

● INVESTMENT REVIEW by Anthony Sibillin

Bendigo and Adelaide Bank retail bonds

IN A NUTSHELL

Lend a minimum of \$5000 to a second-tier bank.

SUITABLE FOR

Investors hunting for a safe-ish investment with a predictable return and an easy exit.

UP CLOSE

Bendigo and Adelaide Bank wants to borrow up to \$250 million from ordinary investors instead of the institutions it normally hits up for cash. Each bond will have a face value of \$100 and pay a "coupon" or interest equal to 1.4 per cent plus the 90-day bank bill swap rate (currently 4.9 per cent) every three months.

Investors who hold the bonds until they mature in three years get their money back in full (providing, of course, the bank doesn't collapse in the meantime). Investors who, for whatever reason, want to sell the bond before March 2014, can sell them through the Australian Stock Exchange.

BEST FEATURES

The coupon on Bendigo bonds is superior to those of big banks and about the same as those of other second-tier banks such as Bank of Queensland. Investors can find three-year term deposits returning closer to 7 per cent. But term deposits are inflexible (leaving early incurs an interest penalty) and not linked to market rates (the interest rate is fixed for the entire term).

By contrast, if the Reserve Bank of Australia raises the official cash rate sometime in the next three years, as most analysts expect, the bank bill swap component of the Bendigo bond coupon will rise, too. Less happily, the reverse is also true: if the cash rate falls, so, too, will the coupon.

WORST FEATURES

The bonds are "unsecured debt". Unlike term and other bank deposits, they are not guaranteed by the federal government.

"While we regard the probability as low," independent bond analyst FIGG Securities says, "there is always a chance that Bendigo could default on a payment or go to the wall."

In the event, bond holders rank behind not only deposit holders but also "senior" institutional creditors.

For investors who need to sell the bond before maturity, the sale price may be less than \$100, depending on market demand. If official rates rise, the price of the Bendigo bond will tend to fall (because the coupon has a fixed as well as variable component) and vice versa.

FEEES AND FINE PRINT

Investors have until March 8 to apply for a minimum of 50 bonds (\$5000). They can then sell these (or buy more) on the ASX from March 22.



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