Bendigo goes to market for $300m

- By Elizabeth Fry

Bendigo and Adelaide Bank is going to the market to raise $300 million of hybrid debt to boost regulatory capital.

With the hybrid issue, the regional lender will raise its tier one ratio by 50 basis points.

The convertible preference share issue is Bendigo's fourth and will replace the BENPD security, which raised about $269 million five years ago which is due to convert in December.

This latest issue will provide investors with floating rate, quarterly, discretionary, non-cumulative dividends that are expected to be fully franked, Bendigo Bank said in a release.

The convertible notes will convert in June 2024 if certain conditions are met, according to the regional lender.

Otherwise, they will mandatorily convert into ordinary shares on 15 June 2026 subject to certain conditions being satisfied or unless exchanged earlier.

Bendigo Bank's converting preference share 4 offer will pay investors a margin of between 3.75 and 3.95 per cent and will be set by way of a bookbuild on or around 23 October 2017.

No brainer

This issue will pay 5.45 per cent.

According to Realm Investment manager Andrew Papageorgiou, additional tier one delivers strong capital efficiency to banks versus issuing core equity.

“So, in terms of optimising your cap stack and maximizing return on invested capital using AT1 is a no-brainer certainly when compared to CET1.”

According to the fixed interest specialist, the market will gobble up the note since stock is short and the 1 per cent stamping fee makes it “mothers milk” for a lot of financial advisers.

Chasing yield

On value, he argued, it’s a matter of perspective. Bendigo is basically trading at 1 X book, as opposed to the big four banks which are trading between 1.5 and 2.2 times.

“Using any fair probabilistic approach to assessing fair value, should actually lead to a regional paying a healthy spread over and above the major banks.

“But they don’t (or nowhere near the premium they should), and that’s because the market is chasing yield in addition to the fact that there are very few investors building any kind of fundamental view on these assets.

“That said, knowing that this will likely list well does add some temptation to participate for an investor. However, the lure of participating in a bit of market mania aside, we would see fair value at a number north of 400 basis points over the bank bill rate bill (and probably closer to 500 basis points) using a fundamental approach.”

Australia’s hybrid market has been rising in price since the 2016 first quarter.

Essentially, the market bottomed out with the issue of CBAPE in early 2016 which triggered institutional interest at primary issuance.

“Every deal since that transaction has opened at a very healthy premium, so from thereon its Pavlov's dog.

"People open their mouth wide on any new issue, scale backs are significant, at the same time there have been a number of Separately Managed Account products that have come to market around the AT1 opportunity set that has also increased demand.

“The free float is small, which means you don’t need much in the form of buying (or selling) to move the price.”

https://www.rfigroup.com/australian-banking-and-finance/news/bendigo-goes-market-300m