

VOICES European Bank Distressed Debt Sales Expected to Pick Up, Cadwalader's Watt Says

Distressed investors in Europe will get a chance to bid on distressed debt from banks shoring up balance sheets to address regulatory requirements, says **Louisa Watt**, partner in **Cadwalader, Wickersham & Taft's** financial restructuring group in London and head of the firm's debt and claims trading practice. She spoke with Bloomberg Brief reporter Hema Parmar. Her comments have been edited and condensed.

Q: Where are you seeing the most distressed activity?

A: We've seen an uptick in portfolio transactions. Local banks in Germany and Spain continue to sell off distressed loan portfolios, particularly in shipping and real estate. There's a lot more investment from the East as well as from the U.S. into Europe now. Investors from the East include a broad range of Chinese companies and investment banks. So that's keeping the prices high. There has not been very much volume trading in single credit names in 2015. Distressed investors are working harder to source smaller, mid-market transactions. So we're seeing deals in the 50 to 100 million-euro range. There is more active sourcing by funds in the mid-cap space and finding interest in long-term investments versus short-term trading opportunities and more direct lending transactions. There's more of a special situations focus.

Q: How does distressed shipping activity compare to a year ago?

A: Shipping continues to be of a great deal of interest to distressed investors. A lot of fund investors are partnering up with local shipping industry companies to do joint ventures. Dry bulk is very popular. Prices for shipping portfolios have increased recently and investors are paying more now than they were two years ago. There's increased competition in that sector and people are getting more comfortable because they're doing it in a joint venture situation. So they've got a better handle on the different underlying issues.

Q: Specifically, what kinds of dry bulk vessels are attracting the most interest?

A: Dry bulk vessels designed to move dry cargo such as steel and coal are popular as they tend to be highly levered and may have a negative net asset value with their debt exceeding the fair market value of the vessels, which is linked to charter rates. A drop in value can result in a breach of covenant and allow an investor to trigger default mechanisms under the loan agreements. Handymax — small vessels often with a lower shipbuilding cost and operating and maintenance costs than supramax vessels — are popular. Some shipping deals we are working on and are of interest to distressed loan investors include, Eagle Bulk Shipping Inc., Torm A/S, Eitzen Chemical ASA and Zim Integrated Shipping Services Ltd.

Q: Which lenders are being hurt by distressed shipping activity?

A: The Northern European banks have a bigger exposure to shipping — HSH Nordbank that was their prime industry. Those are the types of banks that we're seeing the shipping portfolios being sold from. A lot of these portfolio deals that we're seeing are from German banks that want to de-lever, essentially to address Basel III and shore up their balance sheets.

Q: What opportunities are you seeing in the oil sector, especially looking at the North Sea?

A: The majority of companies that are currently facing difficulties are smaller-cap entities that are often financed using Norwegian law bonds. Examples of North Sea E&P companies that are in restructuring processes include Iona Energy Inc., Ithaca Energy Inc. and Norwegian Energy Co. ASA. We are also seeing companies in related industries — transportation and servicing — becoming distressed and entering into workout processes. These include Norshore Atlantic BV, Ocean Rig UDW Inc. and Stirling Energy Plc.

Q: What other opportunities are you seeing in Europe?

A: Financials are really interesting in Europe right now. Heta Asset Resolution AG, an Austrian 'bad bank' for Hypo Alpe-Adria-Bank International AG, is currently in a moratorium process. It's not a formal insolvency, but the creditors are essentially negotiating with the Austrian government with respect to something like 9.8 billion euros worth of bonds. The moratorium is in place until May 31, 2016, but it could potentially be extended.

Iceland just announced plans to lift currency controls that have been in place since 2008 resulting in an uptick in prices for Glitnir, Kaupthing and Landsbanki claims. We're also seeing interest in HSH Nordbank, which is the world's largest financier of ships. There may be interest in it for investors who could potentially get access to shipping assets.

AT A GLANCE



Based in: London

Hometown: Worcester

Career: Previously at Weil Gotshal & Manges; Associate at Orrick, Herrington & Sutcliffe; Partner and member of the Executive Committee of Richards, Kibbe & Orbe LLP; now head of distressed investing and loan trading at Cadwalader.

Recommended book: "Love in the Time of Cholera" by Gabriel Garcia Marquez or "Madame Bovary" by Gustave Flaubert.

Favorite restaurant: No. 5 Hertford Street, London

Hobbies/favorite pastimes: Polo

Favorite toy: A thoroughbred mare named Birra

If you could have another career, it would be: Writer

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