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Fonterra's bond issue solid - analyst

 **Subscriber content** Liam Baldwin | Wednesday January 27 2010 - 07:58am

An economic analyst believes Fonterra's capital structure changes and improving commodity prices will make its bond issue attractive to investors.

Last week New Zealand's biggest company announced its consideration of a unsecured bond offer capped at \$250 million.

The money would be used for the partial replacement of a €300 million Euro Medium Term Note (EMTN) due in April.

NZ Funds analyst Mark Brooks said growth in whole milk prices reflected increased confidence in the global economy and led Fonterra to be able to increase both its forecast payout to farmers and reduce the level of stored product throughout New Zealand.

"For debt holders, this is very positive as it means less cash is needed to find the inventory and, as a result, the business requires less debt," he said.

Mr Brooks noted that over the last year, Fonterra has reduced its debt equity ratio from 58% to 52%.

"the other major challenge faced by the business was how to modify its co-operative structure to allow more capital to be raised."

The changes agreed to by farmers, giving themselves the ability to further invest in the co-operative and retaining its structure is positive for debt investors, Mr Brooks said.

"The combination of Fonterra's position as the world's largest dairy exporter and its co-operative structure provides the financial strength and flexibility we look for as bond investors."

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