INVESTORS TURNING ATTENTION FROM SPAIN TO PORTUGAL

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Law firms in Portugal specialising in capital markets could be set for a boost as lawyers say Portuguese debt ´trading at a discount´ compared to Spanish debt as investors shift their focus

From an investors´ perspective, Portugal and Spain have recently been divided into buyers' and sellers' markets respectively. Indeed, Bloomberg claimed the 10-year Spanish bond benchmark was recently priced at 3.32 percent, against 4.5 percent for Portugal. The signs are that Spanish yields will drop even further, making the country much less appealing than Portugal's higher rate of returns. While this may be a simplified view, such dwindling returns have prompted a number of high-profile funds to recently offload their Spanish debt, with the likes of JPMorgan Asset Management, BlackRock and Sturgeon Capital selling local holdings and shifting focus to Portugal and Italy.
Not that Spain should be written off just yet. Iñigo de Luisa, a Finance Partner at Cuatrecasas, Gonçalves Pereira in Madrid says there is a two-tier market in Spain and that investments in high yield bonds have been attracting attention recently because of returns of between five percent and seven percent.

“Such has been the interest, issues are often seven or eight times oversubscribed,” he adds. “On the other hand, low yield investments are struggling – investors will always require minimum yields and it seems now that Spanish investments just have not been providing good enough returns for the risk involved in some situations.” De Luisa says that there is still enormous appetite for any potential sale of Spanish assets, “even if it is a bidding process”.
De Luisa says his firm is seeing activity levels increase in the Spanish real estate market, as well as in relation to M&A and IPO deals but, due to the high level of competition, investors are also looking elsewhere for assets with higher yields: “We’ve found international clients now looking at Portugal very seriously. The Portuguese market may be small but debt funds are finding nice opportunities because the asking prices are much lower than in Spain, it is a less competitive market and there are higher expectations of economic recovery.”
Carlos Costa Andrade, a Banking and Finance Partner at Uría Menéndez and former in-house counsel in the Issuers and Market Division at NYSE Euronext Lisbon, says the reason underlying some international investors´decisions to switch from Spanish debt to Portuguese debt may be that, though both countries are deemed to be on the route to recovery, Portuguese debt is still trading at a discount in comparison with Spanish debt, so “granting investors a better return for the risk they may be perceiving”.

Bargain hunting
Figures from late-March onwards show the balance may be shifting again. Research from Markit’s iBoxx showed Spanish government bonds had the best preforming yields in Europe, returning 5.75 percent in 2014. In contrast, the rush to bag a bargain in the Portuguese bond market seems to be slowing as yields slid to under four percent for the first time since the bailout.
This ever-changing appetite is good news for capital markets lawyers. Law firms have benefited from both government and corporate bonds issuances in Iberia – recent examples saw Garrigues act for BBVA on the issuance of subordinated bonds; Allen & Overy represent Santander on a securitisation bonds offering; and Cuatrecasas advise Banco Popular on subordinated convertible bonds (Cuatrecasas was placed 18th in Bloomberg’s 2013 table of Euromarket Bonds Issuer Advisers with five issues valued at $5.312bn). In Portugal, meanwhile, the likes of Uría Menéndez, Linklaters, MLGTS, PLMJ and Vieira de Almeida have all secured notable capital markets mandates. The injection of finance from such deals improves corporate liquidity and encourages more legal work.
“There has been a bullish market for debt restructurings in both Spain and Portugal,” Costa Andrade concludes. “The financial crisis had the effect of requiring companies to rationalise their balance-sheets and adapt their debt repayment schedules, which required a lot of debt-related legal work.”