

# CORPORATE BORROWERS' INTENTIONS 2016

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THE OUTLOOK FROM AUSTRALASIA'S  
LARGEST COMPANIES



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# **CORPORATE BORROWERS' INTENTIONS OUTLOOK 2016**

## AN INSIGHT INTO HOW AUSTRALASIA'S LARGEST CORPORATES ARE THINKING ABOUT THEIR FUNDING REQUIREMENTS AND CAPITAL MARKETS.

With quantitative easing expected to be reduced in America, while continuing in Europe, the world's financing market is beginning to shift and divide.

What will these changes and subsequent moves mean for Australian corporates seeking to raise funds? We polled the market to find out.

### **THE SURVEY REVEALED KEY TRENDS:**

- Chief financial officers (CFOs) and corporate treasurers are more bearish about the coming 12 months than they were a year ago.
- Almost a quarter (23%) of respondents expect spreads in general either to be "fairly challenging" or "very challenging" in 2016.
- A quarter (26%) of respondents expect to increase their gearing in the next 12 months. A lesser 20% expect to reduce it.
- Debt capital markets remain among the most attractive sources of funds for corporates. More than half of respondents (52%) expect their proportional use of capital markets to increase over the next year.
- Issuers are expected to favour domestic, US and Euro markets next year.
- Just 8% expect to increase their proportion of bank funding.
- Green bonds are expected to continue to emerge as an issuance avenue, with two thirds of Australasian issuers interested in them. Though only a minority are currently exploring issuance.

Australian corporates should opportunistically review their financing to take advantage of the current low rates. We hope you find these results useful. If you have any questions, or would like assistance, please let us know.

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# EXECUTIVE OUTLOOK

Corporate treasury executives seem more bearish about the coming 12 months than they were a year ago.

## MORE CHALLENGING MARKETS

Just 9% of treasury managers expect credit spreads in general to be highly conducive next year. This is well down on the 56% who thought so positively last year. Almost a quarter (23%) expect spreads to be either “fairly challenging” or “very challenging” in 2016.

## GEARING TO RISE SLIGHTLY

Interestingly, and despite expected rises in rates, a quarter (26%) of respondents expect to increase their gearing in the next 12 months. Just 20% expect to reduce it.

## GROWING CAPITAL MARKETS

More than half of respondents (52%) expect to increase their proportional use of capital markets over the next year. Just 8% expect to increase their proportion of bank funding. This challenges the commonly held notion that Australasian corporates are reliant on bank funding.

## INTERNATIONAL RAISINGS

While Australia's own bond market is also attractive for many issuers, it can't always provide the kinds of volumes and tenors more readily available overseas. Issuers are expected to favour domestic, US and Euro markets next year.

## GOING GREEN

With the increased community focus on environmental issues, green bonds are expected to continue to emerge as an issuance avenue. While the survey found two-thirds of Australasian issuers are interested in green bonds, only a minority are currently exploring issuance.

## DETERIORATING OUTLOOK FOR YIELDS AND SPREADS

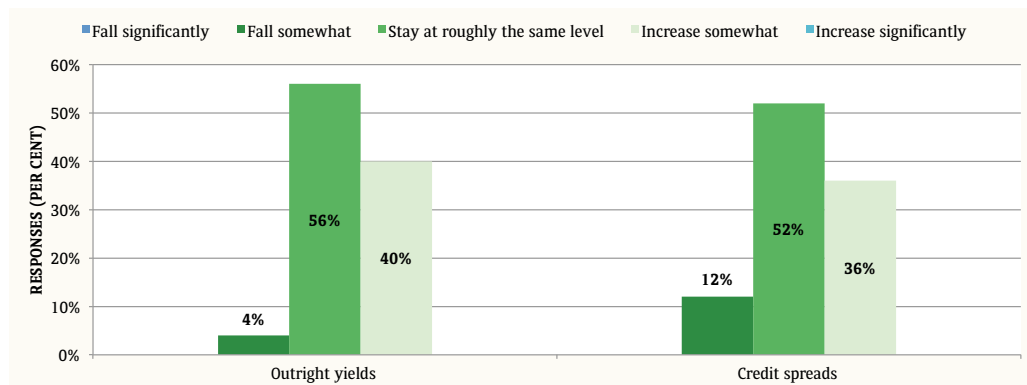
CFOs and treasury managers expect further deterioration of borrowing costs over the coming year. Forty percent of corporate issuers expect outright yields to increase “somewhat” in the coming year. Over a third (36%) anticipate credit spreads to also rise, as shown below.

