Philip Morris Stares Down Europe Debt Crisis: Corporate Finance
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By Hannah Benjamin and Zeke Faux

May 23 (Bloomberg) -- Europe's sovereign debt crisis is proving to be a boon to the money-raising efforts of Philip Morris International Inc.

The world's largest tobacco company raised 1.35 billion euros ($1.71 billion) of long-term debt with coupons of less than 3 percent. That's the largest offering in the currency from a U.S.-based company since Pfizer Inc. sold 5.85 billion euros of bonds in May 2009, according to data compiled by Bloomberg.

Philip Morris, which was created in 2008 when Altria Group Inc. spun off its businesses outside the U.S., took advantage of demand from European investors to hedge its assets in the region, according to Marco Kuepfer, its vice president of finance and treasurer. The interest it's paying is lower than the average 3.26 percent yield on seven- to 10-year European industrial debt, Bank of America Merrill Lynch index data show.

"Greece might leave the euro but that is not a major threat for Philip Morris," said Peter Kwaak, a fund manager at Robeco Groep NV in Rotterdam, who oversees 12 billion euros in investment-grade corporate bonds and bought Philip Morris's 12- year notes. "People like a non-cyclical corporate like Philip Morris at the moment, especially in Europe."

Profit at Philip Morris has advanced for 10 straight quarters after Chief Executive Officer Louis Camilleri raised cigarette prices and boosted Marlboro sales in Asia and Latin America.

Asset Hedge

European leaders are gathering in Brussels today to discuss the crisis that threatens the 17-nation currency bloc. Greece's shrinking economy and mounting debts are stoking fears that the single currency is headed toward a break-up.

Philip Morris, rated A by Standard & Poor's and an equivalent A2 by Moody's Investors Service, issues debt in euros to hedge assets denominated in the currency, Kuepfer said in a telephone interview yesterday. The company had net debt of 1.3 times earnings before interest, taxes, depreciation and amortization and about $3.6 billion of cash on March 31, Bloomberg data show.

Investors placed orders for more than 8 billion euros of Philip Morris's bonds yesterday, allowing it to reduce the rate it offered, Kuepfer said. The coupons it settled on were the lowest ever for those maturities in Europe, he said.

"From a timing perspective, we were pretty flexible," Kuepfer said. "The political news was a little bit less loud today than on other days."

The Philip Morris sale yesterday included 750 million euros of 2.125 percent, seven-year bonds and 600 million euros of 2.875 percent notes due in 12 years, data compiled by Bloomberg show.

Acquisitions

Credit-default swaps on Philip Morris fell to 73.9 basis points, down from 81.7 at the beginning of the year, Bloomberg data show. That means it would cost $73,900 annually to insure $10 million of the company's debt against losses for five years. The contracts pay the buyer face value in exchange for the bonds in the event of a default.

The spinoff from Altria Group Inc., the largest U.S. tobacco company, freed Camilleri to make acquisitions in Colombia, South Africa and Jordan to spur growth as Europe's economic slump and smoking bans crimped demand for cigarettes. Shipments excluding acquisitions advanced 5.4 percent to 219.1 billion cigarettes in the first quarter.

Euro Demand

"We like the company given its non-cyclical profile and its strong market position," said Oliver Woyda, a money manager at Deka Investment GmbH in Frankfurt, who bought Philip Morris bonds. "Demand for high-quality corporate bonds in euros is very high, and there have been very few issuers from the U.S. issuing bonds in euros over the course of the last two years."

Kuepfer said that Philip Morris is unlikely to sell more euro bonds this year. The last U.S. company to issue euro- denominated debt was machinery manufacturer Caterpillar Inc., which sold 600 million euros of 1.375 percent, three-year notes on May 9, Bloomberg data show.

"Well-known brands tend to be able to issue globally," said Reuben Daniels, co-founder of investment-banking advisory firm EA Markets LLC in New York. "What they like about issuing in Europe is the investor diversification that they get," said Daniels, a former co-head of U.S. investment banking at Barclays Plc.

Philip Morris last sold bonds in March, when it issued $550 million of 1.625 percent, five-year notes and $700 million of 4.5 percent, 30-year debt, Bloomberg data show. Those securities, offered at 97.6 cents on the dollar, have climbed to 105.6 cents to yield 4.17 percent, according to Trace, the bond- price reporting system of the Financial Industry Regulatory Authority.

‘Strong Credit’

The company’s last euro-denominated sale was in March 2009, when it issued 750 million euros of notes due 2016 that priced to yield 285 basis points more than swaps, Bloomberg data show. The new seven-year notes yield 55 basis points more than swaps and its 12-year notes pay an 87 basis-point spread.

“The success of these deals show that investors are looking to diversify into high-quality corporates given the uncertainty in Europe at the moment,” said Alain van der Heijden, a fund manager at Kempen Capital Management in Amsterdam, which oversees 800 million euros in corporate bonds and bought Philip Morris’s notes. “We see Philip Morris as a very strong credit.”

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