

Odeon research chief touts junk as still best investment; likes secured paper, airlines, packaging

By Paul Deckelman

New York, Sept. 15 – The high-yield market has been on a tear this year – and the head of research for **Odeon Capital Group LLC**, a New York-based fixed-income broker-dealer shop which completed its first year of operation this past spring, said that even though junk “has definitely had a run” this year, it’s still the most attractive investment out there on a relative-value basis.

The junk market has had returns totaling around 10% year to date heading into the fourth-quarter homestretch.

“Compared with equities, I would say definitely, high yield has been outperforming,” declared Mathew Van Alstyne, one of the company’s founding partners, in an interview Tuesday with *Prospect News*, “and compared with even investment grade, it’s outperforming.”

He added that “if I were putting new money to work now, the most attractive place is probably still in the high-yield market.”

As things now stand, “we’re almost incapable of finding a sector that’s been trading weakly lately. The entire market has been trading up and it seems like it’s in lockstep to the upside since before Labor Day, since the first of September,” when both the primary and the secondary segments seemed to roar back to life after several sleepy weeks from around mid-August on.

He said that Junkbondland’s new-issue market – which just this week hit a record volume total, eclipsing the previous high-water mark of \$161.8 billion set last year, and with more than a full quarter of this year still to go – “is very full, and the numerical indices are very strong.”

Agencies ‘on an upgrade march’

Van Alstyne said that the higher you go up on the ratings curve, “the stronger

it gets. Clearly AAA, AA and single-A are pretty strong, as well as BBB – but there’s probably still some room to run in the lesser credits, in the BB and single-B market.”

He pointed out that there are numerous CCC, BB and single-B credits “with the potential for being upgraded,” adding that Standard & Poor’s and Moody’s Investors Service “have both been on an upgrade march this entire year – every week, more companies are just getting upgraded. And so you see credits that were fallen angels, or [even those that] have never been close to investment grade ticking a little bit closer to that level, and yields tighten; obviously there’s room for capital appreciation and to book some gains there.

“So high yield is actually the most attractive place to put new money to work.”

Among the sectors which Odeon likes is paper and packaging, which “obviously has been trading up a lot lately.”

Another favored area is airlines, which “seem to be doing pretty well lately. The EETC market has been really healthy, and we’ve seen quite a few airlines buying back debt,” for instance, **Delta Air Lines, Inc.**, currently in the midst of a tender offer for as much as \$340 million of its outstanding passthrough certificates and other bonds. “That’s an area that we’ve kept an eye on.”

Security first

One of the things Van Alstyne likes about the air carriers is the fact that much of their debt is in the form of enhanced equipment trust certificates, secured by tangible property – actual aircraft, rather than just the airline’s own good name, which in times of turbulence like the airline industry has seen this past decade, may not count for very much.

In general, he said, “I think our thesis still holds that you prefer to be in something where your downside has protection, but you also have some potential for upside, and that leads you toward the

secured market over unsecured.”

He added that “there are enough attractive opportunities in secured paper that we would continue recommending secured over unsecured, generically speaking – but obviously, it comes down to the individual security and asset class.” Another factor is “the investor and the investment profile on what you’re comfortable with.”

Energy emerges from under a cloud

In the energy sphere – earlier this year it seemed to be taking its lumps in the wake of the *Deepwater Horizon* disaster in the Gulf of Mexico, which produced new government restrictions on offshore drilling and even raised questions about environmental dangers from on-shore oil and natural gas operations – “it seems like the regulatory risk around energy has largely diminished.” He raised the possibility that this was perhaps because the Gulf oil spill, serious though it may have been, “wasn’t nearly as bad as all of the forecasts. It seems like it’s lost momentum from a political standpoint; people tend to ignore it.”

He cited the behavior of **Anadarko Petroleum Corp.**’s bonds, “which are basically back to where they were before the disaster,” even though the Woodlands, Texas-based energy exploration and production company owns a 25% interest in the ruptured **BP plc** Macondo Prospect undersea well.

