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Switzerland: diAx gets it right

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When arrangers and underwriters Citibank/Schroder Salomon Smith Barney and Credit Suisse First Boston launched the senior syndication of the Sfr1.4 billion senior secured credit facility for diAx, the Swiss independent telecoms operator, there were inevitably some raised eyebrows.

The reason for this was that just seven months earlier the borrower had tapped the loan market for a Sfr700 million project finance facility to part fund the build-out of its fixed and mobile telephony network in Switzerland. But perhaps more importantly, the first deal, arranged by Credit Suisse First Boston, was not an overwhelming success in syndication.

The previous deal was split between a Sfr650 million term loan and a Sfr50 million revolving credit, both with seven year maturities. It was launched to market priced at an initial margin of 80 basis points over Libor but which could ratchet down to a low of 30bp according to a debt to Ebitda grid.

In sell-down, the deal struggled to attract good support from the market. Chiefly this was the consequence of a legal challenge over the award of the Swiss telecom licence to diAx made by rival bidder Sunrise. diAx's deal was mandated and priced in the spring of 1999 but could not be launched until the legal challenge had been resolved. By August last year, the Swiss Federal Court upheld the award of the licence to diAx clearing the way for syndication to begin. However, the margins in the market for telecoms debt had widened in the intervening period making diAx's deal look unattractively skinny. As such, few banks were keen to buy into the asset when other richer deals with comparable risk profiles were available.

The arranger and borrower quickly agreed that for the deal to sell it had to be re-priced. The loan was then relaunched with a top margin of 90bp for the first two years and a minimum margin of 50bp for the remainder of its term. The change in price did the trick and the deal closed subscribed.

So with the announcement of a new deal for diAx to fund the same network build-out there was inevitably some surprise in the market. ?When we launched the new facility for diAx we were sensitive to the fact that the borrower had tapped the market so recently,? says a spokesperson for CSFB. ?But the key thing was that the company had a highly credible story. We were able to explain to banks that the reason diAx was coming back so soon was for the best possible reason. The take up rate for their services has been so explosive, particularly for mobile services, that in order for diAx to continue to provide a high quality of service to customers it had to increase its capital expenditure on its network.?

The question was how to fund this additional capex. And the borrower ? shareholders of which are diAx Holdings (comprising the six leading Swiss utilities, Swiss Re and Winterhur Life) (60%) and SBC Communications (40%) ? and its banks opted to maintain the company's debt to equity ratio of 60:40. This resulted in a debt facility split between a Sfr1.25 billion term loan and a Sfr150 million revolving credit. Both tranches have an eight and a half year maturity. The deal is priced at 125bp over Libor for the first 24 months after which the margin is linked to a debt to Ebitda grid which can drop to a low of 50bp if debt to Ebitda is less than 3:1.

The Sfr1.25 billion term tranche will take out the Sfr700 million previous deal as well as providing new funds. As such, syndication was targeted at the banks in the existing syndicate as well a small number of new lenders.

Banks were invited to join the first stage of sell-down on the deal at two levels ? senior co-arrangers taking Sfr130 million and co-arrangers with Sfr100 million. This time round demand for the deal proved overwhelming and mean that a general syndication would not be needed. ?The syndication closed Sfr1 billion oversubscribed,? says the spokesperson at CSFB. ?The take up was so strong at the senior level that we effectively cancelled plans for a general syndication. Instead we focused on bringing in some of the banks from the existing deal who were unable to participate at the bigger tickets on offer at the senior level.?

Aside from accurate pricing, demand for the deal was also encouraged by broader factors specific to diAx's operations. The company is the number two telecoms operator in Switzerland behind Swisscom and is the only independent carrier to offer integrated fixed, mobile and internet services. And the Swiss aspect of the deal is important ? the country has one of the highest expenditures per capita on telecoms in the world. Additionally, Swiss corporates are relatively scarce names in the loans market particularly for higher-yielding project-type paper.

But while other Swiss names may be rare, there could be more business to come from diAx in the loans market. The auctioning of the UMTS licences in Switzerland are widely anticipated to begin within the next twelve months and diAx is likely to be one of those bidders.

The success of this latest deal suggests that diAx will be able to raise well-priced funds through the loans market if it wins a UMTS licence. ?This deal was a tremendous result for the company,? says the spokesperson at CSFB. ?We are extremely pleased with how the deal went and it is a big vote of confidence from the market for diAx.?