

Subject: Fw: KCP Capital Markets Trade Idea: Enel and Telefonica hybrids that offer 5.5% yield to call to play the carry and periphery theme post ECB [C]  
From: Tazia Smith <[REDACTED]>  
Date: Tue, 10 Jun 2014 13:05:24 -0400  
To: Rich Kahn <[REDACTED]>, ">"  
Cc: Paul Morris <[REDACTED]>, Vahe Stepanian <[REDACTED]>

Classification: Confidential

Hi Rich - An iteration here of the tighter-periphery spreads here. I know you and I have discussed yield/bond solutions for getting cash to work with a much different payout profile than binary trades. Let me know your thoughts and/or please highlight to Jeffrey as you identify value/a fit.

All My Best,  
Tazia

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From: Vanshree Verma  
Sent: 06/10/2014 05:45 PM CET  
To: Vinit Sahni  
Subject: KCP Capital Markets Trade Idea: Enel and Telefonica hybrids that offer 5.5% yield to call to play the carry and periphery theme post ECB [I]

Classification: For internal use only

Intended for Non-Advisory Clients

Corporate hybrids are high yielding, perpetual securities, lower in the capital structure and therefore offer a significant pickup vs senior paper Hybrids issued by peripheral issuers such as Enel and Telefonica offer a way of playing carry and periphery, both themes I like post ECB

Rating agencies treat these securities as 50% debt and 50% equity until the call date, after which they are treated as 100% debt. So issuers have a strong incentive to call these, and they are priced as such

Key risk with these securities is that these can be called by the issuer at a price of 101 if their senior bonds are downgraded to high yield - This is a 2 notch downgrade from current ratings ( their senior bonds are rated Baa2 and both companies are on negative outlook)

I particularly like Enel 6.5% and Telefonica 6.75% bonds as the risk of the ratings related 101 call being triggered is minimised due to the lower price and higher coupon vs others. These yield around 5.5% to their call dates in Jan-2019 and Nov-2020

Both these issuers have reported solid fundamentals - Telefonica highlighted a continued improvement in Spain and solid performance in Brazil. Enel is continuing deleveraging and also benefits from a €4.4bn disposal programme

European Corporate Hybrids Index OAS, bp

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Vanshree Verma

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