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Toll Road Bonds Offer Rare Value In Pricey Muni Market - Citi.

Citi says the municipal-bond market looks rich and that it doesn't see good things ahead for munis for the remainder of this year, with possibly one exception: the toll road sector. Citi's muni strategy troika of Vikram Rai, Mikhail Foux and George Friedlander foresee a time soon, likely next year, "when the need for infrastructure investment overwhelms fiscal restraint," and they expect a slew of new bond issuance to support municipal infrastructure needs. Citi says new projects in the toll-road sector already seem to be picking up, and sees investor opportunities ahead. From Citi today:

Toll road projects serving large metropolitan areas with high wealth levels and a diverse geographic and economic base (for instance, projects in the New York tri-state area and San Francisco Bay area) are typically blessed with relatively strong inelastic demand for their services and also possess strong independent rate setting ability. Thus, these highly rated issues have traded more like essential service revenue bonds and have richened fairly drastically with the rest of the high grade municipal sector. While there is no doubt that these bonds aren't exactly suitable for investors looking for yield pick-up, we still consider them cheap vs. high grade bonds in essential service categories such as gas, power and electric utilities. These bonds also offer strong defensive play against a darkening of the municipal credit landscape.

But, for investors looking for yield pick-up while willing to slide down the credit spectrum, we would encourage exploring newly issued BBB/BB rated toll road bonds. While evaluating these new issues, we prefer projects which offer essentiality i.e. there is no threat from other toll free options which could force new toll roads to compete for business based on toll charges.

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