Almost a quarter (23%) expect spreads to be either “fairly challenging” or “very challenging”.

Just over half expect yields (56%) and spreads (52%) to remain at roughly the same level in 2016.

Very few expect them to fall. Only 9% of respondents expect credit spreads to be highly conducive next year. This is well down on the 56% who were positive last year.

### WHAT DO YOU EXPECT FOR OUTRIGHT YIELDS OVER THE NEXT 12 MONTHS?



Source: BNP Paribas, KangaNews and Moody's Investors Service October 2015

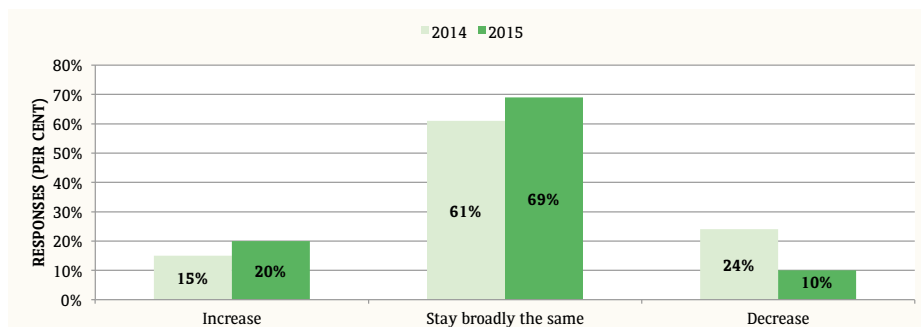
While borrowers expect market conditions to deteriorate, this deterioration is not expected to be dramatic. Treasury managers have positioned themselves well ahead of any downturn in funding conditions and the challenges are expected to be manageable. Many corporates have diversified their funding portfolio and gained access to markets with longer duration in advance of expected rate rises.

## LOAN MARKET OUTLOOK REVERSES

There is expectation that the status quo will be maintained in the loan market, in which nearly 70% of survey responses expect commitment levels to remain roughly the same for the next 12 months.

Those who anticipate movement are expecting more expensive loans – a reversal of the 2014 trend.

### WHAT DO YOU EXPECT FOR LOAN PRICING COMMITMENT LEVELS OVER THE NEXT 12 MONTHS?



Source: BNP Paribas, KangaNews and Moody's Investors Service October 2015

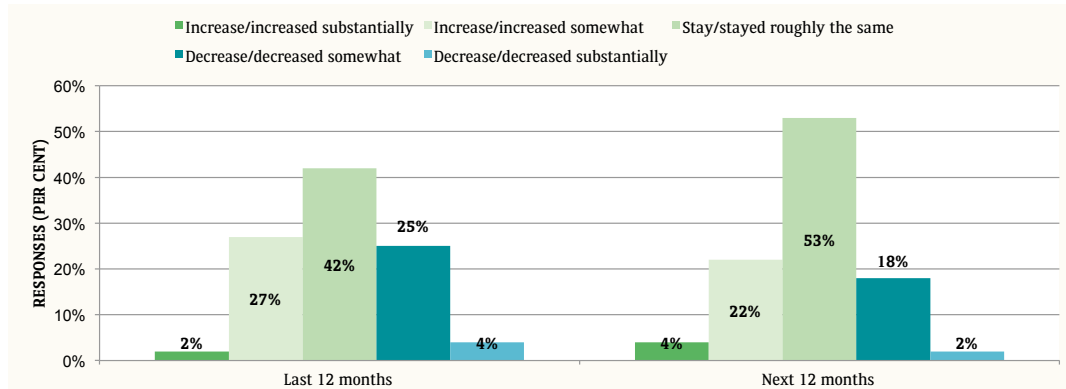
## GEARING TO INCREASE FOR SOME CORPORATES

Interestingly, and despite expected rises in rates, a quarter (26%) of respondents forecast to increase their gearing in the next 12 months.

Just 20% expect to reduce their gearing.

Over half expect their gearing to remain roughly the same, as shown below.

