

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.

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