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Goldmans – making PF bankers grind their teeth

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Talking to sources in the market this week, it was fascinating to hear that Goldman Sachs booked the biggest single profit event for the previous two years on HS1 – the high-speed rail line from London to the English end of the Channel Tunnel.

Sour grapes abound as sources purse lips at news that Goldmans syndicated the deal down for a 30bp profit on the £800 million plus, 20-year underwrite – a good result for the bulge-bracket bank, but not where it really made money.

It was the deal-contingent swap where it made out like a bandit, but it must have been sweet to skim a cheeky 30bp off the holdco debt.

In total for HS1, there were three pieces of business:

- holdco debt facility
- asset level hedging
- deal-contingent swap

A quid-pro-quo for the holdco was that Goldmans was allowed to do the deal-contingent swap which made them tens of millions – nailing HS1 down as the biggest single profit event for some time.

As to pricing, we hear margins for the underwrite came in at around 150bp and they were able to pay away 120bp to the banks.

Furthermore – adding insult to project finance bankers' injury – it is understood that Goldmans held on to a humble £10-20 million, selling down the rest to institutionals, squeezing them until their bips squeaked.

Sign of things to come

Word on the street has it that we are going to see a lot more of this – underwriting deals and taking a punt on shifting it out the door – unless project finance banks get tired of having their faces rubbed in the dirt and start doing something about it.

There are a good number of institutions out there under a huge amount of pressure to get in on big-ticket deals and deploy the cash they have burning holes in their coffers.

But while every banker on the street tips their hat to Goldmans, not all of them laud the action.

"It sounds a bit like a short-term market arbitrage trade rather than a business that is sustainable, because every other bank will start doing it," says one senior source (who isn't doing it).

Others are less enamoured by the holdco element.

"We don't like this holdco stuff where it's right at the top of the stack," says another source through gritted teeth. "It doesn't really work for us returns-wise as we need to distribute it. We – maybe altruistically but naively – take the view that we don't want to underwrite and then distribute the whole thing as we take a bit of a conscience on these things.

"If we flog it to the likes of L&G, Aviva or Standard Life and then it goes wrong later, they'll come back to us and ask us why we sold them cr@p. Bottom line – we wouldn't underwrite something that we would not want to keep.

"It's quite different in the bond market because you're not really underwriting, you're facilitating an issue – whereas in the bank market, you are, and you are skimming them. We value our relationships a bit more and we would give up a little bit of short-term profit for the long-term relationship with the instos."

The way of things to come

There are a number of deals coming up where Goldmans will be looking to repeat this – everything from European rolling stock and offshore wind through to Silvertown Tunnel.

"They will try to use this again," says one source shading a tad green with envy. "The question is – do other people wake up to it and try do the same? If the PF banks gang together and three of them do it, they would kill Goldmans. It would be goodnight." A glint now in his eye at the prospect (possibly still a tear).

Another is magnanimous: "They did a good job on Eurotunnel which opened their eyes to there being a big pool of investors that they were very close to who wanted this paper, and who could accurately define what they were looking for – so Goldmans recognised they were in the position to do what they did."

Playing down Goldmans' success while staring at shuffling feet, another adds: "They will go into these deals, pre-sell most of it, but take some risk on closing the deal and flipping it.

"What I find embarrassing is that the banks who have been working this sector forever aren't the ones doing the underwrite, that it's the investment banks entering the sector. Why aren't the project finance banks underwriting the tickets and taking it out to the funds?"

Deals of these natures are ideal for the likes of pension funds that need to get a lot of money out the door.

Another senior PF banker wondered – a glimmer of hope in his eye – what happens when they get stuck with it, which brought to mind London City Airport when Credit Suisse and RBS received a very public drubbing from the market.

Yeah well, that turned out ok in the end, didn't it?