Cheap money dries up as debt markets put higher price on risk

The main feature of the debt markets as they try to shake off the clutches of the credit crunch appears to be the ending of cheap money, at least for now.

Fresh from the finalisation of its £9bn takeover of the Franco-Spanish tobacco giant Altadis, **Imperial Tobacco** raised nearly £1.2bn to deal with the debt taken on in the deal.

Altadis is best known for its Spanish cigarettes Fortuna and its iconic French brands Gauloises and Gitanes.

Imps – best known in the UK for its Lambert & Butler, John Player and Embassy brands – launched a two-part euro and sterling bond issue, arranged by Barclays Capital, Deutsche Bank, HSBC and Royal Bank of Scotland.

But given the market conditions for a deal already more than a year old in the execution, the group is paying a higher price than envisaged to pay off the acquisition loan on the deal.

A Eurobond raised €750m, paying a coupon of 7.25% on a maturity date of 2014, 275 basis points over midswaps.

The 15½-year sterling bonds are paying 8.125%, 335 basis points over swaps.

Group treasurer John Jones said the group would be back in the debt markets as it looked to pay off the €3.5bn loan put in place to finance the deal.

"We do have more finding to do going forward," said Jones. "We're unlikely to return to sterling or euro markets again in the near future but we are certainly considering our other options, including the dollar market."

Saint-Gobain, the giant French building materials group, said it raised €750m through a 2013-date bond issue managed by BNP Paribas, Calyon, JPMorgan Chase and Royal Bank of Scotland.

The bond is paying a 7.25% coupon, 270 basis points over midswaps.

A spokesman for Saint-Gobain said the company had launched the issue despite challenging market conditions to refinance existing debt. Despite the market conditions, the price was set at the bottom end of initial guidance.

UK supermarket giant **Tesco** was also in the market. A two-part Eurobond arranged through Royal Bank of Scotland, JPMorgan Chase and HSBC raised €1.5bn for the retailer with a four-year bond paying 5.625%, 100 basis points over midswaps.

The other €1.5bn bond, which matures in 2016, is paying 5.875%, which is 140 basis points over midswaps.

The pay-down of the £1.9bn debt taken on by Scottish transport business **FirstGroup** to transform itself into an Anglo-American transportation group with its acquisition last year of the US school bus and Greyhound coach group Laidlaw, continued in forward gear.

After raising cash at the time of the deal 18 months ago and then earlier this year in a share issue in deals totalling £440m, the company, which is best known for its London buses and running the trains into and out of London Paddington, said that it was going to raise a further £300m.

The 10-year bonds swapped into US dollars will pay the equivalent of 6.9%.

Robert Lea is City Correspondent of the *London Evening Standard*.

BONDS

DEAL PRICING DATE	ISSUER	DEAL VALUE (PROCEEDS)	TRANCHE VALUE (PROCEEDS)	DEAL TYPE	DEAL NATIONALITY	BOOKRUNNERS
9 September 2008	Centrica plc	$1,309m	$779m	Corporate bond investment-grade	UK	Barclays Capital, BNP Paribas, HSBC, RBS
8 September 2008	Imperial Tobacco Finance plc	$2,128m	$1,068m	Corporate bond investment-grade	UK	Barclays Capital, Deutsche Bank, HSBC, RBS
4 September 2008	Compagnie de Saint-Gobain SA	$1,084m	$1,084m	Corporate bond investment-grade	France	BNP Paribas, Calyon, JPMorgan, RBS
2 September 2008	Tesco plc	$4,373m	$2,194m	Corporate bond investment-grade	UK	HSBC, JPMorgan, RBS

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