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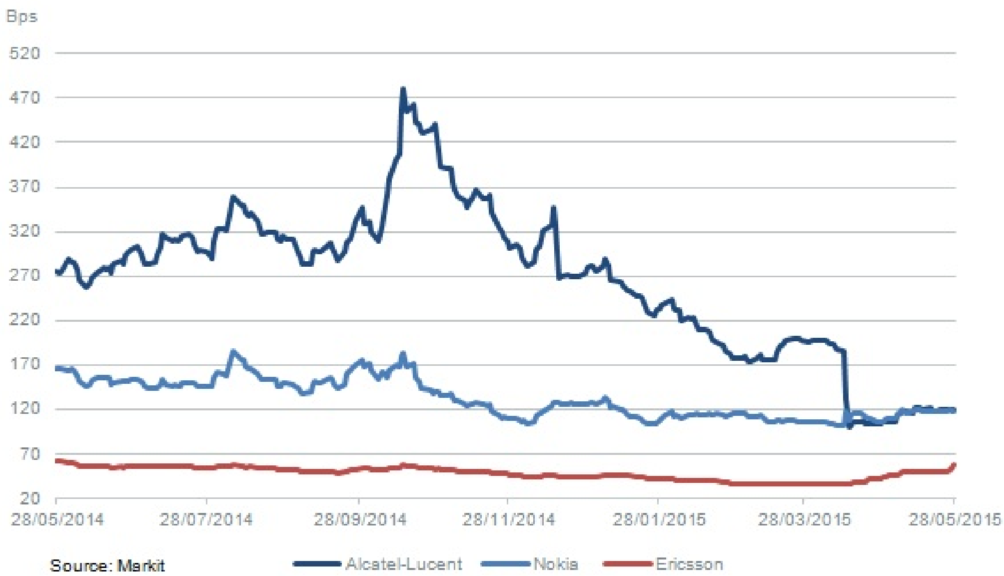
Markit Recap – 5/25/2015

THE LEAD | May 28, 2015

The seemingly never-ending saga around Greece's EU status continues to drive macro sentiment, but credit investors have also had sector specific issues to digest.

CDS in the TMT sector is often among the most active, but the past few weeks have seen several M&A deals creating spread action. In April, Nokia announced that it was acquiring rival telecoms equipment maker Alcatel-Lucent in a €15.6bn all-stock transaction.



The reaction in the CDS market was emphatic – Alcatel's five-year spreads tightened by a massive 87bps to 99bps, bringing it into line with Nokia. The spreads convergence indicates that the markets are confident that the deal will be completed, despite some concerns that the French government and trade unions could raise objections around job losses.

That Nokia is the stronger partner in the combination shows how far the Finnish company has come in recent years. Less than three years ago its spreads were trading in excess of 1,000bps after a slew of profit warnings threatened its survival. But the sale of its mobile handset division to Microsoft transformed the firm's credit profile and put it on an even keel.

The Nokia/Alcatel deal has had ramifications elsewhere in the sector. Ericsson, the largest telecoms equipment manufacturer by sales, has seen its spreads widen from 36bps to 59bps since the deal was announced. This is a significant move for a solid BBB credit such as Ericsson – making it one of the worst performing credits in the second-quarter – and demonstrates the pressure it is under to respond in kind. The firm's CEO said that a large acquisition could not be ruled out, which could impinge on Ericsson's credit standing. This would be a change from the company's relatively conservative strategy, and it is open to question where it could find such a meaningful target.

In the US, another major TMT deal was announced. Time Warner Cable's spreads have been among the most volatile in the CDS universe, and the oscillations continued this week after Charter Communications agreed to acquire the firm. TWC's spreads tightened 50bps on the news, though they had already widened sharply after the proposed deal with Comcast fell apart earlier this year.

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