more than money

National Australia Bank

FIRST LOOK CONFERENCE

Bringing together issuers and investors in the US Private Placement Market.

Sydney, 30 October - 1 November 2018
Corporate & Institutional Banking

NAB'S FIRST LOOK CONFERENCE
SYDNEY, 30 OCTOBER - 1 NOVEMBER 2018

While public markets may ebb and flow for companies that need to raise debt or equity capital, private markets can provide consistent and steadfast support through good times and bad.

That was one of the key takeaways from National Australia Bank's First Look Conference, held on 30 October 2018 to 1 November 2018 in Sydney, which brought together long-term US investors and Australian companies that are considering raising debt in the US Private Placement (USPP) market.

About 20 large US institutional investors including MetLife and Voya met with over 35 Australian and New Zealand corporates across a range of sectors – infrastructure, property, utilities and universities – to discuss current prospects for issuance in the US Private Placement market.

For Australian issuers, the US Private Placement market offers several advantages over issuing bonds in the public market. Top of the list are:

- The opportunity to issue longer-dated debt than is usually available in the Australian corporate bond market – tenors of 10, 20 or even 30 years;
- Flexibility to offer large or small tranches – investors have appetite for both;
- Long-term relationships between issuer and investor.

Sydney Airport turned to the US Private Placement market for the second time in October 2018, issuing senior secured notes with maturities of up to 30 years to address residual funding needs following their Euro note issuance earlier in the year.

"We looked to the USPP market to capture very long dated Aussie dollar demand at sharp pricing. We partnered with NAB to raise A$400 million across 15, 20, 25 and 30-year tenors, creating a new frontier of debt maturities that served to further spread and lengthen our debt maturity profile," Michael Momdjian, Treasurer at Sydney Airport, told the conference.

Sydney Airport typically taps US 144(a) and Euro markets, but Mr Momdjian added: "The significant level of demand and superior outcomes achieved as part of this transaction has us keeping a closer eye on the USPP market going forward."

Australian airports are thriving on growth in migration and tourism, with new routes and airlines being added. Domestic airlines have added a combined 1.2 million international seats in the last financial year.

Melbourne Airport is looking to add a third runway and supporting infrastructure to boost capacity. Alice Van Der Geest, Treasurer at Melbourne Airport, said the planned third runway will support growth in future capacity from 37 million passengers annually to almost 70 million passengers by 2038. "We need to invest because they are coming so we need to ensure that we invest in future capacity."

She noted each issuing market offered different benefits of flexibility and duration. "You have to define where you want to be in terms of duration. We are a critical infrastructure asset, there for the long term – so long duration is better," Ms Van Der Geest said.

"The USPP market is essentially an extension of our domestic capital market"

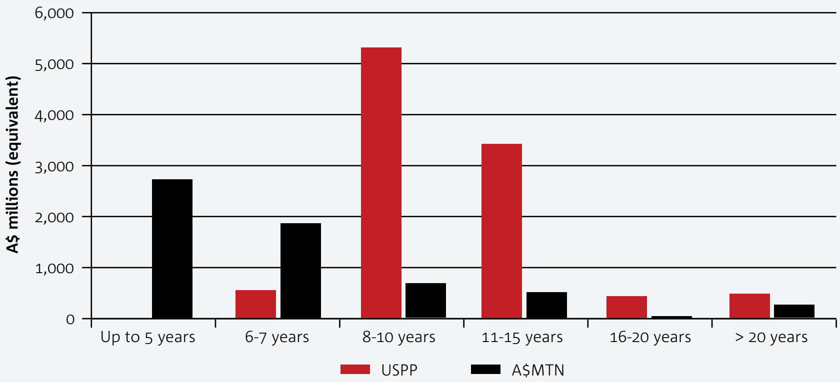
Eric Williamson, EGM, Corporate Finance at NAB.

Longer time horizons

For domestic borrowers, the Australian corporate bond market is heavily weighted to short duration of issuance in tenors of five to seven years.

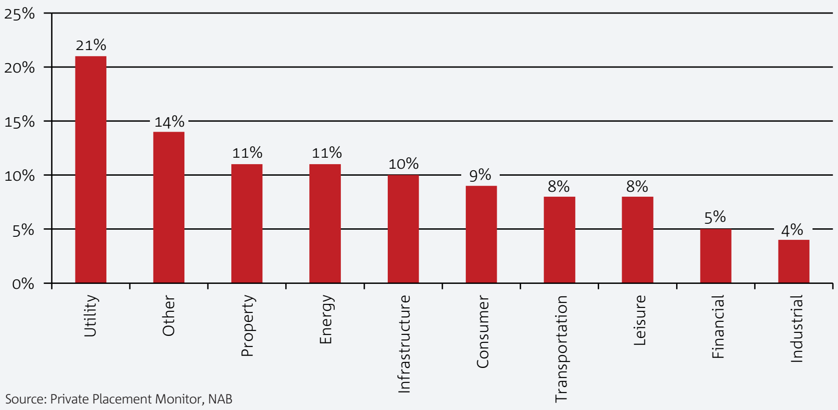
By contrast, the US Private Placement market provides a major funding opportunity for Australasian issuers by offering significant liquidity for companies requiring tenor longer than seven years -- especially for those sectors that have a longer time horizon than the local market can provide.

