

Bonds flurry tempts investors

By ROB O'NEILL

LOCAL BOND investors are spoiled for choice as companies seek to replace expensive bank borrowings and lock in current low interest rates.

In fact, without bond listings the NZX would have been a very sorry place. Mark Weldon pointed out last week that the exchange helped raise of \$6 billion in corporate bonds in 2009.

But the high number of offers itself should be a form of warning because bonds that look good value now may not look so sharp in five years' time.

On Friday, news that Infratil was considering a bond issue came hot on the heels of a \$150 million offering by media company APN, which held roadshows for investors around the country last week.

Tower Investments CEO Sam Stubbs said the market is pricing pretty efficiently for risk except for unrated or sub-investment grade bonds, which arguably do not pay a high enough return for risk.

Stubbs said Tower is "aggressive" on bonds, but is bringing the maturity profile of its portfolio down. He said interest rates of between 7% and 9% are still worth having but the real risk is inflation, especially as countries are now printing more money.

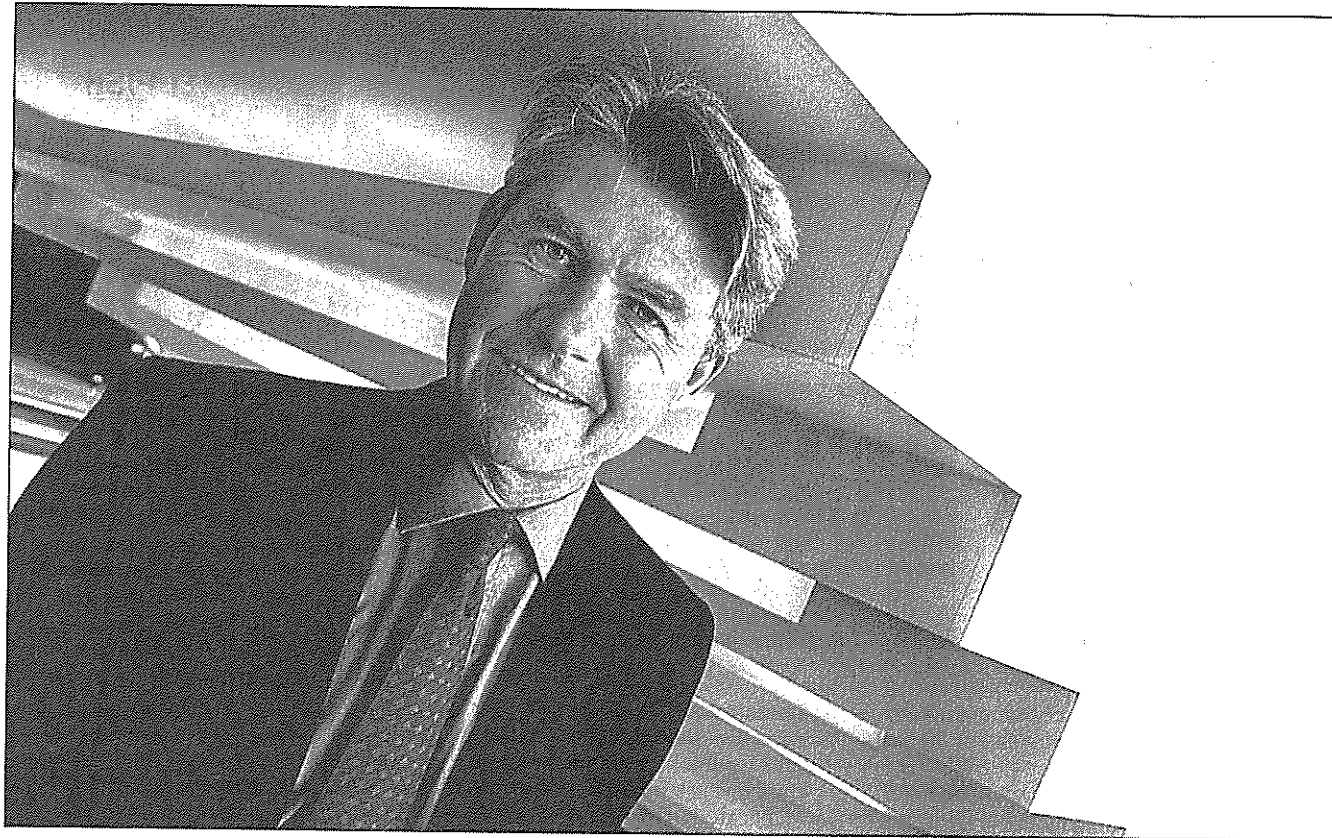
He said when inflation returns it could come with a rush.

