

Debt markets a challenge for high-yield borrowers

While the market is not completely closed, high-yield borrowers in the chemical industry have found a tough environment in recent months after a long period of wide-open markets. The downturn in oil and gas has spooked investors and created big hurdles for high-yield debt issuance, according to Peter Young, president of Young and Partners (New York), an investment bank.

Companies have been feeling the pinch. In late September, Olin paid a 9.85% interest rate on \$1.20 billion in bonds related to its acquisition of Dow Chemical's chlor-alkali assets. Olin's corporate credit rating, Baa1 according to Moody's Investors Service (New York), is only one notch below investment-grade. B2-rated Platform Specialty Products paid 10.375% for \$500 million in bonds to help fund the acquisition of electronic chemicals firm Alent. In February, Platform was able to secure more than \$1.5 billion from bond offerings in the United States and Europe at interest rates of 6.0% and 6.5%.

High-yield markets have become very challenging for all borrowers, including chemicals, in second-half 2015, according to Young. "The entire high-yield sector is being driven by concerns about defaults by companies with exposure to shale in the oil and gas sector. It's a significant percentage of high-yield market," he says. Funds have been

pulled affecting availability across all high-yield.

High-yield markets were wide open earlier in 2015 and all of 2014. High-yield debt issuance in chemicals was \$7.1 billion through three quarters of 2015 compared with \$3.3 billion in same 2014 period, Young says. Bank

» Demand for investment-grade debt remains strong as high-yield struggles. «

debt and investment-grade bonds, in contrast, remain healthy with few limitations for strongly rated borrowers. Investment-grade issuance will continue to be strong, the main limitations being the needs and financing requirements of issuers, Young says. "High-yield is more volatile and could remain so for an extended period."

Indeed, investors remain eager to work with investment-grade issuers. "Hundreds of banks [are] knocking on the door" to provide financing for A-rated Air Liquide's acquisition of Airgas, Benoît Potier, chairman and CEO of Air Liquide, recently said. The exact parameters of the financing for that \$13.4-billion transaction have yet to be established, but bridge financing has been secured.

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