5.5% and core FFO per share of 79 cents to 82 cents in 2020.

► TWIST REMOVES LEGAL OVERHANG

Synthetic DNA maker **TWIST BIOSCIENCE** raised US\$130m from an upsized stock sale after settling an intellectual property dispute with Agilent Technologies earlier this month.

Twist's stock price was up 14% to US\$30.56 since the settlement was announced on February 6.

JP Morgan, Cowen, Evercore and *RW Baird* spent one day marketing a US\$100m fixed-size offering before pricing an upsized sale of 4.64m shares at US\$28.00, an 8.4% file-to-offer discount.

Twist agreed to pay Agilent US\$22.5m in cash in order to settle Agilent's claim that Twist's CEO Emily Leproust, a former Agilent employee, “misappropriated trade secrets” from Agilent when they formed Twist in 2013.

The proceeds more than offset the settlement payment while providing extra cash for developing Twist's synthetic biology platform.

Removing the legal overhang has invigorated Twist's stock price. Twist shares were up 16.5% to US\$33.13 at Thursday's close, its best finish so far this year.►

► BIOXCEL MAKES CONCESSIONS ON US\$64m OVERNIGHT RAISE

BIOXCEL THERAPEUTICS seized upon the positive momentum from recent news flow to raise US\$64m from an overnight stock sale.

The biotech discussed the financing to a select group of investors intraday Wednesday ahead of broader overnight marketing of 2m shares, a little more than six days' volume and 11% of outstanding.

Bank of America, Canaccord Genuity and *SunTrust Robinson Humphrey* were half-covered when they flipped the deal public with a marketing range at US\$32.00–\$35.00, a seemingly steep 22.2% discount to the US\$41.14 last sale at the bottom of the range.

They placed the 2m shares at US\$32.00, the bottom of that range, though BioXcel closed on Thursday at US\$34.20 and traded midday Friday at US\$36.92.

While it looks like a big price to pay, the hefty concession must be taken in the context of a stock that has nearly tripled this year and traded as low as US\$3.76 in November.

Privately held BioXcel Corporation, which spun off the biotech in early 2018, also owns 9.5m shares (52.6% pre-offer stake), representing a significant overhang.

middle of a US\$85.25–\$87.25 range and a 2.4% discount to last sale. The offering size was increased by 25% from 4m shares at launch.

JP Morgan, Barclays, Bank of America and *Wells Fargo* were joint bookrunners and the forward purchasers.

The forward structure means Kilroy has locked the equity at current prices while deferring stock dilution and can settle the forward by issuing stock to the forward purchasers over the next year.

Kilroy could use the proceeds to help fund six development projects worth US\$2.2bn it currently has under construction.

The REIT did not specifically flag an equity raise on its earnings call earlier this month, though CEO John Kilroy remarked that real estate capital markets remained wide open.

Multi-family apartment REIT **INDEPENDENCE REALTY** followed in Kilroy's footsteps by pricing an upsized US\$137.7m forward sale of equity late Wednesday that reloads its balance sheet ahead of the potential acquisition of US\$300m of assets in Atlanta, Georgia.

A syndicate led by *KeyBanc Capital Markets* and *BMO Capital Markets*, the latter also acting as the forward purchaser, late on Wednesday priced the sale of 9m shares or about 9% of fully-diluted shares outstanding at US\$15.30, the bottom of the US\$15.30–\$16.00 range and a 6.2% discount to last sale.

The offering was increased by 6% from 8.5m shares at launch.

Stifel, Bank of America, Robert Baird and *CapitalOne Securities* were passive bookrunners.

Assuming the forward is settled over the next year, Independence could use the proceeds to fund acquisitions or other investment opportunities, and also cut debt.

Alongside the offering, Independence revealed it recently signed a letter of intent to buy a portfolio of three assets in Atlanta, Georgia comprising 1,202 units that are 95% occupied.

The offering was Independence's first return visit to ECM since September 2017 when it raised almost the same amount, but at the much lower price of US\$9.25 a share.

The Philadelphia-based Independence, which owns 57 properties comprising

BioXcel Therapeutics is buying back 300,000 shares from its privately held parent if the 15% greenshoe is fully exercised.

With the offering proceeds, BioXcel has roughly US\$100m to fund drug development.

The biotech gained momentum in September when the FDA granted orphan drug designation for one of its drugs to treat acute myeloid leukaemia.

It struck a deal in December with MD Anderson Cancer Center to conduct Phase II trials on that same drug in combination with Merck's Keytruda in multiple solid tumours.

That trial is expected to kick off in the first half of this year with initial readouts in the second half.

BioXcel last month enrolled its first patient in a Phase Ib/II trial for a separate drug to treat agitation in patients with dementia, such as Alzheimer's disease sufferers. It is also conducting two concurrent Phase III trials on that same drug on agitation in patients with schizophrenia

COLE HAAN PUTS ON ITS IPO SHOES

Apax Partners-backed shoe company **COLE HAAN** registered publicly with the SEC on February 14 for a Nasdaq IPO.

The one-time Nike arm had previously filed confidentially on October 18 last year, but the public filing sets the company up to debut as early as next month.

Bank of America, Morgan Stanley, JP Morgan and Goldman Sachs lead a nine-firm syndicate.

In the half-year ended November 30 2019, Cole Haan grew revenues 15% to US\$403.1m and posted net income of US\$24.8m.

Cole Haan's same store sales growth was 3% in the latest half, though this is down from 13.1% in the previous corresponding period.