### HOW HAS YOUR COMPANY'S GEARING CHANGED IN THE PAST 12 MONTHS? WHAT DO YOU EXPECT FOR THE NEXT 12 MONTHS?



Source: BNP Paribas, KangaNews and Moody's Investors Service October 2015

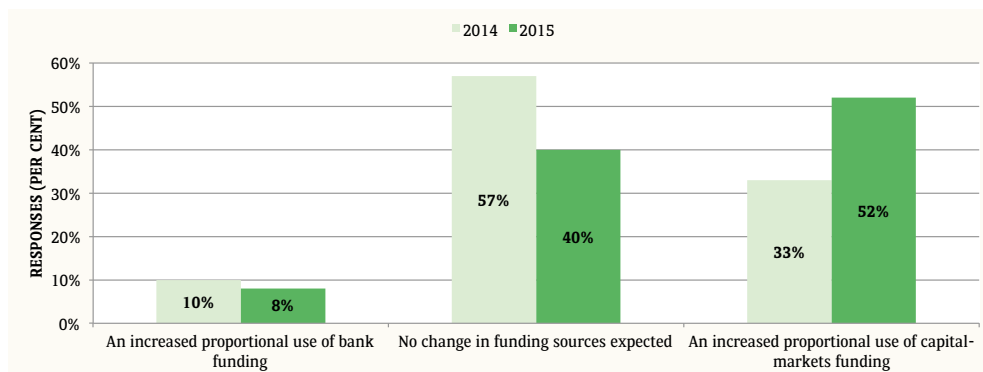
## INCREASED USE OF CAPITAL MARKETS FUNDING FORECAST

Despite these challenges, more than half of respondents (52%) expect to increase their proportional use of capital markets over the next year.

Even less are expected to increase their proportion of bank funding, just 8%.

This challenges the commonly held notion that Australasian corporates are reliant on bank funding.

### HOW DO YOU EXPECT THE OVERALL COMPOSITION OF YOUR COMPANY'S DEBT BOOK TO CHANGE IN 2016?



Source: BNP Paribas, KangaNews and Moody's Investors Service October 2015

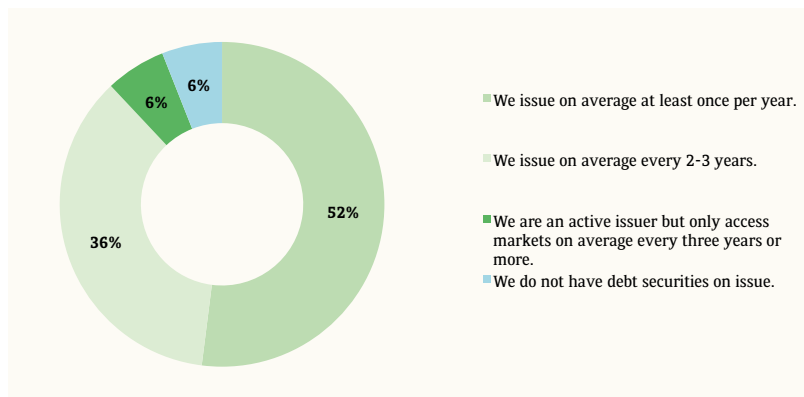
A third of corporate treasury executives anticipated increasing their proportional use of capital markets for debt funding, while nearly 60% forecast no change.

The latest year's figures do not quite reverse this outcome but are not far away from doing so with over half expecting to increase their use of capital markets.

While firms are maintaining conservative debt targets they continue to focus on diversifying and lengthening the tenor of their funding.

Corporates which responded to the survey are clearly engaged with capital markets. More than half the survey respondents say their company issues debt securities on an annual basis, while nearly 90% say they issue at least once every 2-3 years.

