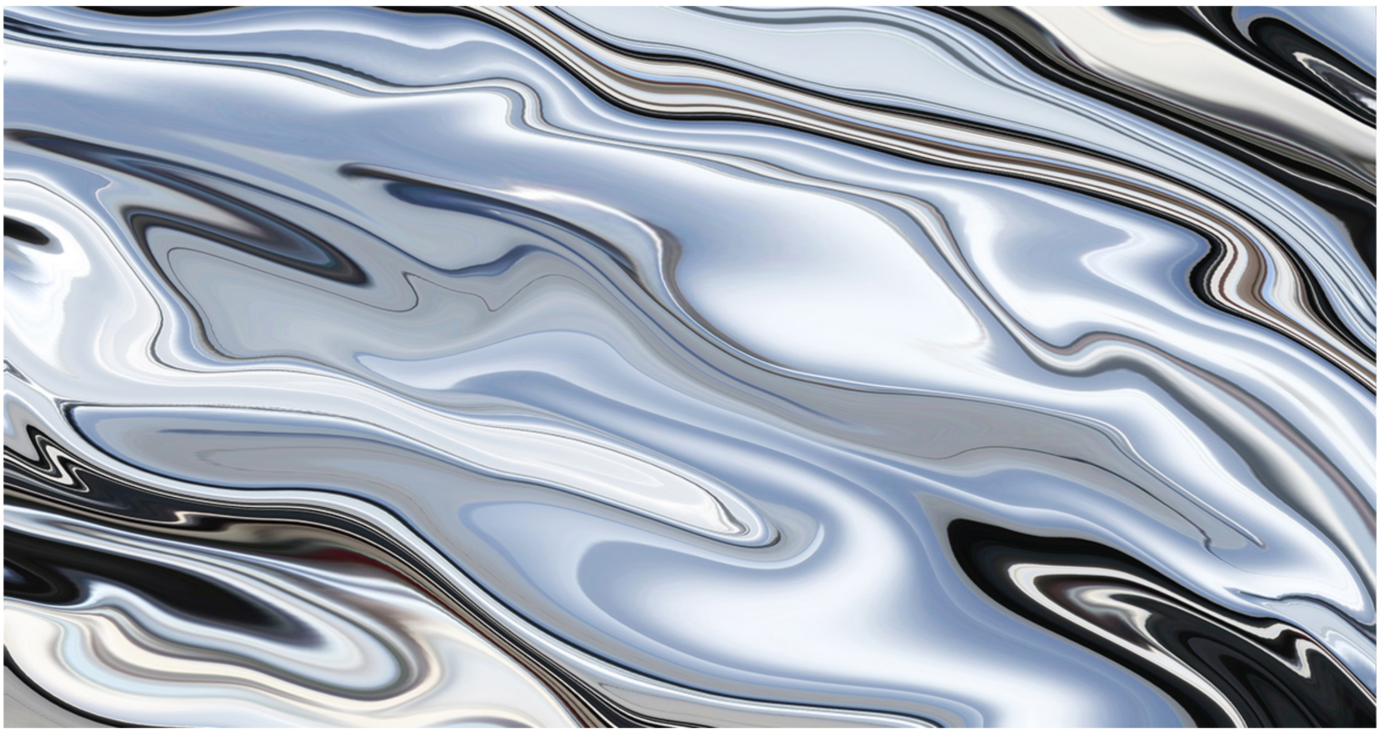


Mercury finds liquidity in cool New Zealand corporate supply environment

Mercury NZ's green-bond print on 19 March highlights significant ongoing demand for corporate debt in New Zealand amid a relatively quiet supply backdrop. Deal sources say pricing also illustrates the relative-value proposition of corporate bonds compared with bank debt.

The NZ$200 million (US$143.1 million) 5.5-year transaction is just the second New Zealand corporate print so far in 2021, following Arvida Group's debut in February.

However, the market is providing some compelling price points. Arvida's deal achieved a margin lower than any unrated borrower in 2020, and Mercury printed by far the lowest margin for a triple-B band issuer since at least the 2008 financial crisis (see table).

Lowest margins for triple-B rated New Zealand corporates since 2008

Pricing date	Issuer	Rating	Volume (NZ$m)	Tenor (years)	Margin (bp/mid)	Coupon (per cent)
19 Mar 21	Mercury NZ	BBB+	200	5.5	85	2.16
23 Jan 15	Port of Tauranga	BBB+	75	6	107	4.792
28 Aug 15	Contact Energy	BBB	150	6	115	4.4
23 Feb 18	GMT Wholesale Bond Issuer	BBB+	100	5.5	120	4.00
16 Jun 15	GMT Wholesale Bond Issuer	BBB+	100	7	125	5.00

Source: KangaNews 24 March 2021

Mercury has had a very active six months in the New Zealand dollar debt market. Following a 12-year absence in New Zealand dollar senior format, it has printed three senior deals since September 2020 – all under its green financing framework. The first was a NZ$200 million seven-year retail bond and the second a NZ$100 million wholesale deal.

