US Institutional Leveraged Loan wallet eyes a new record as HY wallet crumbles

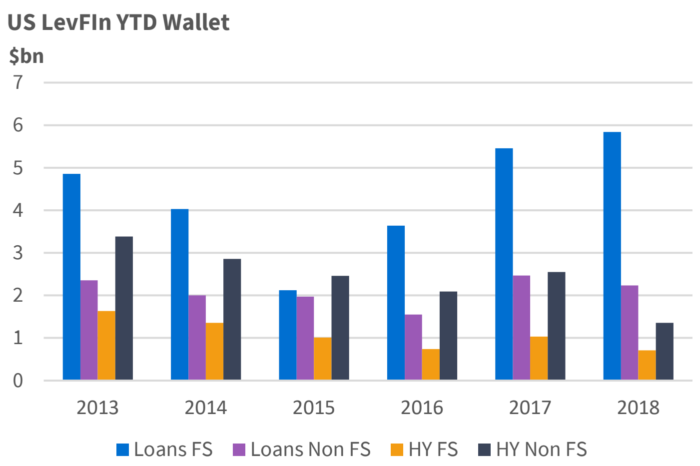
US Institutional loans wallet up by $150m on 2017 YTD

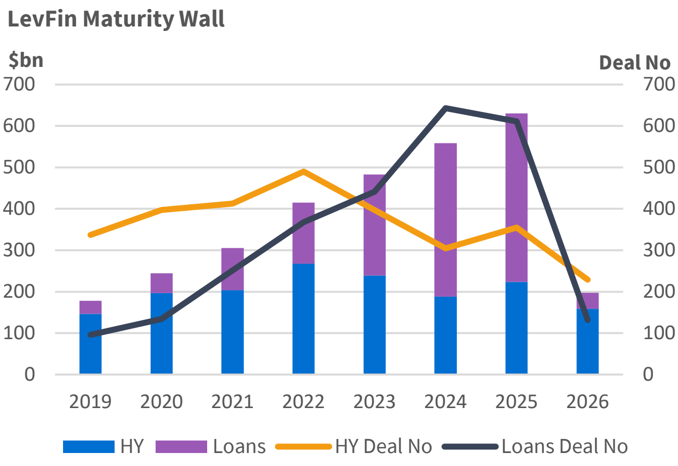
US LevFin – "A tale of two cities"

US HY took a dive in 2018 YTD. The drastic fall in volume and activity from $265.6bn via 459 deals to 162.1bn via 269 deals has hit revenue by 42%. Institutional leveraged loans wallet on the other hand, which totals $8.1bn so far, is up by 2% year on year and only $107m short of surpassing full year 2017. The US HY demise corresponds with the rise of cov-lite financing in the loans market, which accounted for 81.8% of institutional loans volume in 2018 YTD, as well as rising yields putting off borrowers tapping the DCM market. Furthermore, Levfin in 2018 was dominated largely by sponsors which accounted for 64.6% of revenue whilst non-sponsor deal volume in both loans and HY contracted by 30% and 42% respectively.

Financial Sponsor Market Dominance

The loans market is by far the preferred method of financing for financial sponsors. Out of $639.1bn of junk debt financing raised by sponsors so far this year in the US, 73.9% has been through the institutional loans market, 18.7% from pro-rata loans and only 7.4% through HY. Subsequently, sponsor transactions which are the key driver of US Institutional loans accounted for 72.3% of wallet generated by this segment. The growth of the institutional loans wallet is closely correlated with new LBO revenue which soared to $3.0bn in 2018 YTD from $2.3bn compared to the same period last year. Despite institutional loans volume being down by 22% on 2017 YTD level, resulting from a year on year decline in refinancing and amendment related deals ($376.8bn in 2018 YTD vs $599.0bn in 2017 YTD), 2018 YTD has generated, $743.4bn in volume, paving the way for future refinancing opportunities.





US Levfin debt wall

By 2025, $2.81tr of US levfin debt will be due to mature. The debt wall has undeniably been fueled by the very high debt level in the last 2 years. A combined $2.12tr was raised in 2017 and 2018 which accounts for 67.5% of total outstanding volume. Telecoms hold the lion share of the debt wall with $394.3bn, closely followed by technology with $391.0bn and oil & gas with$308.6bn. Will 2019 perform better from a volume and/or wallet perspective? With much uncertainty around the regulatory and political outlook, it will be very difficult to predict. Yet, by the end of 1Q 2019, $116.6bn of soft call protection will lapse on US institutional leveraged loans which undoubtedly presents opportunities for the different market participants.

Please contact us at DealogicCortexSupport@dealogic.com if you have any questions or comments.

Data source: Dealogic as of 19 December 2018