

Capital Raising in March-April Dropped 60%; Underwriter Fees Didn't Match the Drop

In March and April, 15 issuances totaling NIS 4.8 billion took place on the Tel Aviv Stock Exchange, compared with NIS 12 billion raised through 47 issues in January and February - according to data compiled by underwriting company Value Base ■ Despite the crisis, underwriter fees totaled NIS 60 million during the January-April period - just like in the previous year

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The free fall in bond and stock markets, following the coronavirus crisis, has halted the securities issuances market in March and April. Companies which had planned an IPO, have had to postpone their issuances, making it difficult for publicly-traded companies to raise additional capital, as investors fled the market. The result was a sharp decline in the capital raised, which has caused a credit crunch for some companies.

"The effect of the coronavirus crisis on issuances was substantial, but it was manifested only in March and in April, when 15 public offerings took place totaling NIS 4.8 billion, compared to 47 offerings totaling NIS 12 billion in January and February of 2020 - a 60% drop," according to the underwriting firm Value Base, which has compiled data on the activity in the securities issuance market in the first quarter of this year.

Value Base, which is managed by CEO Peleg Peer, stressed that the drop in the scope of activity becomes even clearer when examining equity issuances. In January and February, the two months preceding the crisis, NIS 2 billion were raised on the stock exchange in 15 stock offerings - compared with just NIS 23 million in one equity offering over the March-April period.



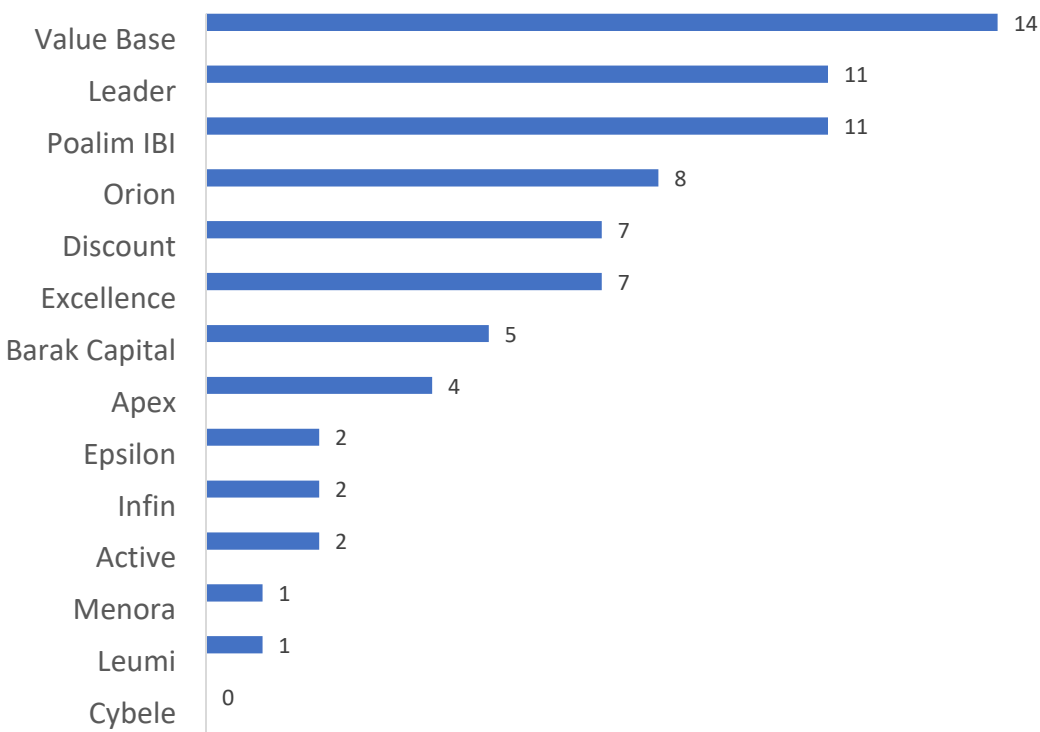
Value Base CEO Peleg Peer

The coronavirus started to affect the markets only when it spread from China to developed countries. First to Western Europe and then to the US. In March - one of the worst months in the history of financial markets - leading stock indices in Israel and in the US dropped by nearly 35% at one point. Markets reached a bottom on March 23, and then began to rally, with April being one of the strongest months ever, leading to a 30% rise in the [S&P 500 index from the March bottom](#).

