

\*\*\*Intended for Non-Advisory Clients\*\*\*

Buying opportunity in European hybrid bonds (CoCos) yielding 6.4-6.9%, having widened by 25-40bp last week | KCP Capital Markets [I]

BBVA 9% USD CoCo yield widened by 40bp in the last week (current yield to call: 6.9%)

The recently issued Santander 6.25% EUR CoCo yield is up by 25bp (current yield to call: 6.4%)

Both are good quality, high yielding, low trigger CoCos

These are hybrid bonds that absorb losses when the capital ratio of the issuer falls below a trigger level

BBVA and Santander capital ratios (CET1 ratio: 10.5%-11%) are far from the trigger on these CoCos (5.125% for both)

Coupons are discretionary and step up to a spread over 5y swap rates if these are not called (in 2019)

The likely step up in coupon if these are not called incentivises the issuer to call the bonds

We therefore look at 'yield to call' instead of 'yield to maturity'

BBVA (Baa2/BBB-) USD 9% CoCo Yield to Call

<< image 1 >>

SANTAN (Baa1/BBB+) EUR 6.25% CoCo Yield to Call

<< image 2 >>

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