Jumbos – the next generation?

The market had been predicting a second 'massive' jumbo (ie $25bn) syndicated loan following the Vodafone financing earlier in the year – a safe bet considering the level of activity in the telecoms sector alone.

It was not disappointed. This benchmark was reached with France Telecom's €30bn financing in support of its acquisition of Orange. The deal, still in the market at the time of writing, carries a headline margin of 32.5bp to 42.5bp (priced off ratings).

The arrangers have adopted the well-tried strategy of a sub-underwriting phase at which the clear intention is to achieve a healthy oversubscription, thereby reducing the reliance on the general syndication stage.

This pricing truly reflects the value of the strong underlying credit quality of the borrower and the expectation of delivery of ancillary business. The days of the 'priced to sell' scenario that we experienced in 1999 are long gone.

Has the market the appetite to swallow this particularly weighty pill? It was certainly keenly anticipated by the banking community and seems to be receiving positive feedback at this early stage.

Capacity

While there may be questions on capacity for telecoms transactions generally, it appears that this strong and well-established borrower will successfully carry the 'largest euromarket syndicated loan' baton through the market. However, it remains to be seen just how robust the market will remain for this sector.

So where next? The jumbos will continue to come and it is clear that the market welcomes a rare foray into the loan market by Unilever with a $22bn facility to support its acquisition of Bestfoods of the US. Early signs indicate that 'old economy' borrowers will prove to be an attractive alternative for most banks that actively manage their portfolios and are keen to maintain a balanced approach for their book.

It is of course important to remember that for each jumbo there are many smaller syndicated loans to be completed. Undoubtedly pricing across Europe for such borrowers has seen a clear uptick over the last 12-18 months and now appears reasonably settled with all-in pricing for strong BBB/A credits typically in the mid 40bp pa range.

However, with many of the historic supporters of these sort of deals increasingly concentrating resources on the jumbo deals, so the banks' focus is now on the possibility of real additional business if success for syndication is to be ensured.

Competition remains as fierce as ever; and the ability to provide a 'one-stop shop' solution is appealing to borrowers and will inevitably reduce the number of houses who can compete on equal terms. ■

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INTERNATIONAL LOANS

These are a selection of loans announced recently. The details, updated to the middle of last month, were supplied by *IFR Securities Data, London* and other sources.

Borrower	Type	Amount (m)	Term (yrs)	Margin Libor+ (bp pa)	Fees: Commit. (bp pa)	Fees: Front-end (type)	Fees: Front-end (bp)	Arranger (s)
British Telecommunications plc	RC	GBP16,000	(a)	(b)	(c)	Arr	2.5 (d)	(e)
Syndication signed. Comment: (a) 364-days with six-month term-out option. (b) 20bp over Libor months 1-6, 40bp over Libor months 6-12, 50bp over Libor months 12-18. (c) 5bp months 1-6, 15bp thereafter. (d) To underwrite GBP2,290m. (e) ABN AMRO, Bank of America Barclays, BNP Paribas Group, Deutsche Bank, SSSB/Citibank, Goldman Sachs, ING Barings, HSBC, Lehman Brothers, National Australia Bank, Royal Bank of Scotland/NatWest, Toronto-Dominion, UBS Warburg, WestLB.								
Carphone Warehouse	RC	GBP150	3	(a)	42.5	Sen Lead	(b)	HSBC Lloyds TSB
Syndication in process. (a) 100bp over Libor stepping down to 85bp over Libor. (b) 20bp for GBP10m.								
Enterprise Inns	TL RC	GBP150 GBP200	7 7	(a) (a)	(b) (c)	Co-Arr Lead Man	(d) (e) (f)	Deutsche Bank
Syndication in process. Comment: (a) 110bp over Libor out of the box, ratcheting thereafter in line with interest cover and debt to EBITA ratios to a 135bp ceiling and 65bp over Libor floor. (b) 15bp until drawndown. (c) 40% of margin. (d) 30bp for GBP30m. (e) 25bp for GBP20m. (f) 20bp for GBP10m.								
Pearson Deutsche Bank	RC	USD2,000	5	(a)	18.75	Co-Arr Util	(b) Lead (d) West LB	Bank of America (c) HSBC
Syndication in process. Comment: (a) 40bp over Libor. (b) 18.75bp for GBP110m. (c) 15bp for GBP70m. (d) If geater than 50% use: 7.5bp utilisation fee.								
Rexam	RC RC	USD1,600 GBP2,000	(a) 5	(b) (c)	(d) (d)	Co-Arr Co-Arr	(e) (e)	(f)
Syndication in co-arranger phase. Comment: (a) 364-day with 18-month term-out option. (b) 100bp over Euribor, ratcheting on a net debt to EBITDA grid. (c) 95bp over Euribor, ratcheting thereafter on a debt to EBITDA grid. (d) 50% of the applicable spread. (e) 30bp to underwrite USD175m, further 30bp on final take. (f) ABN AMRO Bank, BNP Paribas Group, SSSB/Citibank, CSFB, HSBC, Lloyds TSB, WestLB.								

RC = revolving credit, TL = term loan, REV = revolver, M = mezzanine, LC = letter of credit.