Cole Haan's balance sheet includes about US\$270m of net debt or less than three times last year's adjusted Ebitda of US\$94.8m (for the fiscal year ended June 1).

The offering is currently structured as an all-secondary sell-down by Apax instead of a primary offering to pay down debt often employed in sponsor-backed IPOs.

Cole Haan sells shoes online at colehaan.com, in 368 physical stores and via 450 wholesale accounts (the likes of Bloomingdale's, Amazon, Zappos and Stitch Fix).

The brand is traditionally associated with dress shoes, though its offerings have broadened in recent years to include casual, outdoor and sport footwear.

These categories now comprise 53% of sales and represent the fastest growing segments in the shoe business.

Axovant doubles down on gene therapy

US biotech leans on founder for US\$65m raise

AXOVANT GENE THERAPIES, the former Axovant Sciences once hailed as a pioneer in Alzheimer's research, gained a new lease of life with a US\$65m equity raise overnight on Wednesday that nearly doubled the size of the biotech.

SVB Leerink was sole bookrunner on a public offering of 17.33m equivalent shares at US\$3.75 each, a 14.4% discount to last sale.

The deal comprised 14.03m common shares and 3.3m pre-funded warrants. The new stock sold amounted to 79% of the 22.8m pre-offer shares outstanding.

Axovant closed Thursday's session at US\$4.51.

Even so, the equity raise was a humbling exercise.

Axovant, whose US\$362.5m IPO in 2015 was a biotech record at the time, is majority owned by Vivek Ramaswamy.

Ramaswamy, who owns a 58% stake through Roivant Sciences, a privately held incubator he controls, purchased 5.33m shares of common stock, fulfilling a US\$20m pledge at deal launch.

Because Axovant is a controlled company, it did not need to get shareholder approval for a stock sale exceeding 20% of the company, as required by Nasdaq and the NYSE.

The use of pre-funded warrants indicates that another shareholder other than Ramaswamy took a sizeable chunk of the offering and wanted to stay below the 10% ownership threshold that would deem them as affiliates and oblige them to disclose future stock sales.

The hype around Axovant's 2015 IPO is a distant memory.

Axovant's lead Alzheimer's drug, a big pharma cast-off, failed a Phase III trial in September 2017, causing its shares to collapse.

Roivant injected US\$25m in June 2018 that Axovant used to purchase a gene therapy drug, also a cast-off, for Parkinson's disease.

To meet listing requirements, Axovant completed a reverse 8-for-1 stock split in May.

There is some positive news.

Phase I/II trials on Axovant's Parkinson's drug saw patients gain improved motor skills on a low-dose version administered over 12 months.

As part of the same trial, Axovant is testing four patients at a higher dosage.

With US\$90m of cash in the bank, Axovant should be able to fund development of the Parkinson's programme through the end of Phase II trials.

Robert Sherwood

Apax bought the business from Nike for US\$570m in 2012.

In his letter to shareholders, Cole Haan CEO Jack Boys refers to the company as a "US\$1bn global performance lifestyle brand".

IMARA JOINS BIOTECH IPO QUEUE

IMARA is hoping to keep the hot streak of recent biotech new issues alive, filing on February 14 for a Nasdaq IPO that could price next month.

The venture-backed clinical-stage developer of drugs to treat genetic blood disorders has hired *Morgan Stanley, Citigroup* and *SVB Leerink* to lead the offering.

Imara's initial product candidate, an oral treatment for sickle cell disease, is in a Phase IIa trial that is expected to produce top-line data in the fourth quarter.

The biotech's main backer is venture capital firm New Enterprise Associates.

NEA owns 31.8% of Imara, having led a US\$45.8m Series B funding round in March last year.

Imara first filed confidentially with the SEC on August 15.

LIFESCI SPAC PUSHES MORE AGGRESSIVE TERMS

VC LifeSci Investment, sponsor of the US\$50m IPO of SPAC **LIFESCI ACQUISITION**, is now seeking to sell units structured with one-half warrant.

Just two months ago on the initial draft registration statement, LifeSci had structured the deal with a more investor-friendly full warrant.

LifeSci is also planning to withhold US\$600,000 of the proceeds from the IPO and founder warrants for working capital, versus the US\$450,000 initially proposed, with another US\$250,000 annual draw for working capital from interest earned on escrowed proceeds.

Chardan Capital Markets, is sole bookrunner, having managed other life sciences-focused SPAC IPOs such as Health Sciences Acquisition. That SPAC went on to acquire Immunovant last May and now trades at US\$17.20.

For technical investors, working capital draw provision and lower warrant gearing are a big deal, because the size of the draw is large relative to the trust proceeds.

