June 2018

European High Yield Bonds by Energy Companies – UPDATE

In early March, we published an article on (High Yield) Bonds – A Growing Trend in the European Energy Sector?, followed by an Update later in the month. Since then, the European energy sector has seen a significant number of further successful high yield bond offerings (as well as some aborted transactions), which we thought warranted a further update.

These transactions again cover a diverse range of issuers across the European energy sector, including upstream oil and natural gas companies, service / engineering companies as well as downstream businesses, and again prove that access to the debt capital markets is not reserved for just the very large and investment-grade rated companies.

Upstream Oil and Gas Companies

Seplat Petroleum Development Company Plc (Moody's: B2; S&P: B-; Fitch: B-), a leading independent indigenous upstream oil and gas company operating in Nigeria, issued $350,000,000 9.25% Senior Notes due 2023 in March 2018 to refinance an existing debt. Neptune Energy (Moody's: B2; S&P: BB-), an international independent exploration and production company with a regional focus on north-western Europe, North Africa and Asia Pacific, issued $550,000,000 6.625% Senior Notes due 2025 in May 2018 to fund a partial repayment of its reserve based lending facility. Ithaca Energy (North Sea) plc, a leading independent U.K. North Sea oil and gas company with production and development activities exclusively on the U.K. Continental Shelf, attempted to issue $350,000 Senior Notes due 2023 in May 2018 as part of a broader refinancing of existing group debt, but the transaction was pulled.

Service / Engineering Companies

KCA Deutag (Moody's B3; S&P: B-), the offshore drilling and engineering company and repeat high yield issuer, issued a further $400,000,000 9.625% Senior Secured Notes due 2023 in April 2018 as part of the financing of the acquisition of certain Omani, Saudi Arabian and other subsidiaries and assets of land drilling contractor Dalma Energy LLC. CGG Holding (U.S.) Inc. (Moody's: B2; S&P: B), a geosciences company with clients principally in the oil and gas exploration and production industry, completed concurrent offerings of $300,000,000 9% Senior Secured Notes due 2023 and €280,000,000 7.875% Senior Secured Notes due 2023 in April 2018 to redeem at par certain first lien secured notes due 2023 issued in February 2018 as part of its financial restructuring. Vallourec SA (S&P: B) a world leader in premium tubular solutions, primarily serving the energy markets, including the oil and gas sector and the power generation industry, issued €400,000,000 6.375% Senior Notes due 2023 in April 2018 to redeem existing bonds as they mature in August 2019.

Power Companies / Utilities

Drax (Fitch: BB+), a vertically-integrated electricity generation and supply business with operations in the UK and the US, issued $300,000,000 6.625% Senior Secured Notes due 2025 in April 2018 to redeem its existing £200,000,000 Floating Rate Notes due 2022.

Downstream / Retailers

Vivo Energy, a leading retailer and marketer of Shell-branded fuels and lubricants in Africa, attempted to issue $400,000,000 of Senior Notes in May 2018 to refinance existing term facilities and to fund an acquisition, but the transaction was pulled.

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The benefits for those eligible companies that do decide to opt for a bond offering , investment-grade or high yield, include the opportunity to secure long-term financing at often attractive (and typically fixed) interest rates and with a bullet maturity, increased operational and financial flexibility through typically less onerous covenants (and typically no financial maintenance covenants), potential flexibility to issue unsecured / junior debt (at the HoldCo-level) as well as the opportunity to potentially significantly expand their investor base.

Unfortunately, size does matter when it comes to accessing the debt capital markets, and mere size is even something that the rating agencies will consider in assigning a particular rating. Due to a combination of the requirements of key institutional high yield investors, internal requirements of the underwriting banks active in the European high yield market and the comparatively higher transaction expenses (including for legal advisers, rating agencies, auditors, ……) for a traditional high yield bond offering compared to a credit facility, the minimum offering size for a "proper" high yield offering is normally about €200-250 million (as a rough rule of thumb), but may be lower depending on the specific circumstances. This, however, does not mean that smaller companies (or companies with lower financing requirements) cannot access the debt capital markets at all, but they may only be able to do so at less attractive terms, both in economic terms (i.e. higher coupons and shorter tenors) and in terms of more onerous covenant packages.

Obviously, irrespective of any credit ratings assigned to a particular issuer, an upstream oil or gas exploration company or specialist offshore drilling company, with strong exposure to potentially volatile commodities markets represents a very different investment case compared to a refiner, downstream oil or gas company or a utility. Apart from absolute size, a more diversified business (both in terms of geography and products/services) may face less scrutiny from investors than a highly specialized and/or single-asset company, although a strong position in an attractive (niche) market or other unique features can also a be a big selling point. It will then be incumbent upon the issuer, with the support from its financial and legal advisers, to properly highlight any such strengths (and other factors that might differentiate the issuer from other companies in the sector) when engaging with the rating agencies and potential investors.

A number of pulled transactions in recent weeks are also a reminder that the high yield bond market does experience ups and down / opening and closing market windows.

For more information generally about high yield bonds, please click on the following link to obtain a PDF copy of the 4th European Edition of our High Yield Bonds – An Issuer's Guide. As with earlier editions, the Guide is primarily intended for (first-time) issuers of high yield bonds.

For further information or advice or to request a hard copy of the Guide, please contact Bernd Bohr or your usual contact at Mayer Brown.

Learn more about our High Yield Bonds, Capital Markets and Energy practices.

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Other recent articles on trends and developments in the European high yield bond markets that you may be interested in include:

High Yield Bonds by European Financial Services Companies June 2018

Growing trend in real estate finance for high-yield bonds (Institutional Real Estate Europe) April 2018

High Yield Bonds in the European Real Estate Sector – UPDATE April 2018

High Yield Bonds by German Real Estate Companies – UPDATE March 2018

(High Yield) Bonds – A Growing Trend in the European Energy Sector? – UPDATE March 2018

(High Yield) Bonds – A Growing Trend in the European Energy Sector? March 2018

High Yield Bonds by German Real Estate Companies February 2018