The right price for liquidity

Strange, in a year when Vodafone set a (then) record for the largest European syndicated loan ever signed and the UK was once again leader of the European loan market, that the most dramatic market developments have taken place over the channel. For, out of 10 European syndicated loans in excess of $5bn equivalent signed in 1999, only Vodafone's was undertaken by a UK borrower.

The potential of the market

So what does this pattern of continental 'jumbo' loan transactions demonstrate? Does it give the lie to the syndicator's claims of falling market liquidity driving rising pricing? In our opinion, no. Rather, the pattern confirms the potential size and liquidity of the market if the price, and structure, are right (witness Olivetti's €25bn financing for its acquisition of Telecom Italia) and what is achievable by a borrower willing and able to use the relationship carrot and stick (for example, ancillary-rich Mannesmann raising €8bn while paying only minimal fees).

For UK corporates that are as creditworthy and have relationship pulling power comparable with the best of the continentals, equivalent financings are achievable if sought (though whether the more return-conscious UK market would ever countenance a German Hausbank-style transaction is doubtful). However the key issue in all the above is price or, more appropriately, return.

Return – the key issue

While liquidity has without doubt been reduced by the ongoing consolidation in the banking sector, it is by no means a truly scarce resource – as the 41 banks which each committed €1bn to Elf in July clearly demonstrated. The key, in a market where volumes (that is, demand) are up 25% on 1998, is to meet the increasing required return on capital, which determines the price at which banks will unlock the liquidity available.

Mainstream corporate market

The impact of this trend is most evident in the mainstream corporate market in which, unlike between jumbos, comparisons are easily made. Witness the market that required British Aerospace, despite an improving credit story, to pay 37.5 bp pa in 1999 against 20–25 bp pa for a facility of similar size in 1998.

Given the level of corporate activity throughout Europe, particularly in the UK, and the demands (and opportunities) that this will create for loan market liquidity in 2000, we can see no likelihood of the current pricing trend being reversed. ■

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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 (bp)	Arranger (s)
J Sainsbury	*(a)*	GBP350	4	45		Lead Man	15	Deutsche Bank AG
						Man	12.5	
Syndication in progress. Comment: (a) Letter of credit.								
Perrier Jouet SA *(a)*	TL	EUR33.5	8	175		Sen Lead	45	Warburg Dillon Read
	RC	EUR10	8	175		Lead	35	Paribas SA
GH Mumm et Cie *(a)*	RC	EUR20	8	175		Man	25	
	TL	EUR51.5	8	175				
Financiére Moulins de Champagne *(a)*	TL	EUR60	7	225				
	TL	EUR25	8	275				
	TL	EUR15	9	350				
Syndication closed November 1999. Comment: Leveraged buyout debt facility to support Hicks Muse Tate & Furst's proposed buyout of the Mumm and Perrier Jouet champagne brands from Seagram. (a) Loans arranged together and sold as a strip.								
Pipeline Integrity International	TL	GBP95	7	225		Sen Lead	90	Deutsche Bank AG
	RC	GBP25	7	225	50	Lead	70	
	(a)	USD35.4	7	225	50	*Man*	50	
Syndication signed December 1999. Comment: (a) Bonding facility. Proceeds to refinance bank debt and support PII's purchase of PTX from Preussag AG.								
RMC Group	RC	GBP450	5	125		Under	50	Warburg Dillon Read
	TL	GBP1000	5					
	TL	GBP550	1					
Syndication in progress. Comment: Proceeds will be used to acquire cement producer Rugby Group for GBP896m.								
Tesco BL Properties	TL	GBP210	5	45		Co-Arr	20	WestLB
						Lead Man	17.5	
						Man	15	
Syndication in progress. Comment: Proceeds will be used for general corporate purposes. Tesco BL is a joint venture between Tesco and British Land.								

RC = revolving credit, TL = term loan, M = mezzanine.