ECM DEALS: WEEK ENDING 21/2/2020

Stock	Country	Date	Amount	Price	Deal type	Bookrunner(s)
Bendigo and Adelaide Bank	Australia	18/2/2020	A\$250m	A\$9.34	Follow-on (Primary)	Goldman Sachs
Charter Hall Retail REIT	Australia	21/2/2020	A\$1,000m	A\$4.81	Follow-on (Primary)	JP Morgan, UBS
Citadel Group	Australia	19/2/2020	A\$127m	A\$4.65	Follow-on (Primary)	RBC Capital Markets
Coles Group	Australia	19/2/2020	A\$1.05bn	A\$16.08	Follow-on (Secondary)	Macquarie, UBS
Orica	Australia	21/2/2020	A\$500m	A\$21.19	Follow-on (Primary)	Goldman Sachs
Viva Energy REIT	Australia	21/2/2020	A\$734m	A\$2.66	Follow-on (Secondary)	Bank of America, UBS
LightSpeed POS	Canada	18/2/2020	C\$250m	C\$37.30	Accelerated Bookbuild (Primary & Secondary)	BMO Capital Markets, National Bank Financial
Telus	Canada	19/2/2020	C\$1.3bn	C\$52	Accelerated Bookbuild (Primary)	RBC Capital Markets, TD Securities, CIBC, BMO Capital Markets, Scotiabank
WPT Industrial REIT	Canada	18/2/2020	US\$203m	US\$14.35	Accelerated Bookbuild (Primary)	Desjardins Securities, BMO CM, RBC CM
AK Medical	China	21/2/2020	HK\$803m	HK\$15	Follow-on (Primary)	Goldman Sachs
Avenue Supermarts	India	14/2/2020	Rs34bn	Rs2,316	Follow-on (Secondary)	Axis, Bank of America, HSBC, IDFC, JP Morgan, JM, Kotak
Azimut Holding	Italy	19/2/2020	€60m	€23.70	Accelerated Bookbuild (Secondary)	Bank of America, Intermonte
Daiwa House REIT Investment	Japan	19/2/2020	¥34.3bn	¥283,670	Follow-on (Primary)	Daiwa, Morgan Stanley, Nomura
Fugro	Netherlands	19/2/2020	€81.8m	€9.80	Accelerated Bookbuild (Primary)	ING, Rabobank (in cooperation with Kepler Cheuvreux)
BW Energy	Norway	17/2/2020	Nkr1.14bn	Nkr24.40	IPO (Primary)	DNB Markets, Pareto
Brait	South Africa	17/2/2020	R5.25bn	R6.60	Rights Issue	RMB advising
Ethos Private Equity	South Africa	19/2/2020	R750m	R7.50	Rights Issue	RMB as sponsor
Transaction Capital	South Africa	18/2/2020	R1.68bn	R23.50	Accelerated Bookbuild (Secondary)	Goldman Sachs, Standard Bank
Nyfos	Sweden	17/2/2020	SKr601m	SKr93	Accelerated Bookbuild (Primary)	ABG Sundal Collier
Nippon Active Value Fund	UK	18/2/2020	£103m	100p	IPO (Primary)	Shore Capital
FRP Advisory	UK	21/2/2020	£80m	80p	IPO (Primary & Secondary)	Cenkos Securities
Benchmark Holdings	UK	17/2/2020	£43m	40p	Follow-on (Primary)	Numis
Kilroy Realty	US	18/2/2020	US\$430m	US\$86	Accelerated bookbuild (Primary)	JP Morgan, Barclays, BofA, Wells Fargo
Artisan Partners Asset Manage	US	19/2/2020	US\$63.5m	US\$35.25	Accelerated bookbuild (Primary)	Citigroup
Axovant Gene Therapies	US	19/2/2020	US\$65m	US\$3.75	Accelerated bookbuild (Primary)	SVB Leerink
BioRxcel Therapeutics	US	19/2/2020	US\$64m	US\$32	Accelerated bookbuild (Primary)	BofA, Canaccord Genuity, SunTrust Robinson Humphrey
DMY Technology Group	US	20/2/2020	US\$200m	US\$10	IPO (Primary)	Goldman Sachs, UBS
Dynatrace	US	20/2/2020	US\$862.5m	US\$34.50	Follow-on (Secondary)	Goldman Sachs, JP Morgan, Citigroup
East Stone Acquisition	US	19/2/2020	US\$120m	US\$10	IPO (Primary)	IBS
Independence Realty	US	19/2/2020	US\$137.7m	US\$15.30	Accelerated bookbuild (Primary)	KeyBanc, BMO Capital Markets
Twist Bioscience	US	19/2/2020	US\$130m	US\$28	Follow-on (Primary)	JP Morgan, Cowen, Evercore, RW Baird
Yeti	US	18/2/2020	US\$480m	US\$32	Accelerated Bookbuild (Secondary)	Bank of America

Churchill Capital III, the Michael Klein-run SPAC, pushed similarly aggressive terms earlier this month on a significantly larger US\$1bn IPO, structured with one-quarter warrants units and a US\$1m annual working capital drawdown.

CANADA

TELUS BACKFILLS ACQUISITIONS WITH C\$1.3bn EQUITY RAISE

Fresh from a series of acquisitions late last year, **TELUS** dipped into the market overnight on Wednesday with a C\$1.3bn (US\$981.2m) stock sale, the Canadian telco's first public equity raise in nearly 30 years.

RBC Capital Markets and TD Securities headlined a syndicate of 13 banks that placed 25m shares, 4.1% of outstanding and more than 20-days' trading volume, at C\$52.00 or a 3.2% discount to last sale.

Allocations were geared towards "long-only investors" in what was a "very strong outing", one banker involved told IFR.

Telus flatlined throughout Thursday's session to close at C\$52.01, so some digestion may be needed to work through such a sizable commitment.

The banks were paid a 3.75% gross spread on the offering.

Telus itself last sold stock in 1991 and the current offering is the largest by a Canadian company since Restaurant Brands International's US\$1.28bn all-secondary stock sale last September, according to Refinitiv data.

