INVESTMENT BANKS TARGETING SPAIN'S CAPITAL MARKETS

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The cajas may have collapsed and financings fraught, but new foreign financial institutions are establishing a presence in Spain renewing hope for an upturn in the market

The meltdown of the Spanish banking system has been painful, say lawyers. Local savings banks slumped, special 'bad banks' were established to ring-fence toxic assets and the financing market practically dried up overnight.

Such a scenario is enough to crush any investor's confidence yet, in the last 12 months, some new foreign financial institutions have chosen to open in Spain. A small but noticeable group of niche investment banks and advisers entered the market in 2013, and more are expected, say lawyers.

Take Houlihan Lokey, the US-based bank that focuses on restructuring and financial advisory work. It announced plans to open in Madrid to tap restructuring work. Switzerland-based MainFirst Bank moved into Spain to leverage off its capital markets expertise by offering an institutional brokerage service in Iberian equities. There were also Spanish launches for US duo StormHarbour, a small investment bank specialising in trading and capital markets in the financial sector, and Evercoe

Partners, an independent advisory firm.

While these are niche outfits rather than global heavyweights, lawyers acknowledge that the lack of available finance in Spain has left a gap that is starting to – finally – be filled.

"It is still too early to say this is a major investment by foreign financial institutions but we have certainly seen some new entrants," comments Ignacio Ruiz-Cámara, Finance Partner at Allen & Overy. "They see an opportunity as Spanish banks are not lending so new players can step in and take lead roles, especially in bilateral financings."

The lack of available debt is most obvious in the refinancing market. Lawyers say that restructuring mandates have been one of the few busy sectors in the Spanish banking practice but that, increasingly, refinancing sources and solutions are much more varied, which is where new entrants can have an impact.

"Around 90 percent of my work for the Spanish banks has been on refinancings or restructurings," claims Rafael Aguilera, Banking & Capital Markets Partner at Gómez-Acebo & Pombo. "In the last year we've seen cases where fresh money has been obtained directly from a foreign fund rather than a Spanish bank. Such investments have been for both refinancing and new capital purposes and provided as either senior debt or mezzanine debt. In fact, mezzanine debt has proved to be a financing solution for some Spanish companies."

Mezzanine financing is typical of the sort of solution that smaller investors can offer. In essence, it is a loan facility that can be transferred into ownership or an equity interest if the debt is not paid back.

Lawyers also say that they have seen an increase in activity with credit funds. "They have been targeting assets and distressed debt, especially in sectors such as real estate, as well as direct lending," Aguilera adds.

Encouraging for lawyers too is the new entrants´ focus on capital markets. The shift towards bringing new capital into companies began in mid-2013 with the listing of Liberbank, which was the first major capital markets deal since the Bankia and BancaCivica initial public offerings (IPOs) in mid-2011.

There are more substantial IPOs set for 2014 on the Madrid Stock Exchange, notably with cable group Ono and the parent company travel businesses Opodo, GO Voyages, eDreams and Travellink brands. As with refinancings, the lack of debt was a driver, but lawyers are expecting an uptake in mandates.

Ruiz-Cámara points out that traditional bank loans are hard to secure especially because of the new capital requirements under Basel III, which make it difficult for some financings, such as a long-term project financing, to be deployed.

There is a growing interest in the capital markets, say lawyers, and bonds are much more commonly seen these days. The expectation is that this shift will continue and as will the increase in capital markets transactions activity. Good news, say lawyers, for a market that was in need of a kick start.