Due to the crisis, total issuance on the stock exchange during the first four months of the year dropped by 25% to NIS 17 billion, compared with NIS 22 billion in January through April 2019. Most of the issuance activity is attributed to the months of January and February. Out of all the capital raised, 86% were issued through Israeli corporate bonds, 2.6% were corporate bonds issued by foreign corporations, and 12% were stock issues.

The IPO Leaders

Number of issuances led by leading underwriters in 2020



*Public issues with prospectus over NIS 5 million

Azrieli Raised NIS 1.7 Billion

The main issuers in the January through April period were real estate companies, raising a total of NIS 10.8 billion - 63% of the total amount raised. Value Base indicated that "the capital-intensive real estate industry continues to increase its presence in the capital market, whether it be for refinancing old debt, growth, or replacement of bank debt." The biggest issuers in this industry were Azrieli (NIS 1.7 billion), Amot (NIS 1.07 billion) and Gazit Globe (NIS 864 million).

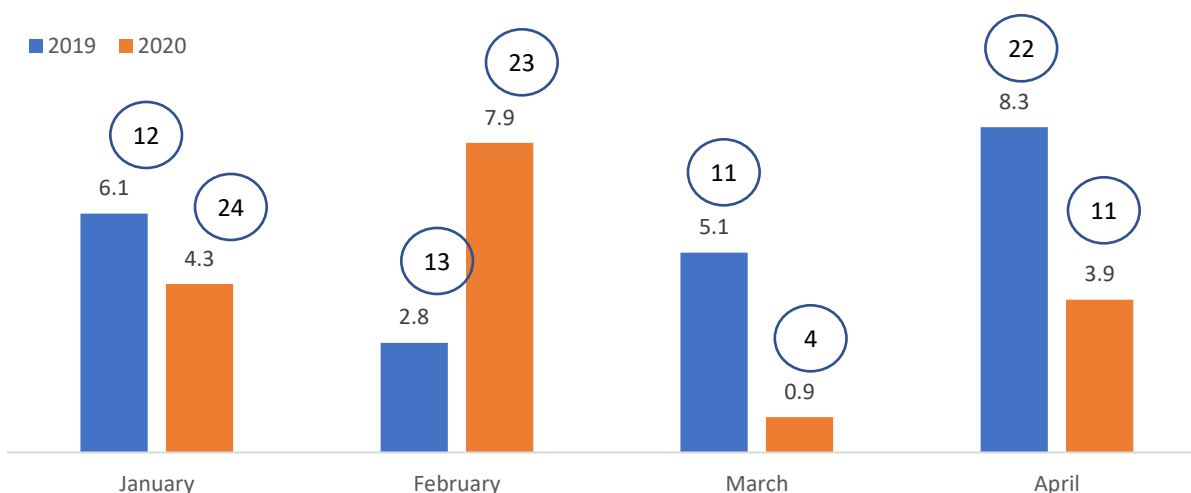
The next industry, in terms of the scope of issues, was the energy sector. In January through April, companies in this industry raised NIS 2.1 billion - 13% of all issuance. The largest issuers included Paz Oil which raised NIS 1.2 billion, and the power plant company OPC, which raised NIS 400 million. Next up on the list of largest issuers were trade and services companies, with much of the amount (NIS 1.15 billion) - being raised through bonds issued by the state-owned company Mekorot.