Telus is an old-school telco whose operations now span wireless, legacy landline, internet, TV and, more recently, home security and international call centres. It beefed up the latter two through the purchases late last year of ADT's Canadian home security business for C\$700m and Germany's Competence Call Center for €960m (C\$1.3bn).

Telus plans to take the international call centre business public within the next 12 to 24 months.

The equity raise essentially backfills those acquisitions.

WPT INDUSTRIAL TARGETS INDEX INCLUSION

WPT INDUSTRIAL, an industrial property REIT whose assets are primarily located in the US, made the somewhat counter-intuitive decision last month to offer investors the flexibility to trade its shares in Canadian dollars.

Though already listed on the TSX, WPT's shares previously traded only in US dollars, aiding it in managing its balance sheet, but seen as an inconvenience from some Canadian investors.

The dual-currency manoeuvre laid the groundwork for a US\$203m all-primary bought deal overnight on Tuesday.

The Canadian REIT is using the proceeds

to fund an acquisition of assets in the US that was announced concurrently with the launch.

Desjardins Capital Markets, BMO Capital Markets and RBC Capital Markets reoffered 14.15m subscription receipts at US\$14.35, a 4.3% discount to the US\$14.99 last sale on Tuesday.

This stock sale followed a 1.8% run-up in WPT shares earlier on Tuesday, the first day trading was allowed in Canadian dollars.

Alberta Investment Management, which owns a 17% stake in the REIT, separately purchased 2.6m subscription receipts in a concurrent private placement.

WPT closed trading Wednesday trading at US\$14.52.

"We advised them to allow trading in Canadian dollars to bring in new investors," said one capital markets banker involved in the financing. "They can now qualify for inclusion in the S&P TSX REIT Index and the S&P TSX 300."

"I think you saw some of that expectation in today's [Wednesday] trading."

WPT is using proceeds from the stock sale to help fund the purchase of 26 US distribution and logistics facilities for US\$730m, representing a going-in cap rate of 5.5% and stabilised cap rate of 5.9%.

The REIT said the purchase would be immediately accretive to earnings.

WPT is acquiring the properties from Blackstone as part of the PE firm's acquisition last January of Canadian REIT Pure Industrial for US\$2.925bn, at a lower implied cap rate than what WPT is paying, suggesting there is indeed upside for WPT from negotiating new leases.

GLOBAL CONVERTIBLE OFFERINGS – EMEA

BOOKRUNNERS: 1/1/2020 TO DATE

Managing bank or group	No of issues	Total US\$(m)	Share (%)
1 JP Morgan	2	417.46	20.0
2 HSBC	1	278.38	13.3
3 Citigroup	1	278.38	13.3
4 BNP Paribas	1	278.38	13.3
5 Morgan Stanley	1	278.38	13.3
6 UniCredit	1	278.38	13.3
7 Barclays	1	278.38	13.3
Total	2	2,087.71	

Including exchangeables.

Source: Refinitiv

SDC code: C09d

LIGHTSPEED FUNDS GROWTH WITH C\$250m EQUITY RAISE

LIGHTSPEED POS, the Canadian-domiciled point-of-service software provider, made quick work of a C\$250m (US\$189.3m) equity raise, landing the capital overnight Tuesday.

BMO Capital Markets and National Bank Financial combined efforts on the placement of 6.71m shares, including 2.01m by selling shareholders, at C\$37.30 each, a 5.6% discount to the C\$39.52 last sale.

The banks were paid a 4% gross spread.

Lightspeed, which went public last March and conducted a similarly sized equity offering in August, is using proceeds from the primary component to accelerate the roll-out of its Lightspeed Payments network.

GLOBAL CONVERTIBLE OFFERINGS

BOOKRUNNERS: 1/1/2020 TO DATE

Managing bank or group	No of issues	Total US\$(m)	Share (%)
1 JP Morgan	8	1,844.19	12.8
2 BofA	6	1,625.97	11.3
3 Goldman Sachs	7	1,319.23	9.2
4 Morgan Stanley	6	1,300.10	9.0
5 Citigroup	6	1,167.55	8.1
6 Barclays	4	992.96	6.9
7 Wells Fargo	2	869.70	6.0
8 CICC	3	557.34	3.9
9 HSBC	4	540.52	3.8
10 BNP Paribas	2	478.38	3.3
Total	30	14,411.80	

Including exchangeables and domestic offerings.

Source: Refinitiv

SDC code: C9

ALL INTERNATIONAL ASIAN CONVERTIBLES

BOOKRUNNERS: 1/1/2020 TO DATE

Managing bank or group	No of issues	Total US\$(m)	Share (%)
1 Citigroup	3	737.81	17.9
2 Morgan Stanley	2	487.03	11.8
3 JP Morgan	3	425.78	10.3
4 BofA	1	372.03	9.0
5 Goldman Sachs	2	365.78	8.9
6 Credit Suisse	4	359.48	8.7
7 UBS	2	315.78	7.6
8 HSBC	2	225.78	5.5
9 Barclays	1	200.00	4.8
10 BNP Paribas	1	200.00	4.8
Total	9	4,130.06	

Including exchangeables.

Source: Refinitiv

SDC code: M10

Caisse de depot et placement du Quebec, the top selling shareholder, reduced its stake to 28.5%.

STRUCTURED EQUITY

UNITED STATES

NEXTERA MCB AUCTION NETS US\$2.5bn AT 5.279%

Following the well-known auction format it pioneered, NEXTERA ENERGY last week landed US\$2.5bn from the sale of a three-year mandatory convertible that printed with an inordinately precise annual dividend of 5.279%.

