

Unibail's new hybrid and debt swap illustrates the large extension risk

Real estate firm Unibail has decided to take an uncommon approach by offering hybrid bondholders a debt swap. We see this as somewhat positive for hybrid markets and shows issuers' willingness to adapt to market conditions and please investors, but it also illustrates the large extension risk for some issuers, particularly in distressed sectors



Real estate firm Unibail-Rodamco-Westfield operates the Westfield shopping centre brand

The hybrid market has been under some pressure in recent months with much higher interest rates causing a large amount of uncertainty around extension risk for hybrids. But we see significant value in hybrids, namely from frequent (non-real estate) issuers. There is decent tightening potential in hybrids when compared to BB spreads and equity.

The news yesterday from Unibail-Rodamco-Westfield, the commercial real estate firm that operates the Westfield brand, that it is offering its hybrid bondholders a debt swap, is somewhat positive for the hybrid space, in our opinion.

It is of course not as positive as an outright call and does illustrate the large extension risk for some issuers, particularly in distressed sectors, but it does compensate more than not calling. We

initially saw three options for Unibail with the upcoming call on its hybrid bond (ULFP2.125 PERP); call the bond, not call the bond, and call and tender the rest of the curve and remove itself from the hybrid market. The company instead decided to take an uncommon approach of offering hybrid bondholders a debt swap, exchanging the current bond paying a coupon of 2.125% with a new standard structure corporate hybrid bond (Deeply Subordinated Perpetual Fixed Rate Resetable Perp-NC 5.25) with a coupon of 7.25%. There is also a small tender of the rest of the bond that is not getting exchanged, totalling no more than €200m. The firm will exchange 84% (€1.05bn) of the original size and tender up to 16% (max €200m).

We think this is somewhat positive for the hybrid market as it shows issuers' willingness to adapt to market conditions and please investors, instead of resorting to simply not calling the bond. This could be another option for a very selective hybrid refinancing. There was a similar exchange seen by Banco Comercial Portuguese back in November, which decided to not call a T2 bond but exchange fully instead.

The market reaction has been positive for the Unibail curve, but the corporate hybrid index did widen by 4bp while the senior index remained unchanged yesterday. However, hybrids still sit 3bp tighter on the week. The other outstanding hybrid on the Unibail curve (ULFP2.875 PERP) tightened by 182bp yesterday.

Author

Timothy Rahill

Credit Strategist

timothy.rahill@ing.com

Jeroen van den Broek

Global Head of Sector Research

jeroen.van.den.broek@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and

which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.