

Gushing over water deals

Some in the capital markets are already calling it a drought bond and there are suggestions it may be the first of a trickle, if not a flood, of similar deals in the water sector.

Southern Water Services has raised €200m through a 45-year bond priced at close to equivalent UK gilts.

Southern Water supplies water and deals with wastewater across most of the counties in the south of England – one of the worst affected regions last summer during the rainfall shortages. The company said that it was using the money to fast-track more than 50 investment schemes.

Bond insurer-wrapped in order to ensure a triple A rating, the 2052 issue will pay a coupon of 4.5%.

“This fixed-rate bond will help us to continue to deliver major service and environmental improvements to our customers and at a rate that makes it among the cheapest funding of its kind raised this year,” said Southern Water’s Finance Director, Howard Goodbourn.

Southern Water is planning £1.6bn of investment in the current five-year regulated period in which it, like many other water companies, is charged with improving customer service, upgrading water quality and wastewater services and safeguarding resources.

Lead manager on the issue was Royal Bank of Scotland, whose parent company indirectly controls Southern Water.

It may have been overshadowed by the subsequent controversial takeover approach by its Irish arch-rival Ryanair, but **Aer Lingus’s** €1.1bn flotation – one of the first outright British or Irish privatisations in years – was judged successful by the Dublin government.

In a wobbling initial public offering (IPO) market, the formerly state-owned Irish national airline raised €501m through the issue of new ordinary shares priced at €2.20 a share.

After exercising over-allotment options, the Irish government was left with a 28% stake, with employees and staff trusts speaking for another 12%. A further 12% initially ended up in the hands of small investors, mainly the Irish share-buying public, while the rest was snapped up by international institutions.

“The level of interest was particularly positive both in Ireland and overseas,” said Dermot Mannion, Chief Executive of Aer Lingus. “It reflects the market confidence in this airline and its continued future as a profitable and competitive company.”

The share offer and subsequent Ryanair takeover interest tied up much of Dublin’s financial community.

Allied Irish Banks and UBS acted as financial advisers to the Irish government and joint sponsors, global co-ordinators and bookrunners.

Aer Lingus’s financial advisers, Merrion Stockbrokers and Goldman Sachs, acted as joint lead managers.

Ryanair’s offer, initially pitched at €2.80 a share, was made by the budget carrier’s advisers Davy Corporate Finance and Morgan Stanley.

In tapping the European high-yield market, Japanese technology giant **Softbank** is reckoned to be only the second Far Eastern company to test the euro waters.

Earlier this year, Softbank snapped up the Japanese mobile phone operations of Vodafone in a \$16bn deal, which represented Asia’s largest-ever leveraged buy-out.

With Deutsche Bank acting as sole adviser on the deal, Softbank issued €500m of 7.75% senior notes, due 2013.

The proceeds of the issue are being used to refinance short-term debt.

“Japanese businesses have barely tapped the high-yield market but this is changing,” said Rob Mathews of London law firm White & Case, which advised Deutsche Bank on the issue.

“Potential issuers are becoming more comfortable with the high-yield product.

“With appetite from underwriters and investors, we expect there to be more issues in future by Japanese companies. A substantial driver of this will be the growing Japanese leveraged buy-out market.”

Robert Lea is City Correspondent of the London Evening Standard

ECM ISSUANCES

ISSUER	DATE	TYPE	DEAL VALUE	TRANCHE SHARES OFFERED	TRANCHE OFFER PRICE	EXCHANGE	BOOKRUNNERS
Aer Lingus Group plc	27/9/2006	IPO	\$940m	277,764,346	\$2.79	Dublin, London	Allied Irish Banks, UBS

BONDS

BORROWER	DATE	CURRENCY	TRANCHE VALUE	DEAL VALUE	TRANCHE COUPON	TRANCHE OFFER PRICE	TRANCHE YEARS TO MATURITY	TRANCHE SPREAD TO BENCHMARK	BOOKRUNNER PARENT
Thames Water Utilities Finance plc	15/9/06	sterling	\$456m	\$1.9bn	4.8%	97.7%	3.756	59bp	Barclays Capital, Deutsche Bank
Thames Water Utilities Finance plc	15/9/06	sterling	\$1.1bn	\$1.9bn	5.1%	99.8%	31.000	93bp	Barclays Capital, Deutsche Bank

All data provided by Dealogic. www.dealogic.com 