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Bears watching

On Feb. 7 came news that SoftBank Group Corp., the Berkshire Hathaway of technology, is weighing the purchase of 30% of the world's second-largest reinsurer, Swiss Reinsurance Company Ltd. (*Grant's*, Dec. 25, 2017). It's as if Masayoshi Son, the head visionary and CEO of SoftBank, wanted his creditors to think about something besides credit.

If so, he came up short. The same day brought another rocket, this one aimed directly at the bondholders: SoftBank is preparing to peel off its cash-cow Japanese telecom unit in a ¥2 trillion ($19 billion) initial public offering. The dear public is expected to take up the shares.

As for the trusting lenders, they have been tapped to hold the bag. It's the cash-generative telecom unit that guarantees payments on $33.4 billion of the parent's junk-rated debt. An independent, free-standing telecom company would provide no credit support, according to the consensus opinion of the Japan Credit Rating Agency, Asahi Life Asset Management and—perhaps most significantly—Nomura's chief credit strategist, Toshihiro Uomoto, who adds that, in his view, SoftBank may act without the creditors' consent. What makes this judgment especially noteworthy is that Nomura is expected to do the telecom investment-banking honors.

As of Dec. 31, 2017, SoftBank's consolidated net debt to earnings before interest, tax, depreciation and amortization (EBITDA) was 4.3 times. This was, of course, before any consideration of the mooted investment in Swiss Re. Yoshihiro Nakatani, senior fund manager at Asahi, tells Bloomberg that, even though SoftBank may act unilaterally on the credit guarantees, simple morality would argue against it.

Ordinarily, the Ten Commandments do not impinge on the legal interpretation of bond indentures, especially in very large transactions. If precedent holds, SoftBank will become still more encumbered and its creditors still more exposed to impairment. So far, to judge by the mild reaction of the credit default swap market, the lenders seem not to mind.

Give them time.

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