

UK loan market conditions

This year has seen the advent of a new generation of jumbo deals in the European acquisition finance market, with Vodafone's \$10.5bn facility, Mannesmann's €7.95 and the €22.5bn Olivetti loan making the news. The Olivetti deal, in particular, offered record ticket sizes coupled with highly attractive pricing and drop-dead fees and until now few would have predicted the apparent depth of the European market.

Speculation has persisted about the probability of the potential acquisition being successful, which may have had a major impact on the number of banks willing to underwrite such large tickets, coupled with the very rapid repayment profile offered.

During the first quarter the UK investment grade loan market saw \$29bn* of new issuance, although this figure is

dominated by a handful of large utility deals, namely the \$4.2bn refinancing for Scottish Power (following its merger with Pacificorp of the US), the \$3.15bn refinancing for National Grid, and the \$2.05bn refinancing for Texas Utilities – these deals being priced at L+45, L+50 and L+85 basis points, respectively.

The \$10.5bn loan for Vodafone plc will be in the market shortly, having already secured an arranger group of 11 banks each underwriting nearly \$1bn. The loan will be priced in the L+50–60 range and is expected to be very well supported, because of the tremendous strength of the credit and the prospective rapid paydown through capital markets take-outs.

Activity in the leveraged loan market has remained extremely light. However, now that investors have regained confidence and new budgets have to be met

the demand for leveraged product is growing, although supply is still weak. Volumes in the first quarter of 1999 were \$6.1bn* vs. \$14.7bn* for the same period in the previous year, although the first quarter of 1999 is way ahead of the dark days in the last quarter of 1998 when just \$3.8bn* worth of deals were closed.

There have been a number of medium-sized successful transactions in the first quarter of 1999, characterised by quality credits and modest ticket sizes, but the relatively low number of new opportunities in the pipeline could result in more aggressive structuring and pricing in the next wave of leveraged loans. The principal leveraged loan transactions in the UK market in the year to date have been a £190m loan backing Morgan Grenfell Private Equity's LBO of Coral priced at 225–275bps, a £750m loan for the leveraged recapitalisation of Electra, priced at L+175 bps, and a £200m loan for the leveraged recapitalisation of Luxfer priced at L+175–200bps. ■

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* Source: Loan Pricing Corp

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)	Front-end (type)(bp)	Arranger (s)		
Azurix Europe <i>Syndication in progress.</i>	RC	GBP425	3	75		Facil	12.5	Chase Manhattan WestLB	
Delta Airlines <i>Syndication completed. Comment: (a) bridge loan. Proceeds from the deal will be used in the company's tender offer for ASA Holdings.</i>	(a)	USD500	2	87.5	20	Partic	12.5	Chase Manhattan Citibank	
Japan Tobacco <i>Syndication in progress Comment: Proceeds will be used for general corporate purposes. (a) Senior arranger underwriting fee of 22.5bp for a commitment of USD500m. Arranger underwriting fee of 5bp for USD200m commitment.</i>	TL	USD5,000	1	60		Partic Under	20.0 (a)	Citicorp	
Olivetti <i>Syndication in underwriting phase. Comment: (a) 20bp for days one to 45; rising to 75bp and back-dated to day one if offer accepted. (b) 187.5bp for EUR1bn for underwritten commitment. The loan will support Olivetti's bid for Telecom Italia.</i>	RC	EUR22,500	3	225	(a)	Arrang Cancel	(b) 55	Chase Manhattan Lehman Brothers Mediobanca Donaldson, Lufkin and Jenrette	
Saab Finance <i>Syndication in progress. Comment: (a) 17.5bp for GBP15m, (b) 125bp for GBP10m. Proceeds are for working capital and to refinance an existing loan.</i>	RC	GBP220	3	50	25	Lead Man (a) Man (b)		Barclays Capital Royal Bank of Scotland WestLB ABN AMRO Bank NV	
TeleWest Communications <i>Syndication in progress. Comment: This is an umbrella facility which consolidates the company's existing debt facilities with those of its acquired franchises.</i>	TL	GBP1,500		150				Chase Manhattan CIBC Toronto-Dominion Bank Bank of New York	
<i>RC = revolving credit, TL = term loan.</i>									