GLOBAL CONVERTIBLE OFFERINGS – US

BOOKRUNNERS: 1/1/2020 TO DATE

Managing bank or group	No of issues	Total US\$(m)	Share (%)
1 BofA	5	1,253.95	19.6
2 JP Morgan	3	1,000.95	15.6
3 Goldman Sachs	5	953.45	14.9
4 Wells Fargo	2	869.70	13.6
5 Morgan Stanley	3	534.70	8.4
6 Barclays	2	514.58	8.0
7 Jefferies	2	248.75	3.9
8 Truist Financial Corp	2	151.36	2.4
9 Citigroup	2	151.36	2.4
10 Mitsubishi UFJ Fin	1	36.36	0.6
Total	10	6,399.25	

Source: Refinitiv

SDC code: C9a

ALL INTERNATIONAL ASIAN CONVERTIBLES

(EXCLUDING JAPAN)

BOOKRUNNERS: 1/1/2020 TO DATE

Managing bank or group	No of issues	Total US\$(m)	Share (%)
1 Citigroup	3	737.81	19.0
2 Morgan Stanley	2	487.03	12.5
3 JP Morgan	3	425.78	11.0
4 BofA	1	372.03	9.6
5 Goldman Sachs	2	365.78	9.4
6 UBS	2	315.78	8.1
7 Credit Suisse	2	265.00	6.8
8 HSBC	2	225.78	5.8
9 Barclays	1	200.00	5.1
10 BNP Paribas	1	200.00	5.1
Total	6	3,884.98	

Including exchangeables.

Source: Refinitiv

SDC code: M11

EQUITY-LINKED DEALS WEEK ENDING: 21/2/2020

Issuer	Country	Date	Amount	Greenshoe	Tenor	Coupon/YTM %	Premium (%)	Bookrunner(s)
NextEra Energy	US	18/2/2020	US\$2.5bn	NA	3yr	5.28	25	JP Morgan, Wells Fargo, Bank of America
PegaSystems	US	19/2/2020	US\$525m	US\$75m	5yr	0.75	37.5	Goldman Sachs, Bank of America, JP Morgan, Barclays

The format is simple: provide all of the deal inputs at a fixed 25% conversion premium; present a term sheet to a dozen banks; and ask them to solve the dividend.

The top three bidders win the mandate, with the second-best setting the dividend and economics split 50%/30%/20% across the syndicate.

This time around it was *JP Morgan, Wells Fargo and Bank of America*. On a US\$1.5bn MCB printed at a tighter, 4.872% dividend last September, it was Barclays, Goldman Sachs and Credit Suisse.

"NextEra was happy as soon as they received all of the bids," said one banker involved. "We were pretty much done allocating Tuesday night but held the book opens for other global regions until Wednesday morning as a formality."

JP Morgan, Wells Fargo and Bank of America were forced to subsidize the deal economics by reoffering the MCB to investors at US\$48.75, a discount to the US\$50.00 par security, but above the US\$48.50 purchase price. If fully distributed, they made US\$12.5m on the trade.

"They made money, but investors lost money," said a second EQL banker involved in the September transaction. "The bids were a bit wider this around because NextEra had just issued the same security in September."

NextEra's 4.872% MCB closed Wednesday trading at US\$48.50 against a 2.6% decline in the underlying.

NextEra pioneered the format in 2012, after Bank of America was saddled with losses on its purchase of a US\$570m MCB.

For NextEra, the parent of Florida Power & Light and the largest utility by market cap in the US, the auction format is designed to secure low-cost equity funding as part of a balanced capex funding strategy.

The dividend it is paying on the new MCB represents a 328bp pick-up over the underlying common stock.

After spending a record US\$12.9bn on capex last year, NextEra expects to spend US\$15.2bn in 2020 and more than US\$60bn through 2024 as it transitions to renewable energy.

PEGASYSTEMS ACHIEVES AGGRESSIVE PRICING ON US\$525m CB

PEGASYSTEMS is the latest company to cash in strong investor demand for anything software-related by raising an upsized US\$525m on Wednesday from the sale of a five-year convertible bond.

While the template for software CBs is established, Pegasystems is more mature and is transitioning from licensed software to a subscription model.

Instead of the 40 implied vol typical of high growers, the lead banks suggested investors employ a high-20s vol, against the 26 realised over the past year, in modelling Pegasystems' new CB.

When paired with a L+225bp credit spread, Pegasystems' CB modelled about 1.5 points cheap at the midpoint of 0.75%-1.25% and 32.5%-37.5% market price talk.

Joint bookrunners *Goldman Sachs, Bank of America, JP Morgan and Barclays* were able to both upsize from the US\$450m targeted at launch to US\$525m as well as price at 0.75%, up 37.5%, the tight ends of talk.

On the final terms, Pegasystems was worth 99.5 in theory using the same credit and vol inputs.

Pegasystems' new CB closed on Thursday trading at 102 against a 3.7% rise in the underlying to US\$101.85.

"The market for software companies is hot," said one CB banker involved in the underwriting. "Investors are telling you that Pegasystems credit should be tighter or its vol higher."

Stated differently, Pegasystems' equivalent cost for five-year straight debt would be in the range of 3.5%.

Pegasystems achieved a straight-debt equivalent by spending US\$45.4m of the proceeds raised on a call spread to offset dilution to share prices above US\$196.44, double the reference price.