2018 YTD issuance volume by tenor and market



Source: Bloomberg and Private Placement Monitor

2018 YTD US Private Placement issuance by sector



Source: Private Placement Monitor, NAB

"To some extent, population growth has run ahead of infrastructure," said Eric Williamson, Executive General Manager, Corporate Finance at NAB. "And there's now a lot of construction in the pipeline, catching up to support that expansion."

He noted Australia has been at the forefront of encouraging private investment in infrastructure such as the asset recycling schemes that some state governments have used to fund new infrastructure.

Rail infrastructure is gaining particular attention, with proposals being considered for an inland rail project connecting Melbourne and Brisbane; the Metro Tunnel under construction in Melbourne with five new underground stations; and a proposed study for a Melbourne Airport Rail Link.

As a small, open economy, Australia has always had to import capital to finance its activities. Foreign investors have consistently supported the economy, and Australia's largest investor is the United States, according to the Department of Foreign Affairs and Trade.

"USPP investors play a critical role in our system providing duration and reliable funding through the cycle. From my perspective, the USPP market is essentially an extension of our domestic capital market," Mr Williamson said.

Utility sector companies, like infrastructure issuers, often wish to secure their funding for a longer period than the five-to-seven year sweet spot of the domestic market.

"For our last issue (in 2016), very much the driver would have been around tenor," said Bláthnaid Byrne, Group Treasurer at AGL Energy.

"We had three tranches: 10-year, 12-year and 15-year, and 15 years was largest. We were very happy with the outcome and definitely will look to return," Ms Byrne said.

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Investors aim to diversify

US Private Placements play a major role in the portfolios of many US pension funds and insurance companies. These long-tenored assets match the liability book of an insurance company nicely, and they provide protections that many other financial instruments cannot.

"We're interested in longer duration assets and diversifying our fixed income portfolio, which is heavily weighted to US public bond issuers," said Peter DeFazio, Managing Director at AIG Investments+. The US insurer's Investments group has over $320 billion in assets under management.

For issuers, the longer tenor and flexibility on tranching and total debt size provides diversity to a company's debt book and complements bank debt.

With its long-term time horizon, the US Private Placement market has also been consistently open even when other markets have been shut. "It's more reliable through the cycle than you generally see through our domestic markets," said Lilly Cheung, Group Treasurer at diversified property group GPT Group.

Often US Private Placements are the most competitively priced compared to alternate debt market options.

"Most importantly, US Private Placements can create a mutually beneficial relationship between debt investor and company management that is rarely seen in any other capital market," said Geoffrey Schmidt, General Manager, Corporate Finance North America at NAB.

Long-term relationships

The main alternative to the USPP market in the United States is the 144(a) market, which caters to similar investors with similar investment horizons. But with issues up to sizes of US$2-3 billion, the investors may never be known to the issuers.

"In the US Private Placement market investors, big or small, will meet with key treasury staff at the companies where they invest. This closer relationship fosters better communication during good times and more importantly, during turbulent times," Mr Schmidt said. US Private Placements also have one of the highest recovery rates in the fixed income asset class when things go wrong.

Michael Bradburn, Chief Financial Officer at Australian utility Ausgrid, said in his keynote address to the conference that the long-term relationships and reliability of the market were key factors in approaching the US Private Placement market.

Following its part-privatisation by the NSW Government in 2016, with Aussie super funds IFM and AustralianSuper buying 50.4% of the utility, Ausgrid had around A$12 billion in bank debt, which it had to progressively refinance – and very little time to get the ball rolling.

Ausgrid raised US$1.885 billion in a multi-currency, multi-tenor US Private Placement deal, attracting 33 investors in the largest ever cross-border USPP.

"They are sophisticated investors who will take the time to understand you and your credit. The relationships you build with these investors will be with you for the long run," Mr Bradburn said.

Investors see new opportunities in property

The build-to-rent market has the potential to create a new institutional investment asset class that could also help to improve housing affordability in Australia, the NAB First Look Conference was told.

As an institutional asset class, the build-to-rent market has performed well in the United States and the UK, where projects often command a rent premium, according to senior industry experts.

The conference also heard that while the Australian residential property market has moderated, there are pockets of strength in the industrial, office and retail property sectors.

Read more insights from the First Look Property Panel.

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Peter DiFazio, Managing Director at AIG Investments+.