

London & Quadrant SLB: market update

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London & Quadrant Housing Trust (ticker LONQUA) is a UK-based residential developer and housing trust. [1] In Jan 2022 it issued a Sustainability-Linked Bond (SLB) referencing three Sustainability Performance Targets (SPTs) with observation dates at the end of March 2024.

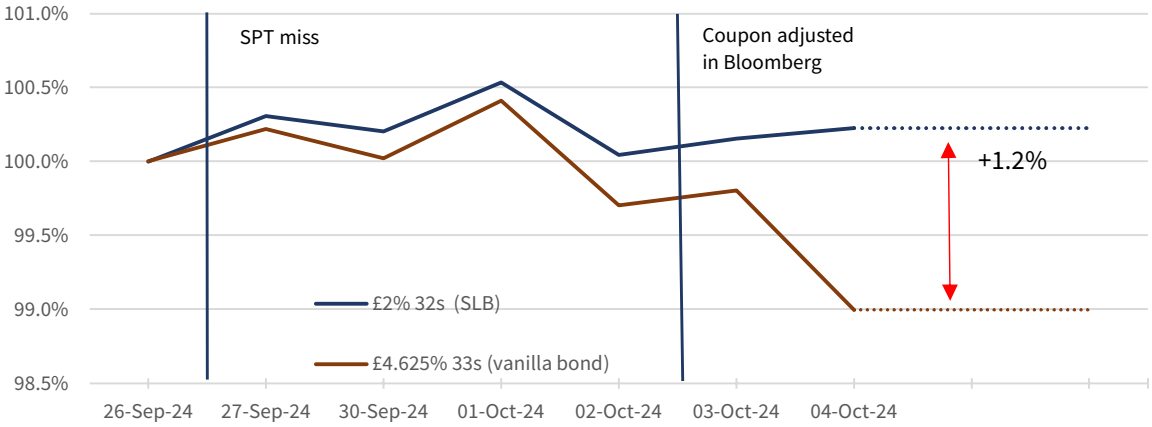
On 20 Mar 2024 it announced that the SPT linked to emissions reductions would likely be missed.[2] On 27 Sep 2024 L&Q released its sustainability report, which confirmed the targeted reduction of 20% from a 2020 baseline had not been achieved; indeed emissions rose 3% over that period.[3] The bond in question (ISIN XS2430702105) will increase its coupon from 2% to 2.125% effective Sep 2024, which is worth an estimated 86c of notional.

The market reaction in March was virtually non-existent. While a miss was not confirmed, its probability did increase with the announcement, and option pricing theory would suggest the SLB should increase in value. The SLB kept trading quite flat to a slightly longer-dated vanilla bond.[1]

Since the SPT miss has been confirmed, the SLB has outperformed +1.2%, comprising both the step-up coupon, and also a steepening of the curve. However the largest move occured not when the sustainability report was released, but the day that the coupon was adjusted in Bloomberg. This suggests market participants are not digesting relevant news directly, but rather respond to secondary adjustments by data providers.

The bond outperformance continues to validate the option pricing approach to SLBs,[4] and promotes tighter issuance spreads for ambitious issuers.[5] The SLB market, however, is continuing to develop, and there are opportunities for the structures to price more efficiently.

Figure 1. LONQUA bond price moves as additive changes since 26 Sep 24. Source: Bloomberg, accessed 7 Oct 2024.



[1] For our earlier analysis please see "L&Q Housing Trust SLB 'builds' in a coupon step-up", AFII, 26 Mar 2024.
[2] "SLB update", London & Quadrant Housing Trust, 20 Mar 2024.
[3] "Sustainability Report 2023/2024", London & Quadrant Housing Trust, 27 Sep 2024.
[4] For the AFII pricing approach please see "Sustainability-Linked Bond Handbook", AFII, May 2024.
[5] For details of Enel's return to the market after an SPT miss please see "Enel returns to the SLB market: per angusta ad augusta", AFII, 21 Jun 2024.

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