

Decompression

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The ability to extend a line of credit became irrevocably linked to equity underwriting during the recent recession. Competition is on the rise as well-capitalised banks are free to take advantage of the thawing credit market. Thanks to increased lending capacity and an increased tolerance to risk among banks and corporate issuers, more investment banks are active in US ECM today than any time within the last two years.

First-quarter league table results show increased competition among investment banks for US equity underwriting. Armed with increased capacity to lend, investment banks have upset a league table hierarchy set amid the recession and reclaimed lost market share.

Four investment banks claimed 47.7% of US ECM activity during the first three months of 2011. In contrast, the same number of banks accounted for 52% of activity last year and 61.5% in 2009 (see table).

Stock offerings had slowed to a trickle during the first quarter of 2009 as 50 companies raised just US\$10.7bn of proceeds. Defensive financings and balance sheet repairs resulted in 138 companies raising US\$30.2bn during the same time period last year. By contrast, the US\$54.1bn raised by 170 issuers this year has been more opportunistic.

Mutual fund flows turned positive last November, resulting in a more vibrant market for new issues and more block trades. Overall, 23 new issues have raised US\$13.5bn of proceeds to-date in 2011. This compares with 19 IPO pricings for US\$2.7bn during the same period last year and one IPO in 2009 for US\$828m. There have been nine blocks priced for US\$5.7bn this year versus 11 risk trades for just US\$1.7bn last year.

“It is natural that things would open-up as we transition from crisis to opportunity,” said John Chirico, Citigroup’s co-head of capital markets origination in the Americas. “Three guys controlling the majority of business is not normal. I think you get a healthier market when more banks are active.”

Goldman Sachs claimed the top spot on US equity league tables by pricing 27 deals for US\$9.3bn in proceeds during the quarter. No bank claims top mandates as often as Goldman Sachs. Average league table credit of US\$316m per deal is the industry’s best.

Barclays Capital can credit its strong first quarter to its active presence in the energy sector. Offerings for high-yielding master limited partnerships and a joint bookrunner post on the US\$3.3bn IPO of Kinder Morgan were highlights for the bank’s energy franchise.

A voracious user of equity capital, Annaly Capital Management and affiliates accounted for 15% [corrected from 75%] of Credit Suisse’s business. Investor demand for high-yielding mortgage REITs is expected to endure against the continuing backdrop of low Treasury yields.

Bank of America Merrill Lynch remains a model of consistency in US ECM. The bank's retail distribution platform is second to none. Leadership on M&A-related financings for senior living REITs, HealthCare REIT and HCP may distinguish the bank from the pack if the trend continues.

Deutsche Bank's rise in market share went unmatched during the first quarter. Much credit can be attributed to the bank's willingness to put its balance sheet at risk on block trades. Proceeds from six block trades accounted for 33% [corrected from 70%] of US\$5.3bn of bookrun-business attributed to the bank.

"Clearly, more banks are active today than two years ago," said a US syndicate source. "Competition creates better pricing for the issuer but deals that are priced too tightly may suffer on the back end."

Free of government influence, Citigroup is just beginning to realise its potential under the universal banking platform. A top equity house before the recession, Citigroup will help Ally Financial exit TARP as a joint book runner on its proposed IPO (see "Treasury weighs Ally's options").

Morgan Stanley earned the nickname Uncle Sam's Banker last year by delivering superior execution on US Treasury-backed offerings for Citi and General Motors. The bank is also mandated to the Ally Financial debut but in a less prominent role than previous Treasury mandates. As the era of sovereign-backed offerings winds down, lead-left mandates on social media IPOs for LinkedIn, Pandora Media and HomeAway.com are a source of optimism.

That JP Morgan, the top equity house over the past two years, has fallen to the number eight position amid the market's recovery should not be surprising. It can be argued that JP Morgan set the mould for parlaying lending capacity into equity mandates but rivals are using newfound lending capacity against the two-time IFR Global Equity House.

"Many corporate issuers are only willing to assign new business to firms that participate in their line of credit," said Craig Orchant of EA Markets, a capital markets advisory firm.

JP Morgan was one of three active bookrunners on HCA'S US\$3.78bn IPO last month. Even so, league table credit was diluted by six other banks in passive roles. The bank will be active on the US\$800m IPO of Toys R Us when it eventually comes to market, a deal with at least six passive bookrunners.