IFR EUROPE HIGH-YIELD BRIEFING

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Salini draws large crowd on crossover appeal

Salini Impregilo is set to price a €500m seven-year trade at 1.75%, becoming the sixth high-yield issuer in 2017 to bring a new issue with a one handle and demonstrating the continued appeal of crossover-like names to investment-grade accounts.

Only five other issuers carrying high-yield ratings only - Leonardo, Casino, CNH Industrial, Nokia and ThyssenKrupp - have been able to price inside 2% this year, according to IFR data.

Pricing was tightened from 1.875%-2% guidance and 2%-2.25% IPTs. The deal was whispered at mid to high 100s over swaps following an investor call on Wednesday morning, equivalent to a yield around the 1.97%-2.46% range. Books exceeded €2.6bn (pre-rec).

A banker on the trade said it attracted a “decent” number of investment-grade accounts that were not on the company’s last deal, stressing the impact of the CSPP in driving investment-grade “tourists” into the high-yield market.

“It speaks very much to the CSPP point,” he said.

“When they got their first couple of deals done, investment-grade accounts were buying investment-grade products and getting their yield. Now, the yield isn’t there anymore, so they’re having to buy this.”

Salini currently has one bond outstanding: a €600m 3.75% 2021 note issued in 2016 shortly after the ECB launched its CSPP programme.

It came at 380bp over mid-swaps but has since tightened to around 99bp, according to Tradeweb data.

The new issue is expected to be rated BB+ by S&P.

Several high-yield investors told IFR the deal was coming too tight given Salini’s position as a construction credit. Accounts are often put off by the sector, with issuers in the industry seen as among the riskiest in the market.

The banker said several high-yield accounts dropped out when final pricing was set.

“There is an offer and supply imbalance at the moment,” said another banker on the deal. “I don’t know how long it will last but it means conditions are good for issuers.”

“We’re seeing that everywhere, even on Salini where perhaps people should be more picky but the book is growing well.”

However, Salini is one of the highest rated construction companies in the European high-yield market, according to CreditSights.

“Salini is a solid high Double B construction credit that is essentially a pure play contractor with no real exposure to concessions,” CreditSights analysts wrote in a note, pointing to lower leverage and higher profitability than its peers.

RARE OPPORTUNITY

The company is also bringing some rare Double B Italian supply, where most of the recent issuers out of the country have been Single B names.

“It is an Italian name and there is an Italian demand component which is very strong and helps bring down the spread,” the second lead said.

“Irrespective of what happens in the broader market, these names tend to tighten. There is a brand premium for recognisable names. You have to remember that Italian investors are bond-minded. There’s not really any other country that is like that in Europe,” the banker added.

He pointed to Italian food retailer Esselunga’s trade in the investment-grade market, a dual-tranche €1bn six and 10-year on Wednesday.

Salini will use the proceeds, alongside two 2022 senior unsecured term loan financings totaling €380m and a €200m 2022 revolving credit facility, to refinance approximately €1bn of debt.

Banca IMI, BBVA, BNP Paribas (B&D), Goldman Sachs, Natixis, Santander and UniCredit are joint bookrunners.