“People are basically discounting any risk of a fine or their share of the litigation, while initially, [the bonds] traded down rapidly just because of their connection to the well itself,” he said.

Primary parade rolls on

Energy names have been prominent among the borrowers in the renewed primary market surge, including this week’s

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Evertec to start roadshow Thursday for \$220 million seven-year notes

By Paul A. Harris

St. Louis, Sept. 15 – **Evertec, Inc.** will start a roadshow on Thursday for its \$220 million offering of seven-year senior notes (expected ratings Caa1/B-), according to an informed source.

The deal is expected to price during the week ahead.

Bank of America Merrill Lynch and Morgan Stanley & Co. are the joint bookrunners for the Rule 144A with registration rights offering.

The notes come with three years of call protection and a 101% poison put.

Proceeds will be used to fund the acquisition of a 51% stake in Evertec by Apollo Group.

Evertec is a San Juan, Puerto Rico-based provider of transaction processing, payment processing, merchant acquiring and other related services in Puerto Rico and certain countries within the Caribbean and Central and Latin America.

AbitibiBowater marketing \$750 million eight-year senior secured notes

By Paul A. Harris

St. Louis, Sept. 15 – **AbitibiBowater Inc.** is marketing a \$750 million offering of eight-year senior secured notes (B1), according to a market source.

The deal is expected to price on Monday.

JPMorgan, Citigroup and Barclays Capital are the joint bookrunners.

BMO Nesbitt Burns, CIBC and Scotia Capital are the

co-managers.

The notes come with four years of call protection

Proceeds will be used to help fund the Montreal-based pulp and paper manufacturer's exit from Chapter 11 bankruptcy.

AbitibiBowater filed bankruptcy on April 16, 2009 in the U.S. Bankruptcy Court for the District of Delaware. Its Chapter 11 case number is 09-11296.

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\$300 million deal from **Chaparral Energy, Inc.**, which “priced bonds yielding just north of 10% – stuff that couldn't have gotten done three months ago – or that companies wouldn't have been willing to do.” Now, however, “you're finding participants on both sides.”

He noted that the Oklahoma City-based E&P company's oversubscribed offering was well-received.

“Their name has been in and out of the market multiple times, so it it's not like they're brand-new to the market; people know the name; it's well-traded,” he said, and the bonds moved up solidly after pricing at a discount to par.

With borrowers like Chaparral and other, even better-rated prospective issuers standing by – Chaparral did alright despite a relatively low Caa1/B+ rating from the agencies – Van Alstyne declared that “the pipeline looks like it's pretty full and there's lots of people out marketing. So obviously, whatever corner people sitting on the sidelines were waiting for us to turn, we've turned.”

He said that investors “were waiting for a few good weeks of initial jobless claims numbers, and you've had positive retail sales. There's a kind of renewed steam behind this momentum.”

The junk market, he continued, “has gotten much more friendly to new issuance, and the secondary market has traded up to a point that the new issuers are taking advantage of shelves they

filed a long time ago to basically have everything lined up and ready to go, so they could punch it through the second the market opened up for them.”

The key driver in all of this, of course, is the use of new deal proceeds to take out existing bond or bank debt. The Odeon partner said “if I'm sitting there as treasurer [of a company], looking at my balance sheet, and see a maturity in 2012, 2013 or 2014, and I have an opportunity to extend it to 2016, 2017, or beyond – you take that opportunity.

“You take advantage of it while you can.”

How high can the market fly?

While taking full note of the current strength in the market, Van Alstyne added the caveat that “the real question is: how long does that continue for?”

As if to answer his own query, he called the junk market “essentially range-bound, with the ups and downs, for maybe 12 months now, and even with this last rally, I think we're still within the range.”

The status quo is likely to last for a while longer; he predicted that “we'll probably be a little more range-bound through the rest of the year.”