SGCIB'S GREEN DEAL FOR LONDON TAXI COMPANY HAILED

Team of the month

When China's Zhejiang Geely Holding Group, owner of LTC, decided to invest £250m in its UK manufacturing capacity for low-emission black cabs, a green bond issue seemed the ideal vehicle. The company chose Société Générale Corporate & Investment Banking as joint global coordinator for a deal that has tapped into investors' growing interest. Edward Russell-Walling reports.

Green bonds are growing in popularity and a Chinese expansion story will always catch the eye. Combine them with the iconic London black taxi and you have a bond issue guaranteed to command attention. The first green deal from China's auto sector links all these elements, and Société Générale Corporate & Investment Banking (SGCIB) was a joint global coordinator.

The issuer of the $400m five-year bond, with a 2.75% coupon, was London Taxi Company GB. Its parent is China's largest privately owned car manufacturer, Zhejiang Geely Holding Group, based in Hangzhou in Zhejiang province. 'Geely' means 'lucky' in Mandarin, and the company has certainly enjoyed an extraordinary rise from relatively humble beginnings.

RAPID JOURNEY

The business was set up by Li Shufu in 1986 to make refrigerator parts, which it did so successfully that, in 1994, it began producing first motorcycle parts and then motorcycles. It introduced the first Chinese scooter engine, and within two years became the market leader. It launched its first car in 1998 and in 2015 sold more than 1 million vehicles.

In 2007 Geely formed a joint venture with the UK's Manganese Bronze Holdings, maker of London black cabs, to start manufacturing the taxis in China. Geely acquired Volvo Car Corp from Ford in 2010, and the company has prospered under its ownership. Finally, it bought Manganese Bronze in 2013, after the company had gone into administration, renaming it London Taxi Company (LTC). With a change of management, the business has been turned around relatively quickly.

The glaring issue now facing LTC is that, from 2018 onwards, London will introduce an 'ultra-low emissions zone', imposing much stricter limits on emissions from city taxis. So the company is building a new plant near Coventry in the Midlands region to make a new low-emission version of its popular TX4 taxi from the second half of 2017. The TX5, as it will be called, will have a 400-kilogram battery that can be recharged in transit by a small petrol engine. Geely announced it would invest £250m ($353.5m) in the project, thereby providing the rationale for a bond issue.

"While subsidiary Geely Automobile Holdings is listed in Hong Kong, Geely Holding Group is unlisted," says Andy Liu, SGCIB managing director, debt capital market (DCM) origination, China. "Geely Holding Group is a frequent issuer onshore, but has not issued offshore."

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>
> *Jonathan Weinberger*

A GREEN LIGHT

While some may associate China with heavy pollution, Li Shufu is on record as saying how much the Chinese now value environmental consciousness, and the Chinese government is going for green with some gusto. This was clearly one of the main drivers of the deal.

"From the perspective of the parent, China is very serious about moving to a low-carbon economy," says Jonathan Weinberger, SGCIB head of capital markets engineering. "It is at the fore of national efforts to seed a green bond market, and has introduced its own green bond standards."

Three of the five biggest green bonds issued in 2016 have come out of China, Mr Weinberger notes. Two came from Shanghai Pudong Development Bank – a $3bn debut in January (the largest ever Asian green bond) with a $2.3bn follow-up only weeks later, and a $1.5bn deal from China Industrial Bank.

Part of Geely's green commitment is that it wants 90% of sales to be electric battery and hybrid vehicles by 2020. Domitille Moulas, senior advisor, cross-product green structuring, in SGCIB's positive impact finance team, underscores the point, saying: "This was a great opportunity for Geely to communicate directly with investors about its commitment to a low-carbon economy."

GAINING TRACTION

Until two or three years ago, selling green bonds was more of a public relations exercise for the issuer, a statement of intent, but now green bonds are also gaining more traction with investors.


SGCIB: (left to right) Han Zhang, Yann Zhang, Laurent Morel, Sammie Lau, Andy Liu, Jack Ang; Alain Stalker, Jonathan Weinberger and Marjolaine Druart

"Now green funds have started to become more popular among investors, as another tool in their investment suite," says Alain Stalker, a SGCIB managing director in DCM syndicate (emerging markets). "There is more tangible liquidity from dedicated investors and we see the format extending across a wider range of issuers, including from emerging markets such as Turkey and India."

Those investors are becoming increasingly discerning about what does or does not constitute a green bond, and compliance with the International Capital Market Association-administered Green Bond Principles ensures the best chance of success. These aim to promote integrity in the market by laying out voluntary guidelines on matters such as use and management of proceeds and reporting, and they recommend transparency and disclosure.

In Geely's case, the proceeds would be used to finance, or refinance, projects enabling the design, development and production by LTC of zero-emission-capable vehicles. "We discussed the Green Bond Principles with the borrower, introduced the concept of second party opinion providers and helped the company to engage with them," says Mr Weinberger.

Mandates as joint global coordinators were awarded to Bank of China, Bank of America Merrill Lynch, Barclays and SGCIB, and preparations began in March. "Bond execution takes two months, including working on the green bond certificate," says Mr Liu. "By early May we were ready to go out with a roadshow."

The roadshow took in Singapore, Hong Kong, Frankfurt and London, and a five-year $400m Reg S senior unsecured deal was priced a week later. Investors wanted more clarity on how LTC would manage the leap from its current annual production levels of 1500 vehicles to 36,000 from the new factory. The answer was that it plans to build an export business.

"There were also a lot of roadshow questions about LTC and its financials," says Sammie Lau, a SGCIB associate in DCM for China. "It's a relatively small company, and there were enquiries about its debt servicing capability."

KEEPWELL AND STANDBY

Some comfort, and an enhancement to credit quality, was provided in the form of a keepwell letter from Geely. While falling short of a guarantee, keepwell deeds promise financial support for a subsidiary over a specified period. More persuasively, the bond also benefited from a standby letter of credit (SBLC) provided by the London branch of Bank of China. Moody's rated the bond A1, mirroring its Bank of China rating.

Geely's five-year paper was trading at about 120 basis points (bps) over Treasuries, and it was thought that a 50bps premium to that would be a good place to start. The transaction was launched with an initial price guidance of Treasuries plus 170bps.

"It attracted a lot of interest from Asia," says Jack Ang, a director at SGCIB's Hong Kong bond syndicate. "Bank treasuries took a huge chunk. Quite a number of fund managers put in orders, since there has been a lack of supply in the SBLC space, and other fund managers were buying for dedicated green portfolios."

The green aspect attracted a good level of interest from Europe as well, according to Mr Ang. "The quality of the order book was very high, with the majority of orders from real money accounts – and the quality didn't drop, even after tightening," he says.

After final guidance of 140bps to 145bps, the issue was priced at 140bps over – the tightest SBLC bond ever, says Mr Ang. With orders of $2.3bn, the deal was nearly six times oversubscribed. Asia took 86% of it, and Europe, the Middle East and Africa the balance, while banks got 54% and fund managers 36%.

"The Chinese presence in international DCM is growing, and will continue to grow due to the scale of their economy," says Mr Weinberger. "And it's interesting that China and India are willing to take on the leadership mantle in achieving a cap of 2°C above baseline."

Ms Moulas agrees. "Six months after the Paris Agreement [on climate change], having China lead the green bond market is very promising," she says. "It will foster more financial sector participation in funding the transition to a greener economy." TB