Pegasystems billionaire founder and CEO Alan Treffer continues to own a 50.4% stake in the company, dampening trading liquidity and creating an overhang on the stock.

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EDITOR

Matthew Davies
+44 (0)20 7542 7504

DEPUTY EDITOR

Equities/Structured equity:
Owen Wild
+44 (0)20 7542 8541

AMERICAS BUREAU CHIEF

Jack Doran
+1 646 223 6302

ASSOCIATE EDITORS

Features and analysis: Gareth Gore
+44 (0)20 7542 4279

US editor: Stephen Lacey
+1 646 223 8808

Fixed-income, Emerging markets:
Sudip Roy
+44 (0)20 7542 4617

People & markets: Steven Slater
+44 (0)20 7542 4367

Green/ESG Financing Editor:
Tessa Walsh
+44 (0)20 7542 4048

Derivatives: Christopher Whittall
+44 (0)20 7542 3256

MANAGING EDITOR

Philip Wright
+44 (0)20 7542 8144

IFR ASIA EDITOR

Steve Garton
+852 2912 6670

HEAD OF US CREDIT

Paul Kilby
+1 646 223 4733

HEAD OF ASIA CREDIT

Daniel Stanton
+65 6417 4548

EQUITIES EDITOR, ASIA

Fiona Lau
+852 2912 6673

ASSISTANT EDITORS: LONDON

Emerging Markets: Robert Hogg
+44 (0)20 7542 9077

People & markets:
Christopher Spink
+44 (0)20 7542 3814

Equities/Structured equity:
Robert Venes
+44 (0)20 7542 8326

NEW YORK

Equities: Anthony Hughes
+1 646 223 8174

SINGAPORE

Equities: Anuradha Subramanyan
+65 6417 4547

SENIOR CREDIT CORRESPONDENT

Kit Yin Boey
+65 6417 4549

SENIOR REPORTERS: LONDON

Fixed-income/Structured Finance:
Chris Moore
+44 (0)20 7542 5018

Fixed-income: Jon Penner
+44 (0)20 7542 7348

NEW YORK

Fixed-income: Miluska Berrospi
+1 646 223 7586

People & markets: Philip Scipio
+1 646 223 8767

HONG KONG

People & markets: Thomas Blott
+852 2841 5878

Fixed-income: Carol Chan
+852 2912 6604

SYDNEY

Fixed-income: John Weavers
+612 9373 1655

TOKYO

Fixed-income: Takahiro Okamoto
+813 6441 1773

REPORTERS: LONDON

Fixed-income: Edward Clark
+44 (0)207 542 7630

Fixed-income: Eleanor Duncan
+44 (0)207 542 5016

Fixed-income: Tom Revell
+44 (0)207 542 2794

Equities: Lucy Raitano
+44 (0)20 7542 4282

Fixed-income: Malicka Sielinou
+44 (0)207 542 6907

NEW YORK

Fixed-income: William Hoffman
+1 646 223 6141

Equities: Robert Sherwood
+1 646 223 8792

High-yield: David Bell
+1 646 223 8388

HONG KONG

Equities: Candy Chan
+852 2912 6672

Fixed-income: Jihye Hwang
+852 2843 1679

SINGAPORE

Fixed-income: Krishna Merchant
+91 9833847353

BEIJING

Equities: Karen Tian
+86 10 6627 1045

Credit: Yanfei Wang
+86 10 6627 1104

CREDIT EDITOR

Alex Chambers
+44 (0)20 7542 8389

DEPUTY CREDIT EDITOR

Helene Durand
+44 (0)20 7542 3469

NEWS EDITORS

Julian Baker
+44 (0)20 7542 7432

DESK EDITORS

Vincent Baby
+852 2912 6612

Ian Edmondson
+44 (0)20 7542 9703

David Holland
+852 2912 6676

CHIEF SUB-EDITOR

Richard Stanbury

EDITORIAL ASSISTANT
Anna Farish
+44 (0)20 7542 3474

BUREAU CHIEF: LONDON

Chris Mangham
(IFR Associate Editor)
+44 (0)20 7542 3582

BUREAU CHIEF: HONG KONG

Prakash Chakravarti
+852 2912 6671

BUREAU CHIEF: NEW YORK

Michelle Sierra
+1 646 223 8592

DEPUTY EDITOR: ASIA-PACIFIC

Chien Mi Wong
+852 2912 6611

SENIOR REPORTERS: LONDON

Sandrine Bradley
+44 (0)20 7542 0651

Alasdair Reilly
+44 (0)20 7542 3197

Claire Ruckin
+44 (0)20 7542 1891

NEW YORK

David Brooke
+1 646 223 4697

Kristen Haunss
+1 646 223 6790

Aaron Weinman
+1 646 223 6278

HONG KONG

Apple Li
+852 2912 6685

Evelynn Lin
+852 2912 6607

SINGAPORE

Mirzaan Jamwal
+65 6417 4541

SYDNEY

Mariko Ishikawa
+61 2 9321 8179

TOKYO

Wakako Sato
+813 6441 1876

REPORTER: LONDON

Prudence Ho
+44 (0)20 7542 2875

Kerstin Kubanek
+44 (0)20 7542 0631

NEW YORK

Daniela Guzman
+1 646 223 6667

Andrew Hedlund
+1 646 223 5558

Sasha Padbidri
+1 646 223 4442

PRINT/WEB PRODUCTION, LONDON

Head of production: Clive George
+44 (0)20 7542 3869

IFR production manager:
Carole Styles

Andreas Michael, Nita Webb,
Gavin White

GLOBAL HEAD – ADVERTISING & SPONSORSHIP SALES

Shahid Hamid
+65 9755 5031

ADVERTISING & SPONSORSHIP

SALES DIRECTOR
Leonie Wells
+44 (0)20 7542 7752

GLOBAL ADVERTISING PRODUCTION MANAGER
Gloria Balbastro
+44 (0)20 7542 4348

SUBSCRIPTION SALES ENQUIRIES
UK/EMEA: +44 (0)20 7542 4569
Americas: +1 646 223 5543
China, Hong Kong, Japan, Korean, Taiwan
Alan Wong +852 2912 6606