### HOW ACTIVE IS YOUR COMPANY IN DEBT CAPITAL MARKETS (BONDS AND OTHER DEBT SECURITIES EXCLUDING BANK LOANS) GLOBALLY?



Source: BNP Paribas, KangaNews and Moody's Investors Service October 2015

### WHERE IN THE WORLD?

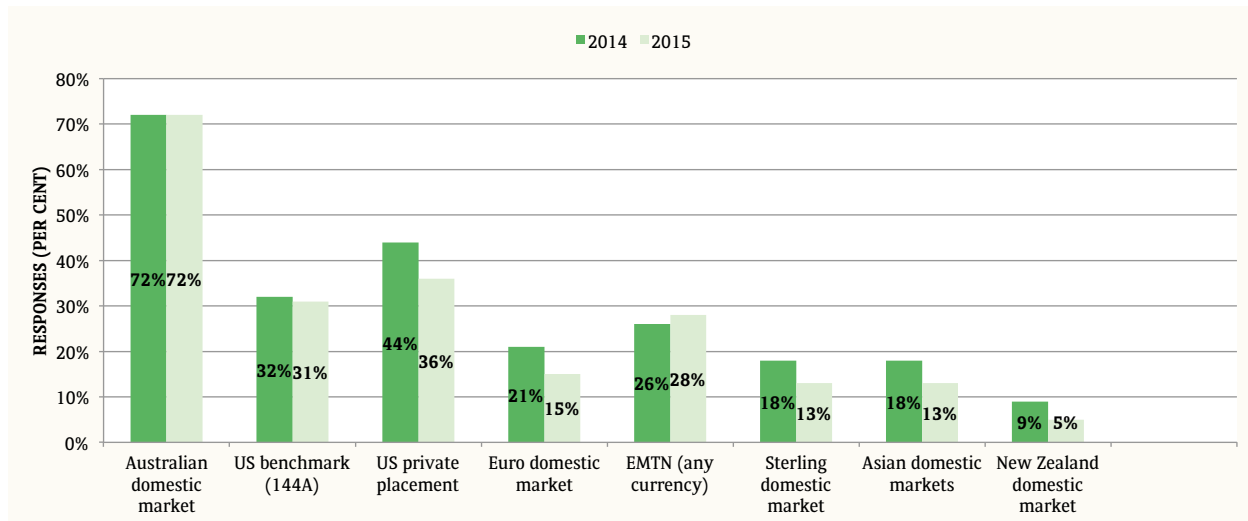
While Australia's own bond market is also attractive for many issuers, it can't always provide the kinds of volumes and tenors more readily available overseas.

Australian issuers are consistent with regard to the global capital markets they access. Responses to this year's question asking their level of engagement with various markets are virtually identical to those from 2014.

The domestic and US private placement (USPP) markets remain most relevant to the largest number of issuers.

There has been a very small drop-off in engagement with euro benchmark issuance in 2015. However, a similar proportion of issuers expect the euro to swing back into favour next year. Australian borrowers had been attracted to Europe's bond market earlier this year, lured by cheaper swap costs for euros and credit spreads.

## AUSTRALIAN ISSUERS: WITH WHICH GLOBAL DEBT MARKETS IS YOUR COMPANY CURRENTLY ENGAGED?



Source: BNP Paribas, KangaNews and Moody's Investors Service October 2015

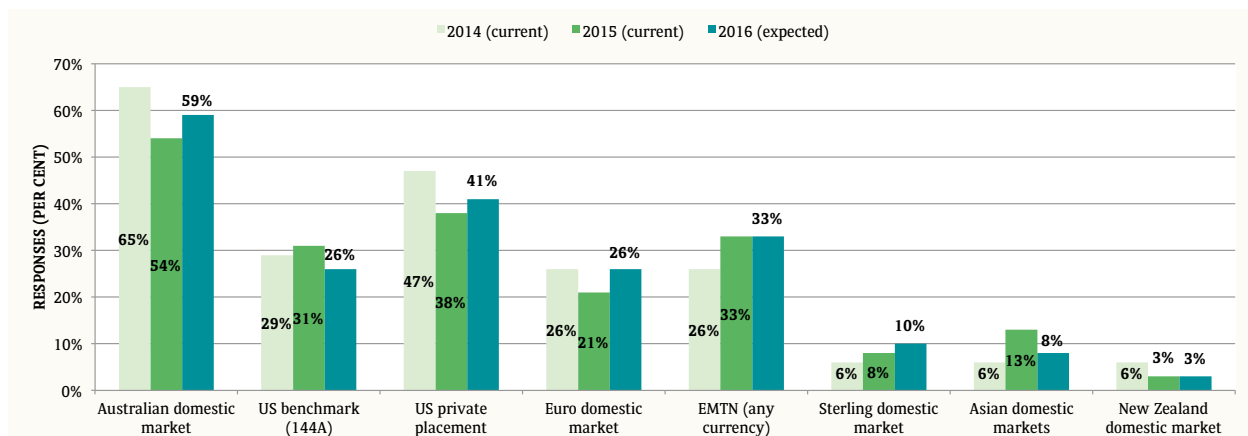
There are a number of reasons Europe is expected to return to favour for debt issued by Australasian corporates, including:

- The cost of landed debt (swapped into AUD) remains comparatively low,
- Unprecedented monetary easing from the European Central Bank, including negative interest rates, has helped restrain euro borrowing costs there, and
- The yield offered by Australian corporate issuers is very attractive to investors there and is in demand.

