Awards

Deal of the Year Latin America

REPUBLIC OF BRAZIL 2017

Amount: $525 million
Lead managers: Deutsche Bank, HSBC Securities

Canny
Paulo Valle, head of public debt operations, Treasury, Brazil

Defying the crunch

By Sid Verma

The Republic of Brazil booked a place in the record books in May this year after pricing a rare debt issue in the manner of a triple-A sovereign shielded from the dire global liquidity conditions.

Buoyed by its promotion to investment-grade status a week earlier, the sovereign aggressively launched a quick $525 million transaction, grabbing huge investor interest; it achieved its cheapest ever financing.

From execution, timing, pricing, secondary market performance to investor allocation, the landmark deal stands out even against highly competitive deals from Brazil's regional peers in an age of scarce emerging market sovereign paper.

The country was widely expected to launch a transaction in 2008, but its price sensitivity agitated bankers as the republic demanded limited concessions. "Our main concern was to pay the minimal premium at some level before the volatility that started in August last year," Paulo Valle, head of public debt operations at Brazil's national treasury, tells *Emerging Markets*. "We could have accessed the market at any time if we were willing to pay more, but we considered a successful issue to be that of the same premium as before the crisis."

Defying the global credit crunch, Valle's stubborn price demands eventually paid off on the back of the sovereign's upgrade to BBB- by Standard & Poor's on April 30. The $525 million deal due 2017, brought by leads HSBC Securities and Deutsche Bank alongside co-manager BB Securities (the investment banking subsidiary of Banco do Brasil), was completed in a record four hours and offered a 6% coupon. Asian investors were offered $25 million in a so-called greenshoe option – whereby the underwriters reserve the right to sell more shares than the issuer originally planned – in a bid to broaden Brazil's investor base.

The original $1.5 billion issue in November 2006 offered a yield of 6.25%, while an April 2007 retap gave a yield of 5.89%. "The market was talking about how high-rated corporates were being forced to pay high premiums just to get deals done," Gerardo Mato, head of global capital markets for the Americas at HSBC in New York, tells *Emerging Markets*. "And some key real money investors were saying that for a deal to be successful there had to be around a 20bp concession."

But limited supply, canny execution and the uncompromising demands of the issuer ensured record-breaking pricing. Initial guidance was set at 150bp over US Treasuries, but strong investor appetite and assurances the deal would not be upsized all led to a surge in investor interest. The transaction saw around $4 billion around the 150bp level, but with $2.5 billion-worth of outstanding orders, bankers were able to achieve a 10bp reduction in yield. In the end, the deal was finally priced at 104.816, yielding 5.3%, a record 140bp over US Treasuries.

In January, Mexico – first assigned investment-grade status by Moody's in 2000 and now at Baa1/ BBB+ – launched a $1.5 billion in dollar-denominated global bonds due 2040. This priced at 99.930 yielding 6.055%, 170 bp above US Treasuries – the lowest rate for a Mexican sovereign bond of that maturity. This also represented a 9-10bp concession and the cheapest for a Latin sovereign at the time, bankers say.

BREAKING THE RECORD

But Brazil smashed this record with the equivalent of a 4bp concession, while triple A corporates have been forced to pay through their nose to compensate for the dire global asset and credit market conditions. "The right timing and the luxury of this being Brazil's first investment-grade deal meant that we managed to squeeze the lowest yield ever priced, with an eight times oversubscription in less than an hour," Mato explains.

UK names grabbed 22% of orders, North America 46%, Europe 10%, Asia 13%, Brazil 5% and others 4%. In addition, it lured 20% in new high-grade names to its books, with dedicated accounts increasing exposure with larger than usual orders.

The deal also cemented Brazil's record as a safe liquid credit as it remained stable in secondary trading at 104.625 and then 105.00 despite the phenomenally aggressive pricing at 104.816.

The deal could have been larger, but Valle says the highest priority for Brazil's debt management is to ensure a liquid profile. "The idea was only to do quality issues since we do not need to raise money in international markets. But our main concern is to reduce the number of maturities, and guarantee more liquidity in our key benchmarks."

This deal highlights the sophistication of Brazil's sovereign debt profile; now the country should set its sights on jumpstarting its stagnant local debt market. EM

This award is based on nominations from investors, bankers and analysts. Issues considered included size of deal, its ground-breaking qualities and secondary market performance. All deals between September 1, 2007 and September 1, 2008 were considered