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High Times (Second of a Series)

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We continue our special series on high-yield bonds with a look at more deals in the market. Our tour guide on this trip, Matthew Fuller of LevFin Insights, identified several transactions as signs of market recovery.

Northwest Fiber (Caa1/CCC), with a new issuer name, Ziply Fiber, came out with a loan/bond buyout of Frontier Communication assets by Searchlight Capital and Wave Division Capital. This could grease the skids for other regular-way LBOs, Fuller said.

He continued. “Despite a slow start, Ziply was modestly oversubscribed, priced with a 10.75% coupon at 98; better than early price whispers as high as 11.25% and 95. Moreover, the paper rocketed once freed to trade; bid up to 104 after trading in large blocks at 103.75. It helped that a sponsor holding company vehicle took down a $25 million block of the $250 million deal in a privately negotiated transaction.

“Another flagship deal was for Viking Cruises (B-/B1). Launched as a $675 million five-year issue, the bonds were secured by a first-lien of twenty river boats. Pricing was 13% at 97 to yield 13.85%. Also sailing along was Royal Caribbean, arguably a falling (not fallen) angel, but still with investment grade status. The company sold $3.32 billion of secured bonds, struggling a bit in the primary, then trading up in the secondary.

“And just this week Macy’s debuted as a fallen-angel high-yield issuer, floating five-year 8.375% secured notes. The transaction (with various COVID-related rating downgrades, and negative outlooks all around) met heavy interest for a storied brand and credit backed by real estate assets. Pricing was par, but secondary trading around 102 after allocations, took the yield down to a 7.875% context.”

Supply/demand is also affecting spreads. The S&P HY Index has compressed yield-to-worst 74 bps, to about 7.16%. That may be supporting primary issuance, despite the higher cost demanded of falling angels. U.S. Steel (B+/B2), as one example, closed on $1 billion (upsized from $700 million) of five-year secured notes at 12%

Matt, talk to us about fallen angels. “COVID has created a new class of issuers whose credit ratings have slumped in the face of challenged earnings,” he reported. “Two funds are helpful to watch – ANGL with is the largest fallen angel (mostly tech-related) high-yield fund, and FALN, the second largest.

“Speaking of yields,” Fuller said, “compare the average index yield-to-worst now of 7.15% to the 11.37% YTW that rang in on March 23 at the height of market volatility. Or the 6.20% recorded during the pre-COVID period on February 28.

“Take a look at how high-yield bond spreads behaved during the Great Recession,” he concluded. “Today those are in the T+675 bps arena, but that’s with the ten-year Treasury at 0.70% (vs. 1.40% in February). Recent rate volatility has exaggerated the spread basis. Back in December 2008, all-in yields gapped out to 22.24%!”

? Next week we conclude our bond series with a comparison to leveraged loans.