Australian firms have been led by BHP Billiton and the banks, selling 14.4 billion euros (A\$16 billion) in bonds in the year to date, a 27 per cent increase over the comparable period last year. Bond issuance into Europe is on track for a record year, according to Bloomberg data. National Australia Bank has is the biggest borrower so far in 2015, raising 3.25 billion euros, followed by Westpac Banking Corporation and Commonwealth Bank of Australia. BHP Billiton placed 2 billion euros with European investors.

Overall, issuers appear to expect slightly fewer markets will offer optimal funding conditions in 2016 – these being Australia, the US and Europe.

## AUSTRALIAN ISSUERS: WHICH CAPITAL MARKETS DO YOU BELIEVE PROVIDE THE BEST FUNDING OPTIONS FOR YOUR COMPANY IN TERMS OF COMBINATION OF PRICING, LIQUIDITY, EASE AND COST OF EXECUTION, TENOR, TERMS AND CONDITIONS?



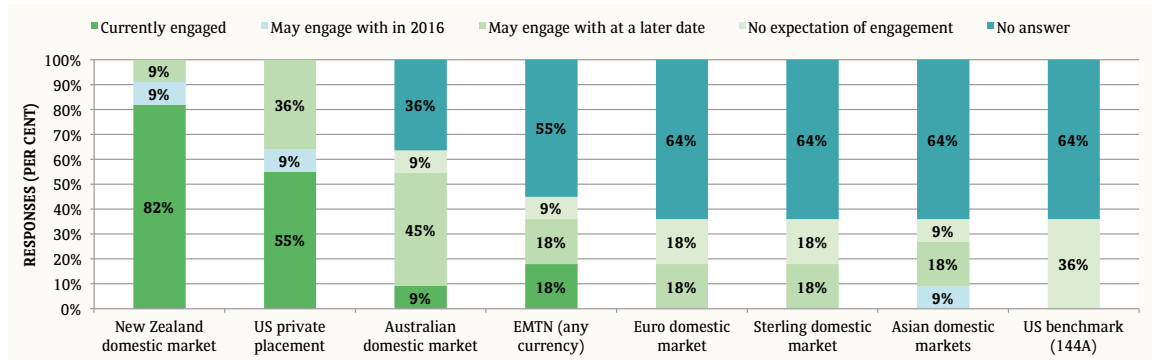
Source: BNP Paribas, KangaNews and Moody's Investors Service October 2015

## NEW ZEALAND ISSUER OUTLOOK

As was the case last year, issuers from New Zealand that responded to the Corporate Borrowers' Intentions Survey tend to be focused on a narrower range of capital markets – specifically their local domestic option and USPPs.

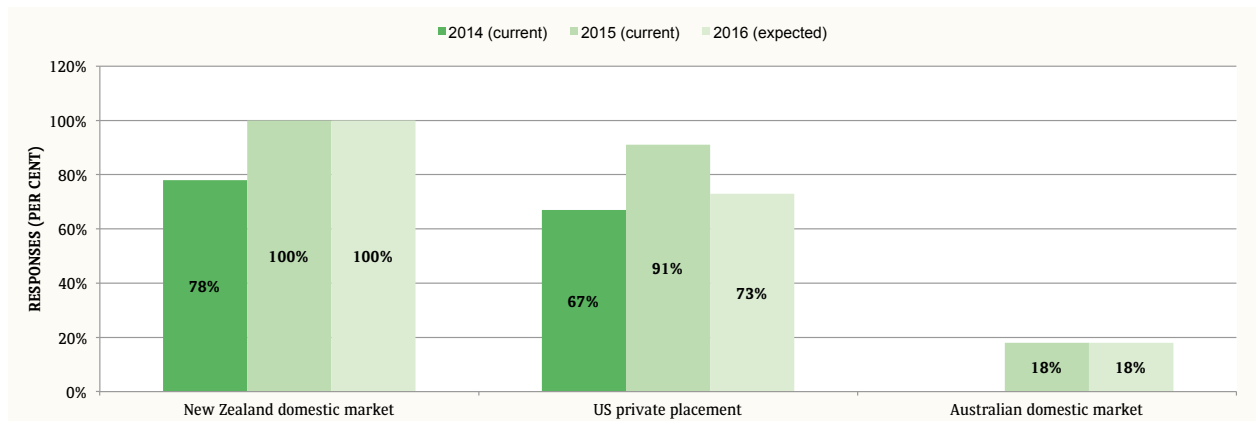
Perhaps the most interesting insight the survey offers in this respect is that more than half of New Zealand issuers say they either are engaged or may engage with the Australian domestic market at some point.

