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'Jumbo' bond deals help address liquidity concerns

By Nicole Bullock and Joe Rennison

A multibillion-dollar corporate bond used to stop traffic on Wall Street, but "jumbo" and "mega" deals have become commonplace.

In 2015, more companies have engaged in bond deals of at least $10bn — 12 in all — than in the five years prior combined, totalling $157bn of debt, according to Dealogic. Of the top 10 largest bond sales ever, half of them have been this year while eight have happened since 2013, including offerings from Verizon and Apple.

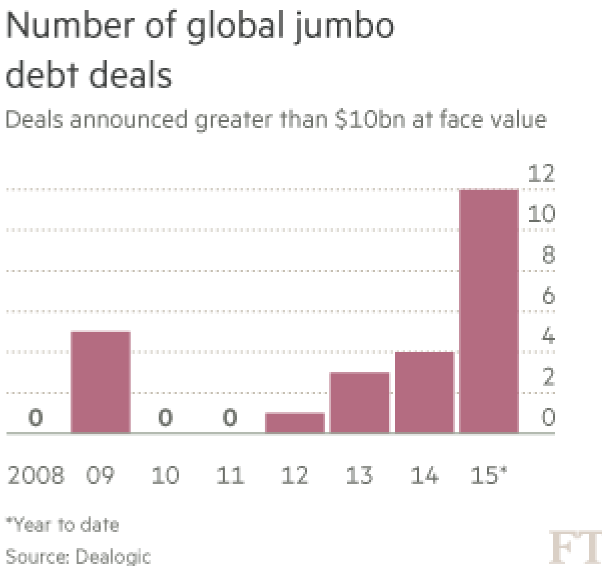
The growth of large deals comes amid a neat match of supply and demand in the market. With debt cheap, companies have been able to raise large sums to support a resurgence in mergers and acquisitions and a wave of buybacks and dividends.

Meanwhile, buyers of the mega bonds have been keen on a deal size that is big enough to make for easy trading at a time when liquidity has been sapped from the corporate bond market.

"Whichever way you cut it there has been a sharp uptick in the deal count proportion of $2bn plus, $5bn plus and $10bn plus deals," says Jonny Fine, head of investment grade syndicate in the Americas at Goldman Sachs. "Big to large to jumbo deals are occupying a larger portion of deals coming to market than ever before."

An M&A boom has provided the fodder for many of the recent deals. Charter Communications raised $15.5bn for its takeover of Time Warner Cable, for example, while Intel on Wednesday sold $7bn to fund its buy of Altera Corporation. Mr Fine says that acquisition financing raised in the US dollar bond market so far this year totals $174bn versus $32bn in the same period in 2014.

Other bond deals have supported a years-long trend of borrowing cheaply to pay shareholders dividends and to buy back shares, with Apple being the most visible company to employ the strategy in recent years.



Low interest rates have made acquisitions and shareholder returns advantageous now, but looming rate increases from the Federal Reserve, potentially as soon as September, also create an incentive for companies to issue as much debt as possible — sooner rather than later.

"I see it as being for multiple reasons, one of which is to fund M&A or other shareholder friendly activity and the other is to simply take advantage of the low interest rate while it is there and max it out to whatever level they can," says Jennifer Vail, head of fixed income at US Bank Wealth Management.

For investors, larger deals have become increasingly attractive. Post-crisis regulation has meant that Wall Street dealers no longer hold the large inventories of bonds they used to stockpile in order to facilitate trading. The ramifications for overall liquidity have made investors increasingly cautious about the potential exit strategy when they are buying bonds.

"You don't have some of the fears that if the credit goes south, can you get rid of it? And the odds are it is going to be a good trader," says Dan Fuss, vice-chairman of Loomis Sayles. "If you take on a smaller one and things start to change, you are stuck."

The companies that issue these megadeals also tend to be well-known blue-chips. For many, large investors have already done the research on them. M&A funding is also well-heralded, giving managers time to make room in their portfolios.

"Another advantage is that there is more opportunity for firms like ourselves where you take the bigger deal and break it up in many pieces to satisfy the needs of 50 to 100 separate accounts," Mr Fuss says.

Mega deals can also help to satisfy the appetite of the investors that have grown over the years into mega managers like BlackRock and Pimco, while still leaving some bonds for other investors.

$174bn

Total acquisition financing raised in US dollar bond market so far this year, versus $32bn in same period of 2014

Mr Fine says that investor appetite can favour different types of issuers at different times. From 2000 to 2005, by contrast, investors were interested in diversification through new companies and new regions, leading to a rise in foreign issuance.
The demand for liquidity now has concentrated trading in the companies with the largest debt pools. While that satisfies investors it creates a more difficult environment for smaller issuers.

“Those companies that might be smaller and looking to raise a much smaller transaction for refinancing or if they have small expansion needs, it is challenging for those companies to access the market,” Mr Fine says. “With the presence of liquidity and the sheer weight of supply we are seeing, investors can afford to be much choosier in how they allocate their capital.”