

Sdiptech taps its SLB: 'call' to action

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Sdiptech (ticker SDIPTE), an unrated Swedish infrastructure company, has one bond outstanding. The Sustainability-Linked Bond (SLB) (ISIN SE0017132053) is an SEK-denominated Floating Rate Note (FRN) with maturity Aug 2027. It includes a target to reduce carbon intensity by 50% by Dec 2026 versus a Dec 2021 baseline.[1]

SEK 600mn was issued in Aug 2023, with an additional SEK 200mn printed in Nov 2024. Analysis of the bond suggests some interesting observations:

- **The bond has performed extremely strongly since issuance**. It pays a quarterly floating coupon of STIB+490bp and yet was tapped 15 months after issuance at 105.25% at a spread of 236bp. This is an outperformance compared to the iTraxx Xover index, which traded tighter from 425bp (17 Aug 2023) to 303bp (20 Nov 2024) over the period.
- Recent sustainability reporting shows a 14% reduction in carbon intensity in two years from 2021 to 2023.[2] On a linear basis, it appears off track to reach the Sustainability Performance Target (SPT) of a 50% reduction by 2026.[1] If the target is missed, the bond redeems at 101%. **Using an illustrative probability of 75% of missing the target, gives an option value of 30bps running, one of the most material we have seen.** The materiality of this structure is driven by the high premium payment and short duration of the security.
- The bond is callable in its final year, at 100.98% for the first six months, and at 100.49% for the final six months of the bond, plus accrued interest,[1] and yet the premium payment if the SPT is not achieved is not paid until maturity of the bond. SLBs have been criticised for being structured with calls prior to coupon step-ups,[3] even though our analysis found that calls were not being included any more frequently than in traditional bonds.[4] **In this bond, the call price increases by the full premium payment at any point until it is announced that the target has been met,** which comprehensively addresses the critique that issuer calls are used to avoid paying step-up coupons.

This SLB has performed very well since issuance, driven by market tightening and a material option value. Structuring of this bond also seems to have responded to market concerns around callability, by re-striking the option if the target is not achieved.

Its strong performance suggests investor interest in well-designed and ambitious SLBs.

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[1] The framework and prospectus are available at "Sustainable-linked bonds", Sdiptech, accessed 10 Dec 2024.
[2] "Sustainability Report 2023", Sdiptech, accessed 10 Dec 2024.
[3] As discussed in "Structural Loopholes in Sustainability-Linked Bonds", World Bank, 6 Oct 2022 and "The design flaw in Sustainability-Linked Bonds", Working Paper, Jun 2023.
[4] "SLBs: no cal(l)amity", AFII, 20 Sep 2023.

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