### NEW ZEALAND ISSUERS: WITH WHICH GLOBAL DEBT MARKETS IS YOUR COMPANY ACTIVELY ENGAGED OR MAY BE SO IN THE NEXT TWO YEARS?



Source: BNP Paribas, KangaNews and Moody's Investors Service October 2015

### NEW ZEALAND ISSUERS: WHICH CAPITAL MARKETS DO YOU BELIEVE PROVIDE THE BEST FUNDING OPTIONS FOR YOUR COMPANY IN TERMS OF COMBINATION OF PRICING, LIQUIDITY, EASE AND COST OF EXECUTION, TENOR, TERMS AND CONDITIONS?



Source: BNP Paribas, KangaNews and Moody's Investors Service October 2015

Four-fifths of these respondents suggest Australian issuance is a long-term prospect.

Only 18% of New Zealand issuers expect the Australian market to be among the most conducive for issuance in 2016.

By contrast, every respondent from New Zealand expects their domestic market to offer the best combination of conditions next year, while nearly three-quarters expect USPP to join it.



## GOING GREEN

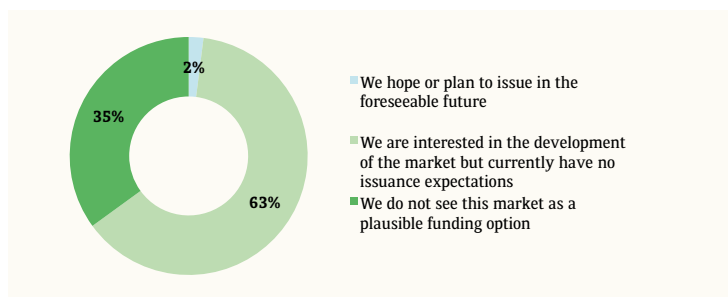
With the increased community focus on environmental issues, green bonds have emerged as an issuance avenue over the past year. Two Australian corporate green bonds were issued this year: one in the euro benchmark market and the other as a USPP.

We expect green bond issuance to increase and diversify as governments around the globe seek to develop cleaner urban infrastructure and energy production and as more institutional investors seek to demonstrate that they are responsible investors.

While our survey found two-thirds of Australasian issuers are interested in the green bond market, only a minority are currently exploring issuance. A third said they were not interested in this source of funding.

Green bonds tend to price in line with the same issuers' generic bond curves, but appeal to a wider range of investors – by adding specialist mandates to mainstream bond funds as potential buyers, especially in Europe.

### ALL ISSUERS: HOW INTERESTED IS YOUR COMPANY IN THE GREEN BOND MARKET?



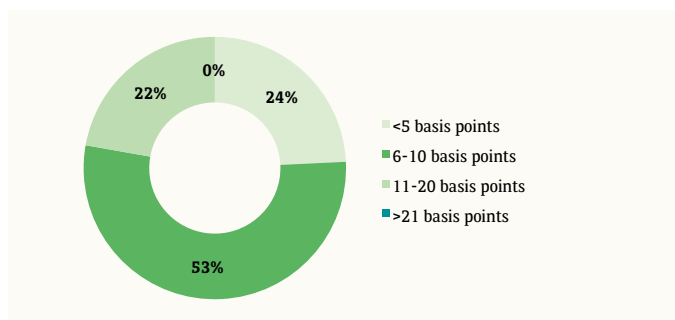
Source: BNP Paribas, KangaNews and Moody's Investors Service October 2015

## OPENING NEW MARKETS

All issuers report that they are willing to offer a premium to investors in order to open a new funding avenue.

Three-quarters of respondents indicate a willingness to pay at least 5 basis points more to access a new market or investor base. However, cost remains key, with just over a fifth (20%) saying they would be willing to offer a premium of more than 10 basis points.

### ALL ISSUERS: IN TERMS OF THE VALUE YOU PLACE ON FUNDING DIVERSITY, WHAT SPREAD PREMIUM WOULD YOU BE PREPARED TO PAY TO ACCESS A NEW MARKET/INVESTOR BASE?



