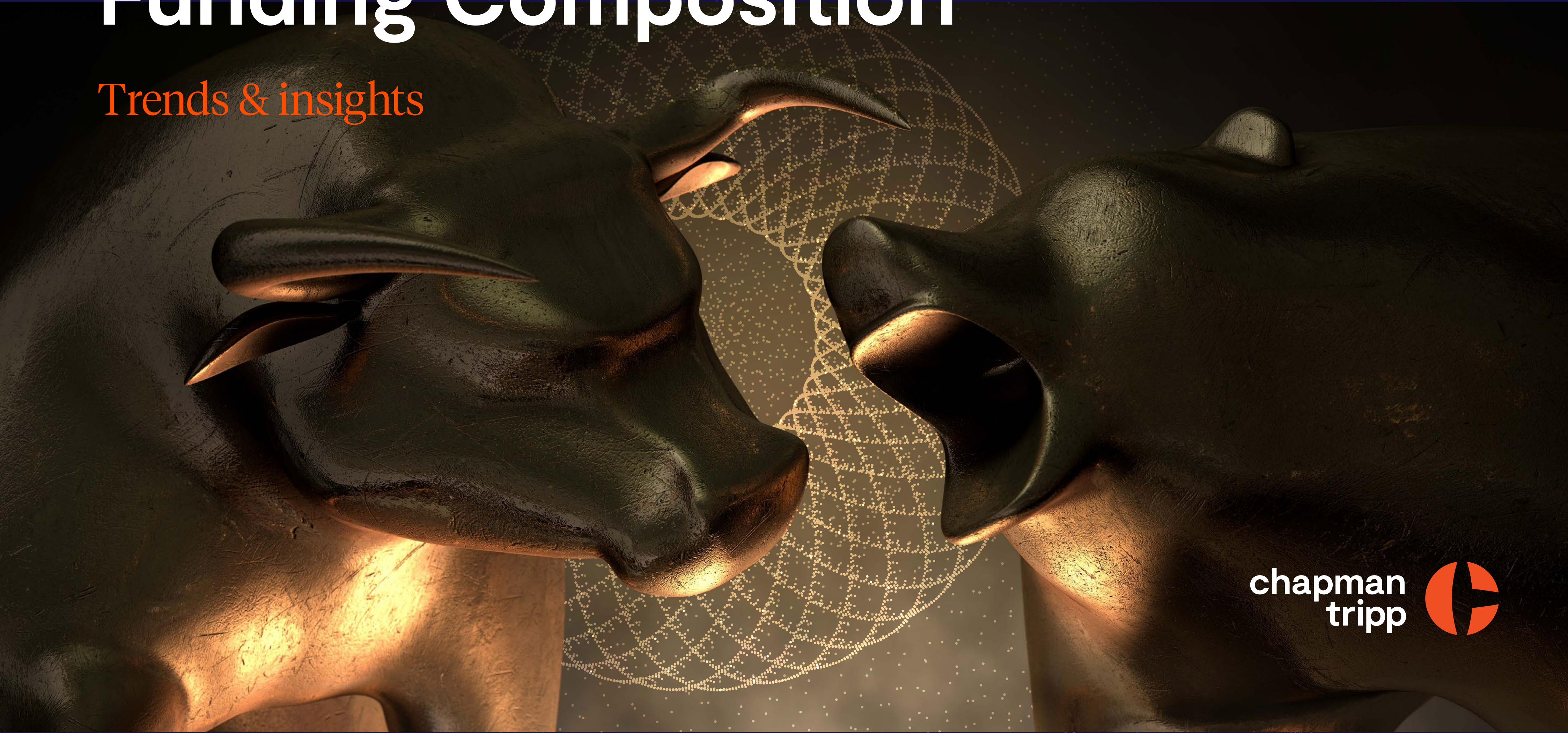
NZX/ASX Top 50 Funding Composition

March 2023

Trends & insights



chapman tripp

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Method of analysis

Our sample comprises the Top 50 listed companies by market capitalisation on the New Zealand Main Board (NZX) and Australian Main Board (ASX) at close of trade on 31 January 2023. Our primary data source is the annual report but we have also reviewed the announcements pages of both exchanges to pick up any notable developments post balance date.

Banks, overseas companies and listed funds have been excluded from the data set.

Every effort has been made to ensure the accuracy of this publication but the information is necessarily generalised and readers are urged to seek specific advice rather than relying on the text.

NZX/ASX – funding in a difficult market

The Top 50 NZX and Top 50 ASX listed companies will face distinct funding challenges this year in a ‘Chicken Licken’ market, infused with a sense of impending catastrophe.

This reflects recent weather events and their likely impact on economic sectors which are already under intense pressure from rising interest rates.

Chapman Tripp began this series in 2019, previously confined to New Zealand but now extended to Australasia, which collates the financial information from the annual reports of the Top 50 listed companies in each country, to identify funding trends and opportunities for CFO’s and other stakeholders.

2022 Snapshot

Diversity of funding

ASX Top 50 companies are more diverse in their debt financing arrangements than their New Zealand counterparts, with the majority having a spectrum of debt products available to them. This is much less the case in New Zealand, particularly among the NZX second 25 which are still very reliant on bank debt as their primary source of funds.

Multi-currency

Most of the NZX Top 25 have raised funds in one or two currencies only (typically USD, EUR or AUD) while the majority of the ASX Top 50 have much wider foreign currency sources – particularly USD, EUR, GBP, CHY, JPY, HKD and, SGD. This reflects the size and debt requirements of the ASX Top 50.

New Zealand banking arrangements

47

among the NZX Top 50, have drawn bank debt.

Three – Winton Property, Pacific Edge Limited and AFT Pharmaceuticals – are debt free.

