



Fixed Interest



Intermediate Capital Grp 6.25% 19/09/20 - Buy 22nd August 2013

Price	103
Credit Rating	BBB-
Risk Rating	Medium
GRY	5.7%

The Issuer:

Intermediate Capital Group Plc ("ICG") is a FTSE 250-listed company. Founded in 1989, it specialises in arranging finance for medium-sized companies, providing direct loans and managing external funds. As such, the company is split between two divisions:

Investment Company

The original business consists of the company supplying mezzanine finance (currently £2.6bn) to mid-sized companies (EUR150m to EUR1bn) and the asset backed sector.

Whilst this sounds like a risky proposition, it should be noted that ICG has a long track record, with over two decades of experience in generating income from alternative assets. Their strong performance is the result of the following:

1) The business model is very much hands on - the company has offices in London, Amsterdam, Frankfurt, Hong Kong, Madrid, New York, Paris, Stockholm and Sydney with local teams who speak the languages and understand the cultures of the markets in which they operate. ICG has Board seats or observer rights in more than 80% of companies and are normally the only provider of finance.

2) Their Investment Committee members have an average of 18 years investment experience. Particular emphasis is placed on limiting the downside of investments and the underlying focus is on cash flow generation and the repayment of the investment.

3) They have good diversification by size, geography (no Greek or Irish exposure, small exposure to Spain and Italy) and sector (16 different sectors)

4) Gearing is very low at 74%, their balance sheet is strong and refinancing risk is minimal.

5) Following the credit crunch, yields have increased as banks have withdrawn from the market. ICG also makes significant profit from equity warrants and options. Since inception, 89% of their deals have been profitable, typically returning 160% of their original investment.

6) ICG has a active provisioning policy with very high recovery rates. The average recovery per £1 invested is a very impressive £1.10 (including interest).

Fund Management Company

ICG manages over £8.3bn in a range of funds on behalf of 200 institutional clients (33% of whom are Sovereign Wealth Funds). Last year, 28% of ICG's £142m profits came from fund management. In fact, ICG is looking to evolve into a global asset manager, where the volatility of earnings is lower than that for their propriety capital and the risk is lower. Their funds are closed ended (investors cannot withdraw their money) so future income streams are very much known. Their distribution capabilities, heavily invested in over the last few years, will enable them to continue raising funds across products and geographies.



Fixed Interest (cont)

Credit Analysts View:

The bond is rated BBB- by credit rating agencies Standard & Poor's and Fitch, making the issue investment grade and indicating that the issue exhibits adequate protection parameters, though adverse economic conditions could lead to a weakened capacity of the issuer to meet its financial commitment.

Terms of the bond:

Denomination

The bond has a face value of just £100, although it is not possible to purchase for less than £2,000 nominal. Thereafter, the bonds can be bought and sold in multiples of just £100.

Coupon

The bond pays a 6.25% coupon in two semi-annual instalments in arrears on 19th March and 19th September in each year until the bonds mature.

Redemption

Subject to credit risk, the bonds will be repaid at par on the maturity date, 19th September 2020.

Dealing

The bonds are traded on the London Stock Exchange's electronic Order Book for Retail Bonds (ORB), which was launched in response to private investor demand for easier access to trading bonds with the aim of providing a transparent and efficient mechanism for UK retail investors to access the bond markets. The bonds are tradeable instruments and prices are quoted in the market during trading hours. The bonds can be sold before maturity on the ORB and the prices are supported by several prominent investment firms in a market-making capacity.

Stamp Duty

No UK stamp duty is payable on the purchase or transfer of the bond or on its redemption.

Security

The bond is senior, unsecured debt of ICG. This means that if ICG becomes insolvent, you may recover your investment in priority to subordinated debt holders and shareholders of ICG. However, you could still lose some or all of the money you have invested. Note that the bond ranks parri-passu with the company's bank debt.

Summary:

With the general consensus forecasting a long period of low interest rates, the bond looks attractive with a GRY of 5.7%.

The senior ranking of the bond, combined with the excellent track record of the company, implies that the bond offers a good risk/return ratio.

Looking at the performance of the ordinary shares provides a useful indication as to what the market thinks of the underlying business and the stock has risen 57% over the last 12 months to 445p. The company has made a good start to the year with notable successes in raising third party assets under management; successful realisations from the balance sheet leading to material cash inflows; resilient portfolio performance in the face of continued economic uncertainty; and further refinancing and increased diversity of balance sheet funding. J.P.Morgan Cazenove observes that the company continues to make progress across a number of fronts underpinning confidence in the business model and strategy. They have a price target of 512p for the stock.

That bodes well for bondholders and we rate the issue a strong buy.



GIBRALTAR ASSET MANAGEMENT
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