Stubbs defines a long maturity as more than five years. Most corporate bonds are being offered for five years with APN's unrated bonds being slightly longer at five-and-a-quarter years.

Tyndall Investment Management's head of bonds and currencies, Fergus McDonald, said he is unlikely to participate in the APN offering as his funds have limited ability to invest in unrated bonds.

"We prefer a credit rating and the quality to be a little bit higher," he said.

McDonald said interest rates had



APN CEO Brendan Hopkins hopes to raise up to \$200m in the company's unsecured, unsubordinated offer.

Photo: Rob Homer

probably fallen about as much as they were going to, but New Zealand neither sank as far nor was likely to rise as far as other countries, limiting risk to some degree.

"There's lots of talk globally about bond 'bubbles', but I don't think New Zealand is in that basket," he said.

Like Stubbs, he is not putting too much into longer rated bonds, but defines these differently as more than seven years to maturity.

Mark Brooks, head of income for NZ Funds Management, said he would not be subscribing to the bonds. While

APN's credit and cash metrics were okay and it has good franchises, he said, advertising is a cyclical market that is "very GDP sensitive", creating near-term earnings risks.

Speaking before the bond rate had been firmly set, which was scheduled to occur on Friday, APN CEO Brendan Hopkins said bonds offer a guaranteed rate of return for investors and long-term funding for the issuer. He said that although higher interest rates were being offered in other areas "risk follows reward".

APN is accepting up to \$50m in

oversubscriptions so potentially could raise \$200m in its unsecured, unsubordinated offer, which is to be listed on the NZDX. The bonds will rank equally with APN's bank funding, he said.

Hopkins said funds will go into general financing, providing diversification of APN's funding sources. He said there will be no increase in overall debt as a result of this issue.

APN on Friday announced it had accepted commitments for \$100 million. The retail offer would open tomorrow.

Unlisted fears

UNLISTED, AN unregistered market on which many smaller stocks are traded, fears a merger of securities law could damage its viability and impose what it considers unnecessary enforcement obligations. In response to a June discussion document on a government review of securities law, Unlisted chairman Bevan Wallace is arguing a clear distinction between registered and unregistered markets should be allowed to continue.

Wallace notified Unlisted participants last week that it was concerned the review "would not be fully developed and potentially biased by a predilection for increased regulation", concerns he said were realised. The proposal to merge the Securities Act 1978 and the Securities Markets Act 1988 with a new exemption regime for market operators, he said, would blur the distinction between different types of markets.

In a submission to the review it argued that the ability of issuers and investors to opt-in or out of markets should be maintained, otherwise there is a risk of investor confusion. "Significantly, we argued that securities traded on unregistered share trading facilities should continue to be exempt from the Securities Markets Act 1988 continuous disclosure, director and officer disclosure and insider trading provisions."

He said for small and medium-size companies for which there is limited no third-party research or independent analysis, restrictions on trading by insiders arguably impedes the price setting and underlying liquidity.

"The migration of a number of Unlisted issuers back to over-the-counter trading also suggests that small to medium-sized issuers are not in a position to sustain the costs associated with additional regulations," he said.