

Smart Money

Origin and AFIC meet demand for yield

Two notes issues are aimed squarely at investors wanting a high-yield alternative to shares, but are they good value?

Alison Kahler

Two hybrid security issues worth a total \$700 million were announced in the past week to mixed reviews from fixed interest experts.

Origin Energy's \$500 million notes issue will pay a quarterly interest 4 to 5 per cent above the 90-day bank bill rate – although it's likely that strong demand will keep the interest at the lower end of that range – about 8.65 per cent, says Morningstar analyst Nathan Zaia.

The other offer, a \$200 million note issue from Australian Foundation Investment Company (AFIC), will pay quite a bit less, or 6.25 per cent paid twice a year, but is less complex than the Origin deal.

Competing bids

New hybrid security issues

ORIGIN NOTES	AFIC CONVERTIBLE NOTES
<ul style="list-style-type: none"> ■ Type of security: Unsecured, subordinated, cumulative note ■ Face value: \$100 per security ■ Offer size: \$500m ■ Minimum application: \$5000 ■ Interest payments: 4.00-4.50% above 90-day BBSW ■ Offer opens: Nov 23, 2011 ■ Issue date: Dec 20, 2011 ■ Call date: Dec 20, 2016 ■ Step-up date: Dec 20, 2036 ■ Step-up margin: 1% ■ Maturity date: Dec 20, 2071 	<ul style="list-style-type: none"> ■ Type of security: Convertible note ■ Face value: \$100 per security ■ Offer size: \$200m ■ Minimum application: \$5000 ■ Coupon rate: 6.25% per annum, non-deferrable and non-discretionary ■ Coupon payment dates: Feb 28 and Aug 31 ■ Offer opens: Nov 23, 2011 ■ Issue date: Dec 19, 2011 ■ Maturity date: Feb 28, 2017

SOURCE: AFIC NOTES OFFER DOCUMENT, ORIGIN NOTES OFFER DOCUMENT, RBS MORGANS

Both offers are an attempt to tap demand from investors scarred by the global financial crisis for assets that pay a high yield and may prove less volatile than shares.

Stephen Nash, a director at fixed interest broker FIIG, argues that the

AFIC offer is not great value for investors.

"It looks like a low margin over the swap [rate] and heavily dependent on your view of the equity market over the next five years," he says. AFIC's notes have an embedded



FIIG's Stephen Nash ...better options.

option that gives investors the right to convert them into cash or stock in AFIC, depending on where the listed stock is trading when the notes mature in February 2017. If the share price is 25 per cent above where the five-day average price is

before issue, investors can decide to take stock in AFIC. Nash acknowledges this may let investors buy shares at a discount but says the deal is still expensive.

"The Origin deal by comparison, at between 400 to 450 basis points over the 90-day bank bill rate, is much more attractive, although there remain better alternatives within the over-the-counter debt market," he says.

Morningstar's Zaia has put a buy recommendation on the Origin issue due to its juicy yield but says there is no iron-clad guarantee the notes will be redeemed by the company at the first opportunity in December 2016. The latest possible maturity date is December 2071.

"The terms are not as favourable as the recent Woolworths issue," Zaia says.

"Investors can't go in with the perception that the notes are guaranteed to be redeemed in 2016."

He says that redemption of the notes will depend on the availability of cheaper funding for Origin.