29

have offered security for their bank debt

(three up on 2021 and a trend we expect to continue as banks are increasingly requiring security as a condition of interest cover waivers).

18

have unsecured bank facilities.

1

has a mix of both secured and unsecured.

Of the 18 unsecured borrowers

8

are within the Top 10.

As in previous years, there is a significant contrast with the second 25,

80%

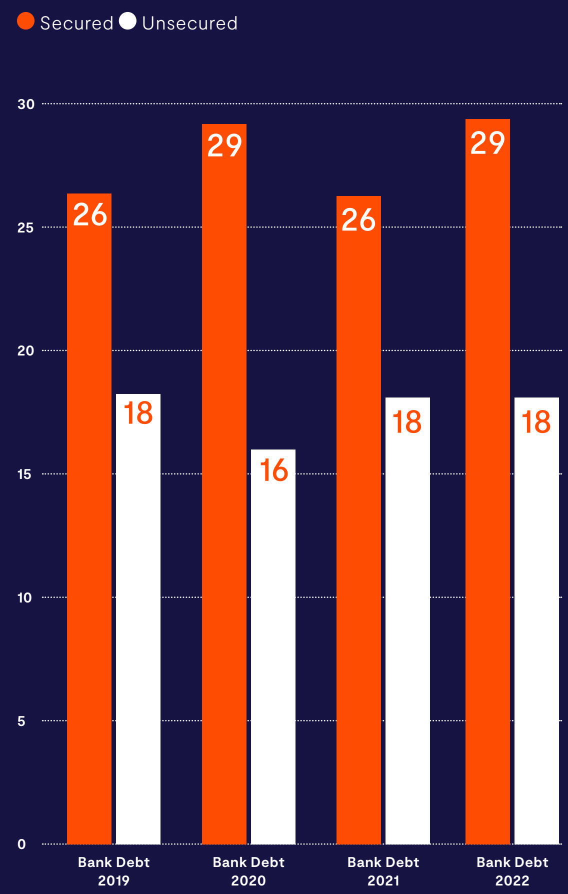
of which have granted security to their banks.

The most common form of security is:

“all asset”

typically granted under the terms of a general security agreement.

Bank Debt: NZX Top 50



Australian banking arrangements

48

among the ASX Top 50, have drawn bank debt.

Of the remaining two companies, one has US senior unsecured notes and the other has an available bank facility.

18

have offered bank security for their debt

(11 in the top 25 and seven in the second 25).

38

have unsecured facilities.

8

have a mix of both secured and unsecured

(which is how we achieve a number of 64 among 48 companies).

New Zealand bond market

Across the 2022 Financial Year, 11 Top 50 companies issued bonds on the NZX, raising a combined value of over $1.8bn, and a further eight completed bond issues post balance date. This is a significant increase from previous years and is consistent with the prediction in our 2021 publication.

Reduced issuance activity during the COVID disruptions is manifesting now in an increased number of issuers accessing the market. They are refinancing debt and marketing to a wide investor base with available funds from bond investments that have matured since 2020. Higher market interest rates also typically encourage further retail investor uptake.

Green bonds continue to gain momentum. Mercury issued in Australia in November 2021; Kiwi Property Group in July 2021 and Precinct in May 2021. Contact Energy, Genesis and Precinct issued green bonds post balance date. This growth trajectory is reflective of feedback received we have received from CFOs and in line with our predictions in previous publications.

Issuers are refinancing debt and marketing to a wide investor base with available funds from bond investments that have matured since 2020.

Sustainability linked bonds have become a key part of the market overseas as they are a viable option for a wider variety of issuers than other traditional green financing

Spark, through its subsidiary Spark Finance Limited, also issued a 6.5 year NZ$100m sustainability linked bond to institutional investors in March 2022, marking an important milestone in the development in the sustainable finance market in New Zealand.

Sustainability linked bonds have become a key part of the international sustainable finance market, as a viable option for a wider variety of issuers than more traditional sustainable financing. The Spark Finance transaction will hopefully encourage others to take up the format in New Zealand, particularly as companies come to grips with mandatory climate risk reporting. We expect to see an increase in these issuances in New Zealand over the next few years.

Overseas debt/debt capital markets

32 of the ASX Top 50 have debt outside Australia. Most commonly this is in the form of European Medium Term Notes, typically with a debt maturity of five to 10 years, but not always.

APA Group, for example, has borrowings in Japanese Yen, Pound sterling, the US greenback and the Euro; Cochlear Group in Japanese Yen and Swedish Kroner; and Atlas Corporation has issued bonds in many jurisdictions, including Norway.

In comparison only 15 of the NZX Top 50 (all but one of them in the Top 25) have some form of debt outside of New Zealand, and most New Zealand companies have limited their foreign debt exposure to Australia and the US.

These exposures are largely through AMTN notes, United States Private Placement and through term debt facilities in Australia. But there are exceptions:

- Spark has Norwegian Medium Term Notes in Norwegian Krone.
- Chorus Limited obtained €500m of seven year EMTNs in September 2022 at an interest rate of 3.625% per annum and received strong support from European investors. The structure was designed to help manage refinancing risk and provide the issuer with flexibility to time its entry into the market.

32 of the ASX Top 50 have debt outside Australia.

15 of the NZX Top 50 have some form of debt outside of New Zealand.

Conclusion

It is true that the current environment is more than usually volatile and challenging. But it is also true that periods of peace and stability are generally recognised only in retrospect and that risk is a constant.

So we expect to see a continuation of existing trends in 2023 rather than any sharp changes in direction – in particular an increased adoption of sustainable finance instruments and ESG principles, including the integration of green financing into existing lending arrangements where applicable.

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Our thanks to Teddy Rose and Liam Scott for helping us write this report.

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