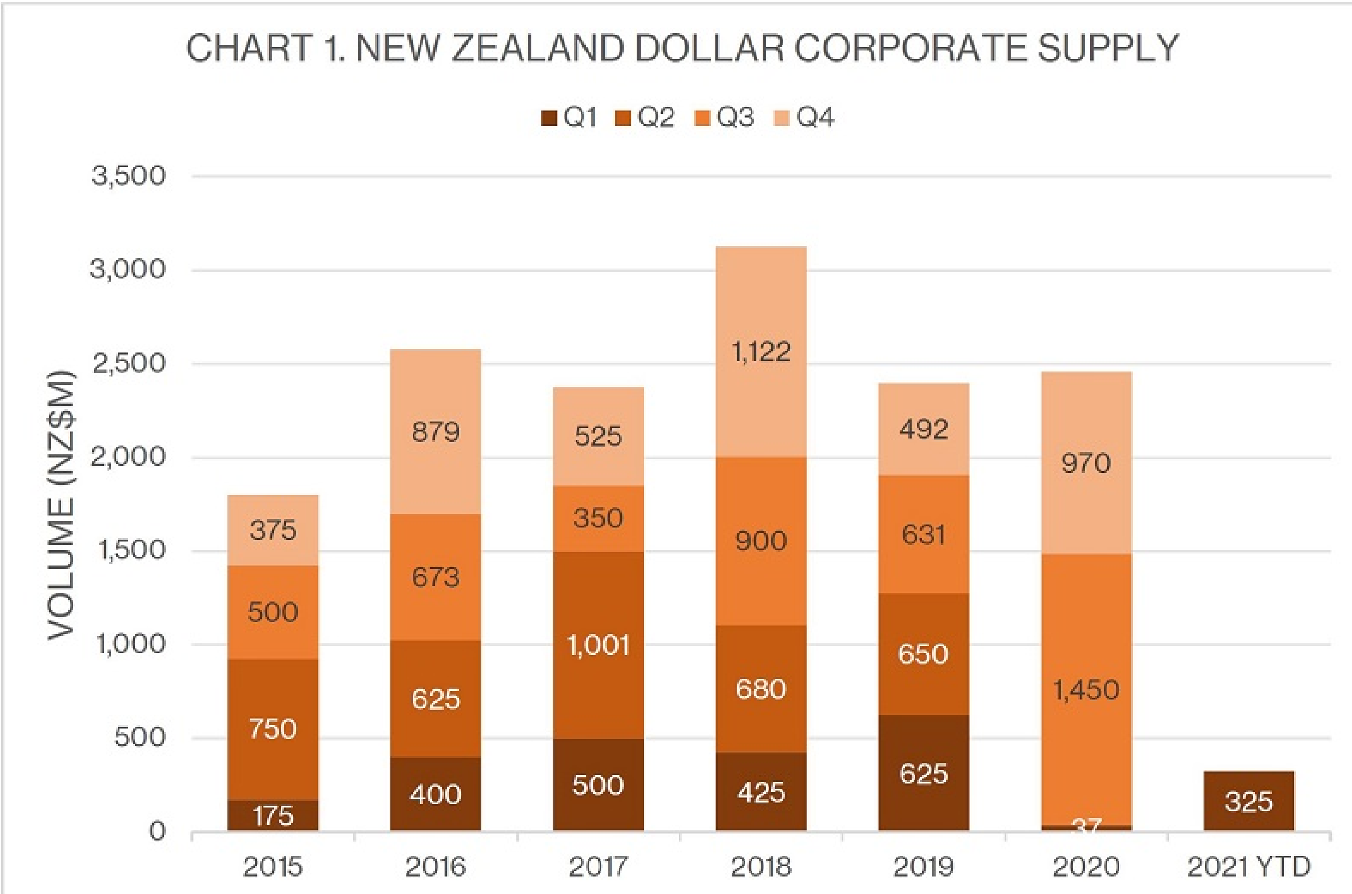
Geoff Smits, senior treasury dealer at Mercury in Auckland, says the issuance activity has predominantly been driven by refinancing requirements and that the company has now completed its immediate primary-market plans.

Corporate dynamics

The New Zealand corporate market rarely explodes out of the blocks at the beginning of any calendar year. But a busy end to 2020 appears to be weighing on supply at the start of 2021 (see chart 1).

Mat Carter, Auckland-based director and head of debt capital markets and syndicate at Westpac – which arranged the latest Mercury deal and led alongside ANZ, Craigs Investment Partners and Forsyth Barr – says some of the corporate activity in the second half of 2020 prefunded 2021 maturities. With liquidity concerns now eased, he says fewer companies have an immediate issuance imperative.

Nonetheless, Carter expects a supply pipeline to build as the year progresses and says an expected increase in domestic infrastructure investment and M&A activity could provide tailwinds.



Source: KangaNews 18 March 2021

In the meantime, the New Zealand corporate market has not been immune to local and global rates market upheaval at the start of 2021. Carter tells *KangaNews* investors are focused on the reflation dynamic. But retail and institutional demand for New Zealand corporate debt remains robust at the right tenor.

