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Verizon Debt Sale Would Fuel Deal

CREDIT MARKETS
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Verizon Communications Inc. slumped as investors braced for a wireless takeover that could presage a record-setting debt sale.

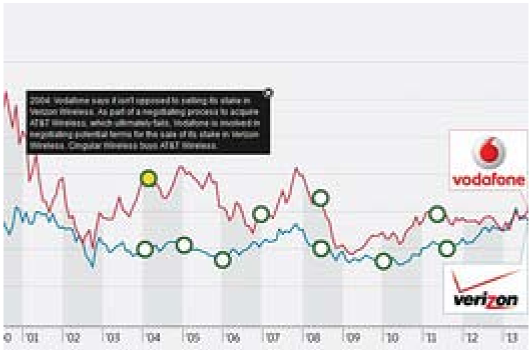
Verizon could acquire Vodafone Group PLC's 45% stake in their U.S. joint venture, Verizon Wireless, for as much as $130 billion, said people familiar with the matter.

Verizon Communications is in talks to pay as much as $130 billion for Vodafone's stake in its U.S. wireless venture in a deal that could be completed within a week. Verizon could sell as much as $20 billion of bonds to help fund the purchase if a sale agreement is reached, said Jason Graybill, senior managing director at Carret Asset Management. The debt sale would rank as the largest corporate bond offering ever, surpassing a $17 billion bond sale this past spring by Apple Inc.

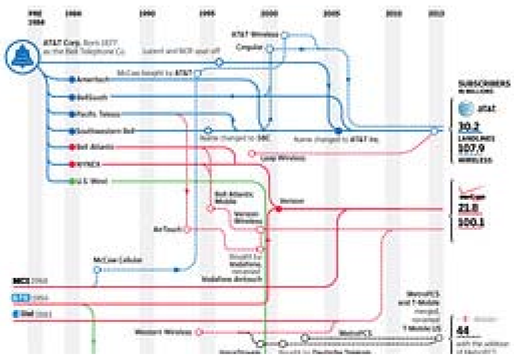
"They will want to lock in rates now," he said. The 10-year Treasury note rose in price on Thursday to yield 2.756%, which is more than a percentage point above its 2013 low reached in May but still near historic lows. Higher yields mean lower prices.

Barclays researchers said some of the Verizon bonds could be marketed outside the U.S. in other currencies. Verizon didn't respond to a request for comment.

Verizon, Vodafone Rekindkle Deal Talks



A Changing Telecom Landscape



Verizon bonds fell on the news, in part because issuing all that debt could bring the company's credit ratings down to the triple-B category, still investment grade, from the single-A category. Verizon bonds maturing in 2022 on Thursday traded with a yield of about 4.03%, or 1.28 percentage points more than comparable Treasurys. That is a 0.12 percentage point increase compared with Treasury yields from Wednesday, according to MarketAxess.

Verizon's bonds maturing in 2022 and 2042 were the two most highly traded bonds by volume on Thursday, according to MarketAxess.

Meanwhile, Vodafone bonds maturing in 2022 on Thursday traded with a 4.04% yield. The Vodafone bond yield fell 0.05 percentage point compared with Treasury yields from Wednesday, according to MarketAxess.

John Majoros, managing director at investment firm Wasmer Schroeder & Co., said the bond moves weren't surprising, given that Verizon would take on more debt.

"Vodafone is going to get a bunch of money," he said. "The plans of what they would do with that money is uncertain, but clearly they'll be in a better financial position." Mr. Majoros said he would consider purchasing some of the new Verizon bonds, depending on price.

With the new debt, Verizon "would be leveraging but still comfortably within investment grade," said Jesse Fogarty, managing director at Cutwater Asset Management, which manages about $30 billion in bonds.

Even if the company is downgraded to triple-B, he said, he would buy the bonds. His firm owns $40 million of Verizon debt.

Insurance against nonpayment on Verizon bonds, sold in the form of credit-default swaps, at one point rose to $88,000 a year to cover $10 million of the debt for five years, its highest cost since September 2010, according to data provider Markit. That was up from $71,000 on Wednesday. Insurance on Vodafone bonds cost $69,300 on Thursday, down from $75,850 on Wednesday and its cheapest rate since the end of May, Markit said.

Write to Mike Cherney at mike.cherney@wsj.com and Katy Burne at katy.burne@wsj.com