Bank and insurance sectors raised relatively low amounts in the first one-third of the year, NIS 814 million and 220 million respectively. The financial services industry raised NIS 422 million in four issues, which included the Meitav Dash investment house (bonds), as well as raisings by

credit companies - Peninsula, Opal Balance and Unet Credit. Clean-tech, cannabis, and biomed companies also took advantage of the positive atmosphere which prevailed earlier this year, and issued stock and convertible bond that totaled an amount of NIS 330 million.

Crisis? Underwriters Continue to Make Profits

February was a good month for issuances
 Number of monthly issuances and capital raised in the issuances
 - compared to 2019, in NIS bn



Source: Value Base

24 underwriting and distribution companies participated in the issuances, which took place during the first third of the year, of which only 14 served as a lead underwriter in at least one issuance. The underwriting companies which led the most issues during the first four months of the year were Value Base (14 issues as lead underwriter), Leader Underwriters and Poalim IBI (11 issues each), Orion (8 issues) and Discount and Excellence (7 issues each).

According to the calculation prepared at Value Base, underwriting and distribution fees totalled NIS 60 million in January through April, compared with NIS 57 million over the same period one year prior. However, Value Base stressed that this comparison tells only part of the story: "The coronavirus crisis has had a significant negative impact on revenues from underwriting and distribution in March and April, which totaled only NIS 8 million - an 85% drop compared with January and February of this year and an 80% drop compared with March and April of last year.

According to Value Base, underwriting and distribution fees in January and February were relatively high and totaled NIS 53 million, compared with NIS 16 million over the same period in 2019 - mostly due to an increase in stock offerings and bond issuances by foreign companies

(BVI) where the rate of the fee is significantly higher, compared to bond raisings by local companies. The underwriting and distribution fees are derived from the scope of issuances and from the rate of the fee, which varies from one prospectus to another, and is finalized through negotiations between the underwriter and the issuing company.

According to Value Base's estimates, the distribution fees paid during the first third of this year totaled NIS 54 million, accounting for 91% of all fees, compared with NIS 55 million over the same period in 2019. Consulting fees totaled NIS 1.1 million, or 2% of all fees, and success fees were NIS 4.1 million - 7% of all fees. The underwriting company explained that "estimating consulting fees is challenging due to the absence of a complete breakdown of fees, and distinction from distribution fees in most prospectuses."

"Moreover, a considerable share of consulting fees in issuances made by foreign corporations appear in a basket item together with legal fees, due diligence audit fees, and other issue-related expenses - and a significant proportion of the fees paid to local issue consultants are paid as part of the distribution fees paid to underwriters, and not directly from the companies with separate disclosure from the prospectus."

What's Next?

Peleg Peer estimates that 2020 will see corporate bond redemptions in the amount of NIS 37 billion - of which NIS 32 billion in bonds rated A- and higher, and NIS 5 billion in bonds rated below the A group (including non-rated bonds).

"The spreads in the A-and-higher group have increased by 0.5%-2% (depending on ratings and collateral), and by 3.5% on average in the BBB group. Therefore, we expect companies on the higher end of the rating scale to issue bonds with no difficulty, other than accounting for the higher spreads. The lower-rated and unrated companies' investors will be more selective and demanding, as improved terms would have to be put forward in order for bonds to be issued successfully," he says.

According to Peer, foreign real-estate companies (BVI) - which must redeem NIS 2.7 billion worth of bonds in 2020 – for them the overall picture is more dramatic. "Spreads have widened much more aggressively and companies which have relied on debt refinancing would have to issue bonds with a high-quality first lien, or to turn to other financing options in order to repay their debt on time."

Peer further states that "things are a little different in the stock market. We will see equity issued by companies which were only mildly affected by the coronavirus crisis, or by those who have benefitted from the crisis, like food retailers, logistics, renewable energy, life sciences, and others, - or by companies which must increase their shareholders' equity, even at the cost of an attractive opportunity for investors."