Australia, India, Indonesia, Malaysia,
Singapore, Thailand
Samantha Harris +612 9373 1749

CLIENT SERVICES

IFR.Clientsupport@refinitiv.com

NEW ISSUES LEAGUE TABLE & DATABASE

Loans: Iolanda Barbati
+44 (0)20 7542 0971

ECM: Rebecca Cox
+44 (0)20 7542 7376

DCM: Ian Willmott
+44 (0)20 7542 4376

REPRINTS OR LICENCE TO COPY

Gloria Balbastro
+44 (0)20 7542 4348

E-MAIL ADDRESSES

firstname.lastname@refinitiv.com

LONDON, HEAD OFFICE

30 South Colonnade
Canary Wharf
London E14 5EP
Tel +44 (0)20 7250 1122

NEW YORK

3 Times Square
18th Floor
New York
NY10036

HONG KONG

18th floor, ICBC Tower
Three Garden Road
Central
Hong Kong
Tel +852 3761 1800

SINGAPORE

18 Science Park Drive
Singapore 118229
Tel +65 6775 5088

INTERNATIONAL FINANCING REVIEW INDEX

3G Capital	9	Converge ICT Solutions	91	International Capital Market Association	23	RELX	36
ABSA Bank	78	Corp	76	Intesa Sanpaolo	4, 39	Renault	46
Abu Dhabi	70	Council of Europe Development Bank	27	Invenergy	81	ResApp Health	13
Acleda Bank	87	Covivio Hotels	35	Investec	95	Risk Strategies	73
ACProducts	73	CPPIB Capital Inc	28	Investec Bank	78	Riyad Bank	63
Advantage Solutions	81	Credit Acceptance Corp	52	ION Group	73	RMZ	90
Airtrunk	86	Credit Agricole	43	Islamic Development Bank	27	Sabre Industries	82
AK Medical	90	Credito Real	72	Islandsbanki	38	Salt	84
Alstom	77	Credit Suisse	41	Itau Unibanco	70	Santander Consumer Bank	40
American Honda Finance	52	Daejan Holdings	79	Ivory Coast	69	Santander UK	41
Amgen	31	Daiwa House REIT Investment	91	Jaguar Land Rover	8, 45	SBI Cards and Payment Services	90
AMP Bank	53	Dar Al-Arkan	69	Jiangxiaobai	89	Scape Australia Management	10
AMP Group	42	DBS Group Holdings	65	JP Morgan	17, 19, 37, 52	Scenic	84
Anheuser-Busch InBev	9	Delhi International Airport	68	KfW	30	SF Holding	75
Antero Resources	45	Dexus	36	Kilroy Realty	97	Shanghai Benemae Pharmaceutical	89
Archer	78	Diebold Nixdorf	85	Kingdom of Belgium	29	Shanghai Zijiang Enterprise	90
Argentina	71	dMY Technology	96	Kissner Group	81	Shenzhen Expressway	65
Arion Bank	38	Doncasters	86	Kommuninvest	30	Shenzhen Hepalink Pharmaceutical	89
Artisan Partners Asset Management	97	Dow Chemical	33	Kraft Heinz	8, 46	SIA	93
Asia Pacific Resources International	76	DP World	12, 70	Landsbankinn	38	SNCF SA	30
ASML Holding	34	DSV Panalpina	35	Laredo Petroleum	45	Societe Generale	40, 42
Asymchem Laboratories (Tianjin)	10	DTE Electric	32	Lear	38	SoftBank Group	76
Auchan	46	DTGO	10	LifeSci Acquisition	99	SR-Boligkredit	43
Aurizon Network	37	Dubai Islamic Bank	70	Lightspeed POS	101	Stage Entertainment	84
Australian Office of Financial Management	31	Duff & Phelps	80	Luminor Bank	68	Standard Bank	78
Autonomous Community of Madrid	28	Dwr Cymru	36	Macy's	9	Storytel	95
Autoroutes Paris-Rhin-Rhone	77	Dynatrace	96	Mattamy Group	45	Sundyne	81
Avanti Finance	37	Ecopetrol	72	Medforth	83	Suzano	71
AVI-SPL	81	Egypt	68	Mexico	12	Suzano Papel e Celulose	80
Avolon Aerospace	52	Eiffage	77	MGM China Holdings	10	Swedish Match	35
Axovant Gene Therapies	99	Eiffarie	77	Micro Focus International	83	Swissport	84
Azimut Holding	93	Emirates NBD Bank	69	Mindspace Business Parks REIT	90	Sydney Airport	11
Bahrain	69	Empresas CMPC	80	Minera Centinela	80	Syngenta	36
Banca IFIS	40	EQT Corporation	9, 45	Mitr Phol Sugar Corp	76	Tallgrass Energy Partners	44, 45
Banco de Credito e Inversiones	71	Esmalglass	85	Mitsubishi UFJ Financial Group	38	Tecomet	81
Banco Santander	43	Esselunga	46	Mizuho Financial Group	38	Telus	100
Bank of America Merrill Lynch	47	Ethos Private Equity	94	Mobimo	36	Terega	35
Bank of China	65	E*Trade Financial	16	Modern Land (China)	14	ThoughtWorks	83
Bank of Communications (Hong Kong)	65	European Stability Mechanism	30	Morgan Stanley	16	ThyssenKrupp	46
