Risky debt still no easy sell

First Data loan sale one of many needed to restore confidence in shaky debt markets.

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LONDON (CNNMoney.com) -- Dealmakers were watching the First Data loan sale Monday with a keen eye, but it will take more than one successful deal to thaw the debt markets.

Bankers are expected to try to bring part of the debt package that will help pay for Kohlberg Kravis Roberts & Co.'s $28 billion buyout of First Data to market Monday - the first major offering to test the debt markets since they seized up in late June.

First Data (Charts, Fortune 500) and its bankers will attempt to sell $5 billion in loans to investors - the first step in raising an estimated $13 billion from loan financing, according to Reuters Loan Pricing Corp.

The planned sale of the First Data debt is a positive sign, but there are still underlying questions of confidence in the debt markets, analysts and investors say. Financing for other buyouts waiting in the wings, including Texas utility TXU (Charts, Fortune 500) and wireless service provider Alltel (Charts, Fortune 500), are still likely to face challenges. A warm reception of the First Data deal is likely to provide a "jolt of confidence to the market, but it doesn't mean everything's all rosy," said Robert Jones, head of high-yield research at Barclays Capital in London.

The shunning of risk by investors across all spectrums of the credit market has left a backlog of $300 billion to $350 billion in leveraged buyout financing that needs to be sold to investors. A successful high-profile sale could provide a boost. But sentiment remains shaky, and bad news, perhaps from a major hedge fund or bank, could easily tilt confidence lower.
The ability of pending buyouts, like TXU and Alltel, to finance their deals may depend on underwriters' ability to find buyers who have not traditionally participated in the loan market.

"The market is still skittish. It's been a difficult two months, and there are still liquidity issues on the loan side," said Sabur Moini, head of credit strategy at investment management firm Payden & Rygel in Los Angeles.

Structured finance vehicles have been the biggest buyers of leveraged buyout loans the past few years, but their activity has been shut down in the last two months.
To woo investors, banks are trying to sweeten the terms on deals, but better structured deals and more attractive pricing may not be enough to rekindle investor confidence.

The First Data deal is expected to be sold at a discount of 96 cents on the dollar, and many analysts anticipate it will set a pricing benchmark for following deals.

Still, pricing LBO debt may remain unpredictable for some time, according to Daniel Alpert, a partner at Westwood Capital, a New York-based boutique investment bank. Pricing in the corporate debt market is relative to the value of everything else in the fixed-income market - from Treasury notes to alternative investments like mortgage-backed securities, he said.

But the inability to value the underlying performance of mortgage-backed securities has thrown the fixed-income market into disarray and made it difficult to value debt, including loans for leveraged buyouts. "The entire market is skittish about the credit quality of everything out there," Alpert said. Busting a few Blackstone tax myths.