Source: BNP Paribas, KangaNews and Moody's Investors Service October 2015

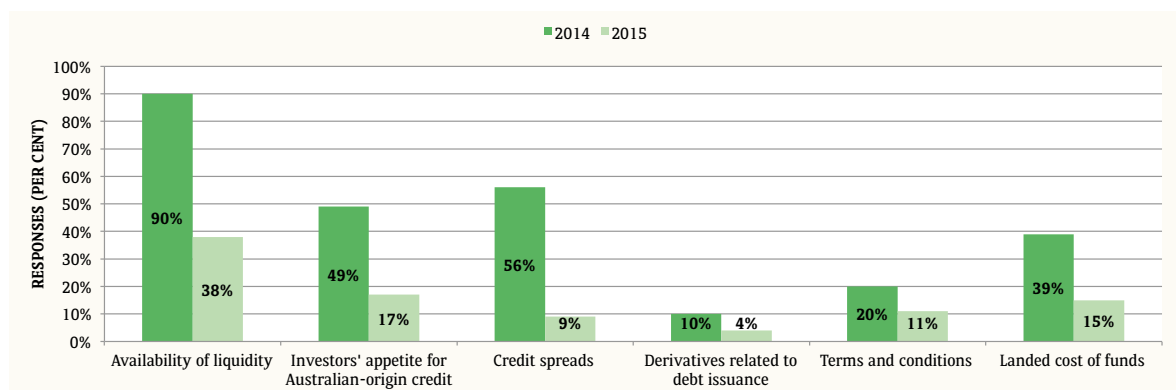
# CONCLUSION

Overall, issuers' outlook on funding markets has softened noticeably, but not drastically, over the past 12 months (from September 2014).

Asked to rate a number of factors in terms of the ease or difficulty with which they are dealt when accessing debt capital markets, the most noticeable trend from 2014 to 2015 is the migration of responses from "very conducive" to "fairly conducive". While hardly a suggestion of impending catastrophe, this is clearly a more negative outlook than the previous year.

Where 90% of Australasian borrowers rated availability of liquidity as highly conducive in 2014, in this year's survey the equivalent proportion fell to 38%.

## WHAT MAKES ISSUES 'VERY CONDUCTIVE' IN GLOBAL DEBT CAPITAL MARKETS AT PRESENT?



Source: BNP Paribas, KangaNews and Moody's Investors Service October 2015

## FOR FURTHER INFORMATION, PLEASE CONTACT:

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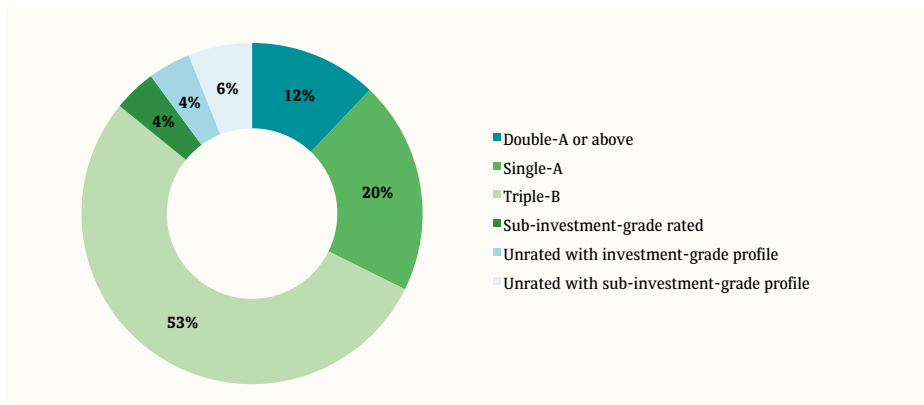
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# ABOUT THIS REPORT

BNP Paribas, KangaNews and Moody's undertook a poll of Australian corporate Chief Financial Officers and treasury managers in September 2015.

A total of 50 CFOs, treasurers and other treasury decision-makers responded with their borrowing intentions for 2015. Responses came from a highly representative sample of capital-markets-relevant corporates in Australia and New Zealand. The majority describe themselves as investment-grade rated, and the largest single cohort – accounting for just over half the total responses – comes from the triple-B sector.

## WHAT RATING CATEGORY IS YOUR COMPANY?



Source: BNP Paribas, KangaNews and Moody's Investors Service October 2015

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