Bank of England	28	Exasol	93	MRI Software	73, 82	TIBCO Software	83
Bank of Ningbo	11	Fair Square Financial	50	MSCI	45	Tosca Services	81
Barbeque-Nation Hospitality	91	Ferreycorp	80	Municipality Finance	30	TPG Telecom	74
Bausch Health	80	Fibra Uno	80	Musti Group	92	Transaction Capital	94
BCEI (HongKong)	74	Fibria Celulose	80	NAB Capital Notes 4	42	Trans Retail Indonesia	11
BCI	72	FirstEnergy	31	Nacon	92	Treasury Corp of Victoria	31
Beijing Construction Engineering Group	11	FMS Wertmanagement	27	National Australia Bank	42	Treasury Corporation of Victoria	31
Beijing Roborock Technology	89	Ford	52	National Highways Authority of India	90	Twist Bioscience	98
Benchmark Holdings	95	Freeport McMoRan	45	National Securities Depository Limited	91	UBI Banca	4
Bendigo and Adelaide Bank	13, 88	FRP Advisory	96	Natixis	6	UBS	15
BHP Group	78	Fugro	47, 77, 93	Naturgy Renovables	78	United Technologies	32
Big Hit Entertainment	92	Fujian Yuanli Active Carbon	10	Nedbank	78	Urban Logistics	95
Bio-Thera Solutions	89	Futura 2019	48	New South Wales Treasury Corp	30	Vallourec	77, 92
BioXcel Therapeutics	98	Gazprom	63	NextEra Energy	101	Varde Partners	48
BNP Paribas	37, 38, 65	Gedesco	49	Ninety One	95	Vast	83
Boels	84	General Motors	34	Nippon Active Value Fund	95	VCL 30	48
BPCE	41	General Property Trust	36	Norinchukin	49	Veeam Software	81
BPER Banca	4	Genesis Care	85	Northern Territory Treasury Corp	31	Vena Energy	64
Britvic	79	Gerflor	84	Nyfosa	94	VF Corp	33
BW Energy	94	GFL Environmental	87	Oaktree Capital	22	Vietnam Technological & Commercial	11, 77
Cadent Gas	33	Giochi Preziosi	93	Oil & Gas Development Company	91	Virgin Money UK	40
Cast & Crew	82	Godrej Properties	90	Omnicom	79	Viva Energy	13
Catalent	45	Goldman Sachs	48	Ontario Teachers' Finance Trust	30	Vizient	81
CELFS Advisors	49	Grosvenor Capital Management	81	Orica	13, 88	Vodafone Hutchison Australia	74
Charter Court Financial Services	47	Guozhen International Trade Consulting	68	Otis Worldwide	32	Volkswagen Financial Services Japan	53
Charter Hall Retail REIT	13, 88	Hinode 1 GK	76	Pakistan Petroleum	91	Volkswagen Leasing	48
Chesapeake Energy	45	Hitachi	76	Panchshil Realty	90	Vontier	98
China Aoyuan Group	75	Hoist Finance	41	Parque Eolico	80	Wales & West Utilities	36
China Bohai Bank	88	Honeywell International	34	Passage Bio	97	Warehouse REIT	95
China Datang Overseas (Hong Kong)	75	Hovnanian	82	Pegasystems	102	Whirlpool	34
China Forestry Treasury Center	74	HSBC	4, 21	Pemex	9	Wincon Hong Kong Investment	75
China Merchants Port Holdings	74	Hub International	83	Pepper	53	WingArcIst	91
China Resources Land	90	Hygeia Healthcare	89	Petroleum Geo-Services	78	WPT Industrial	100
China South City	14	Hypo Vorarlberg Bank	42	PNC	38	Wuxi Longsheng Technology	10
Citadel Group	13, 74, 88	Iberdrola	80	Polynt-Reichhold	83	WW Grainger	79
Citic Capital Holdings	75	Imara	99	Port and Free Zone World	12	Yango Group	14
Citrix	38	Independence Realty	98	Port of Brisbane	37	Yeti	97
Colbun	72	IndOil Montney	75	Power Grid Corporation of India	90	Yuexiu Transport Infrastructure	65
Cole Haan	99	Indomobil Finance Indonesia	76	Prestige Estates	90	Zayo Group	43, 82
Coles Group	13	Industrial and Commercial Bank of China	68	PTC India	90	Zhenro Properties	14
Columbus Capital	53	ING	15	Qinghai Provincial Investment Group	68	Zuercher Kantonalbank	42
Commonwealth Bank of Australia	53	ING Groep	25	Qlik	73	Zurich Insurance	41
Commonwealth Edison	32	Inovyn	83	Queensland Treasury Corp	31		
ConnectWise	73	Integrity Marketing Group	73	RAC	79		
ContourGlobal	78	Intermediate Capital Managers	49	Range Resources	45		

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