

Relative Value in Corporate Bonds

The aim of this two-day workshop is to equip fixed income professionals to use credit fundamentals to help identify and assess relative value in corporate fixed income securities.

TARGET AUDIENCE

Fixed income professionals: those in sales, trading and fund management who deal in investment grade, cross-over and "fallen angel" corporate securities.

COURSE OBJECTIVES

Applying a focused and structured approach to credit assessment that can be used across asset classes and sectors, to enable astute investment decisions to be made and supported in context of challenging and changing market conditions.

Specifically, the aim of the training is to equip participants to:

- Understand how credit fundamentals can drive relative value
- Appreciate how current market conditions have impacted volumes, pricing and trading and the implication for potential upside and downside
- Identify factors that might change a company's credit standing, and thus the value of the underlying security, by anticipating upward and downward credit migration
- Understand and evaluate the performance of a company based on a qualitative approach, backed by appropriate quantitative analysis (using ratios and cash-flow tools) to support an investment decision
- Anticipate a company's future performance and credit outlook using a cash-flow approach to assess adequate liquidity and determine ability to service / refinance its debt as it comes due
- Understand the structure of a debt issue in order to assess the risks and protections in the structure.

CONTENT

STRUCTURED APPROACH

- Market perspective: the need to understand credit as a driver of relative value
- Overview of the structured approach used to (I) identify relative value opportunities driven by credit considerations (II) assess the creditworthiness of the issuer, (III) understand and evaluate the features of the bond issue.

I. COMPARATIVE ANALYSIS: IDENTIFYING RELATIVE VALUE

- Applying credit fundamentals to identify relative value: where to look
- Using corporate debt ratings: a quantitative approach to compare risk - return
- Market perspective for comparative analysis
- Credit factors which drive value: why certain bonds / sectors trade "outside" their rating.

II. ISSUER FEATURES: ASSESSING CREDITWORTHINESS

- Overview corporate debt ratings: understanding criteria applied by the rating agencies
- The 4-step approach to evaluating an investment: purpose, payback, risks and structure
- Understanding the issuer's financing need: uncovering purpose and sources of payback
- Macro economic and industry dynamics: identifying external factors which might impact a company and affect its debt servicing ability
- The issuer's commercial viability, operating efficiency and competitive positioning: a qualitative analysis of a company's performance
- Financial fundamentals: using ratio and cash-flow tools to assess performance and cash-flow volatility
- Benchmarking to peers: identifying relative underperformance / out performance
- The appropriateness of the capital structure: assessing financial risk as a function of business risk, and debt servicing in terms of cash-flow cover
- Evaluating liquidity: qualitative and quantitative tools and measures
- Understanding how companies manage liquidity and avoid the crunch
- Refinancing risk in today's market: why certain companies have access to capital
- Future performance: using the debt capacity model to quantify debt servicing ability
- Concluding on creditworthiness and relative risk versus reward.

III. ISSUE FEATURES

- Bond structures: The position of different classes of investors
- Risks specific to group structures and borrowers
- Commercial and financial risks: protections afforded by the bond
- The purpose and effectiveness of safeguards and covenants
- Bank versus bond: terms and conditions that may enhance bondholders' bargaining powers
- High yield versus high grade: credit fundamentals, bond structures, structures, and pricing.

The training is highly interactive. The workshop is taught by way of cases and exercises based on real transactions.

Learning Paths

