

Determinants of Corporate Bond Issuance Spreads

– Evidence from Polish Bond Market

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(THESIS ABSTRACT)

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The purpose of the thesis is to identify which factors are relevant in determining corporate bonds issuance spreads (defined as interest rate margin above WIBOR rate) and to measure how those determinants affect issuance spreads. The main focus in selecting variables was directed at bankruptcy risk and agency cost theory. To author's best knowledge, this is the first study conducted on corporate bonds listed on Polish market.

A multiple regression analysis was performed to identify factors relevant to bond's issuance spreads. The research was carried out on general sample of 230 bonds listed on Catalyst market (Model 1, ALL), as well as on two sub-samples including bonds issued by developers (Model 2, DEV) and by companies from finance sector (Model 3, FIN).

The results clearly indicate that different determinants are significant for companies classified in different samples (models). For developers, important role in lowering corporate bond yields plays EBITDA margin – higher margin can indicate better financial condition and less risk in repaying debt and therefore it has positive impact on interest rates. The firm size measured by value of the assets is another significant variable for developers – large firms sets lower issuance spread. Above mentioned determinants are significant at the 1 percent level. Firms with higher asset value (DEV) should use more covenants to protect bondholders if they wish to lower interest rate paid upon bonds. On the other hand additional guarantees and pledges have insignificant impact on bond yields, as bondholders are already protected up to the value of company's assets under management (liquidation value). Important role (at 5% level) plays the variable of bonds value to book value.

The results in Model FIN show a significant (at 1% level) association between issuance spread and (1) additional investment security (measured by additional pledge and covenant index), (2) corporate effectiveness and (3) corporate credibility (measured by shareholder structure and IPO-SPO variable).

This study helps to fill the gap in understanding drivers of corporate bonds issuance spreads in domestic bond market. Another step should be to determine whether these factors are equivalently important for bondholders.

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