DEAL REVIEW: Reward trumps risk in new Ecuador bond deal

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Wed Jun 18, 2014 4:33pm BST

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NEW YORK, June 18 (IFR) - The thirst for yield among investors trumped worries about Ecuador's unhappy record of debt defaults this week as the country sold its first international bond in nearly a decade.

Just six years after it voluntarily defaulted on its obligations, Ecuador on Tuesday sold a larger-than-expected US$2bn 10-year bond on the strength of US$5.1bn in orders.

The size of the order book underscored the willingness of investors to overlook risk at a time when a yield close to 8% is extremely hard to find.

"Guys are looking to pick up extra basis points," said one syndicate banker not on the deal, "and that helps sovereigns like Ecuador."

The sovereign, rated B/B, priced the transaction at par to yield 7.95%, inside official guidance of 8% (plus or minus 12.5bp) and tight to initial price thoughts of low 8%.

While it did not come with the double-digit yields seen on the region's other two high-beta sovereigns, Argentina and Venezuela, it did pay a slight default premium to other Double B and Single B names.

The 7.95% finish offered a pick-up to the low 4% to high 6% yields seen on comparables including Guatemala (Ba1/BB/BB+), Paraguay (Ba2/BB-/BB-), Bolivia (Ba3/BB/BB-), Honduras (B3/B) and Jamaica (Caa3/CCC+/B+).

To find the pricing level, leads Citigroup and Credit Suisse were heard taking the 5% yield on the Ecuador's existing 2015s and extrapolating fair value of around high 7s on a new 10-year.

But given the country's spotty history in the financial markets they decided to play it safe, starting out with low 8s to better entice wary investors.

"Bolivia 10-year is trading at around 5%, so market price for Ecuador would be 6.3%," one hedge fund manager told IFR, adding that the country's track record actually put fair price closer to high 6% area or 7%.

The new notes were trading up on the break on Wednesday morning to 100.25-100.50 from par reoffer, after being bid up in the gray by as much as one point on Tuesday.

The paper was largely placed in the Americas (79%), followed by Europe (20%) and Asia (1%).

Unlike Argentina, which this week has moved closer to a technical default, Ecuador is seen has having limited risk over holdout creditors and has retired much of its defaulted debt.

The country's efforts to repair relations with the market also clearly helped in the selling of Tuesday's transaction.

"If you are an -eligible fund and you are still sitting on a lot of cash and seeing little supply, Ecuador looks like a very good pick," one banker said. (Reporting by Davide Scigliuzzo and

Paul Kilby; Editing by Marc Carnegie)

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