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Latest News

AAPT taps a different funds pool for its domestic market return



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On May 22, Adani Abbot Point Terminal (AAPT) returned to domestic issuance when it priced a A\$100 million (US\$92.3 million) six-year transaction. The deal was targeted at wholesale-qualifying investors via FIIG Securities (FIIG). In the wake of this issue – FIIG’s first for a rated borrower – the broker’s Sydney-based CEO, Mark Paton, insists the private-client investor can be part of the funding solution for longer-tenor issuance going forward.

The transaction closed “well oversubscribed” and was scaled back accordingly according to Paton. He says the number of accounts involved in the transaction reached 420 and that these are all “individual sophisticated or wholesale investors”.

In October last year AAPT printed a [A\\$500 million](#), five-year debut deal at 225 basis points over swap. That line has drifted wider in the secondary market since – it was indicated at 242 basis points on Yieldbroker ratesheets on May 19, the day the latest AAPT issue opened.

Pricing on the new FIIG-led May 2020 bond was fixed at 250 basis points over swap. “We had some institutional investor participation in this transaction and the price was therefore confirmed by these investors,” Paton comments.

Institutional limits

Despite its record-breaking launch size, the triple-B minus-rated AAPT’s inaugural domestic deal appeared to reach institutional investor limits in terms of volume. Fund managers told *KangaNews* following its debut that companies which hover on the cusp of investment grade find less volume of demand for their issuance because some investors do not want to hold paper that may be subject to a negative rating action.

At the time *KangaNews* also learned that the issuer had been targeting an even-larger transaction than the eventual A\$500 million. AAPT signed a bank facility as part of an associated debt package, the size of which sources suggested was adjusted upwards by A\$250 million to its final A\$750 million sum.

The combination of these two factors may have led to AAPT getting a more welcoming response from the middle market this time round. One fund

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manager suggested in 2013 that in order to ascertain whether the capacity existed for AAPT to return investors would need to assess how the debut deal performed. The issue's performance does not appear to support an asset manager-targeted follow-up deal.

Paton points out that AAPT's owner, Adani, also has access to a variety of offshore capital markets as befits its status as an international operation. "But, at the end of the day, proceeds have to be swapped back to AUD, so the net cost in AUD is the main comparator," he says.

Liabilities to match assets

While AAPT's transaction came at six-year tenor, Paton believes the real benefit the investor base FIIG attracts can give rated borrowers lies in its capacity for extended tenor. To that end, he reveals that FIIG is in dialogue with a number of Australian rated issuers that have also looked at the US and other capital markets in order to match their tenor needs. With increased swap costs due to Basel III and other regulatory restrictions, offshore markets are becoming prohibitively expensive for longer-tenor issues, he adds.

On the other side of the coin, Paton says FIIG's investors have appetite to match these needs. "What our investors are seeking in their self-managed super funds and their private fixed-income portfolios is good-quality assets that offer them yield. For rated issuers this requires them to look at longer-tenor issuance."

The real value for issuers may be longer tenor than the Australian dollar market normally offers. While Paton acknowledges that the mainstream wholesale market likely offers the best value proposition for many investment-grade rates issuers in the mid part of the curve, he also reveals that a reasonable proportion of FIIG's investor base has appetite for 10 year tenor or even more.

FIIG believes it can match these assets with liabilities. "We have been approached and we are approaching a number of rated issuers that we think have the correct credit profile for issuance at 10 years and beyond. We are confident that our investors, if offered an appropriate opportunity, can help to fulfil issuers' demands."

The AAPT transaction brings the total volume of FIIG-originated issuance to A\$515 million across nine deals since September 2012. At the A\$100 million final size, AAPT is FIIG's largest deal.

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