Smits says this feedback contributed to Mercury's decision to execute a mid-curve deal but adds that the tenor also fit well with its existing maturity profile, given it executed deals at seven and 10 years in 2020.

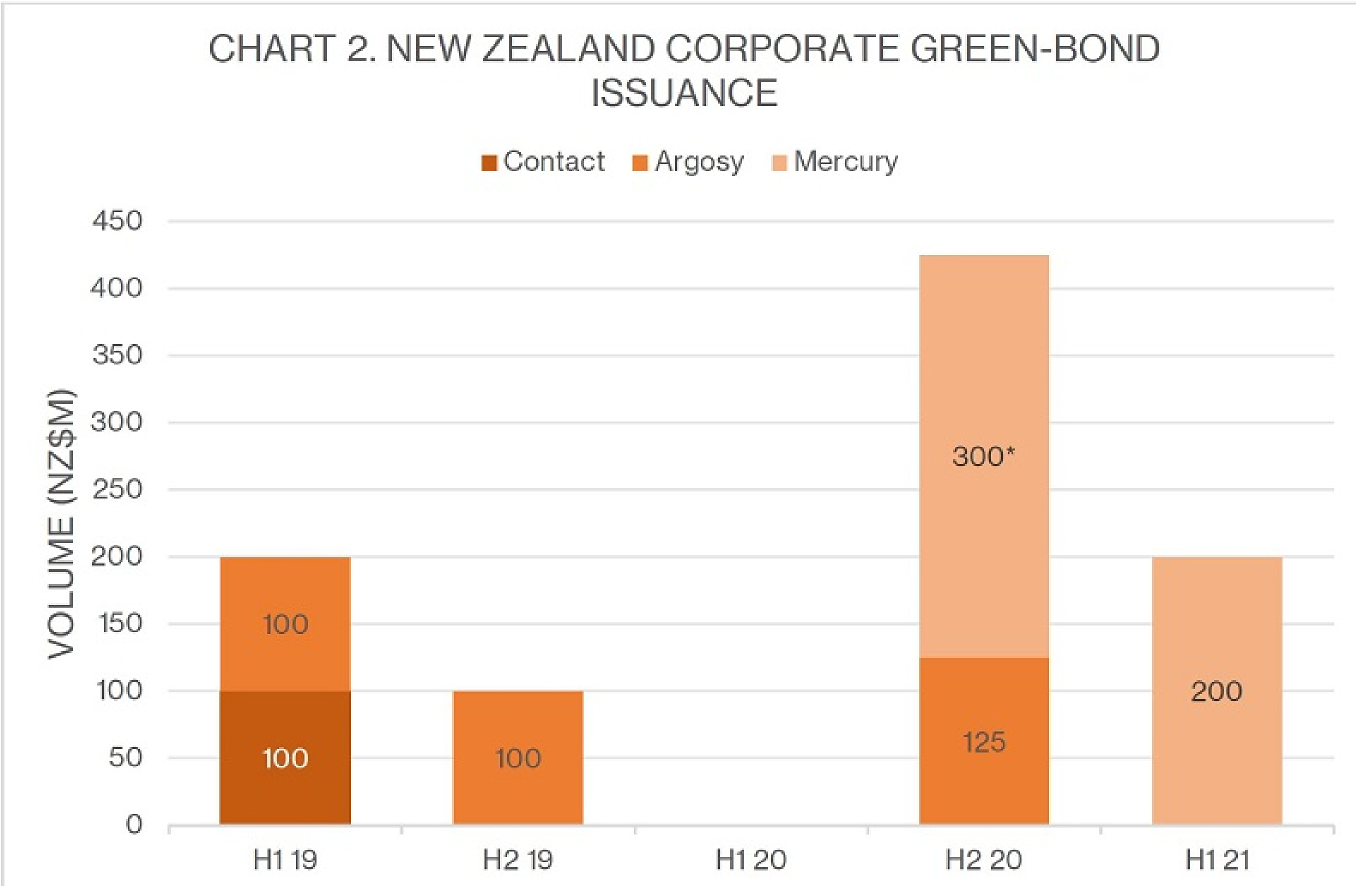
Strong demand was seen through both retail and institutional channels for Mercury's transaction, Carter claims, with an oversubscribed orderbook across all price points enabling Mercury to print at the tight end of the margin range.

Green development

Mercury's deal also makes the company New Zealand's largest corporate green-bond issuer, and the first to have NZ$500 million of green bonds outstanding (see chart 2).

The proceeds from Mercury's first two green bonds were allocated toward the Turitea wind farm. Its third has more generalised language indicating funds will be allocated to its NZ$2 billion pool of eligible assets.

The pool of corporate green-bond issuers in New Zealand remains concentrated but market users hope it will grow in the coming years. Precinct Properties and Meridian Energy have both announced green funding programmes but have yet to issue from them. Meanwhile, Contact Energy has returned to the bank market for its first two sustainability-linked instruments.



* Two transactions, of NZ$200 million and NZ$100 million.
Source: KangaNews 23 March 2021

Carter says the repeat issuance from Argosy and Mercury is a good sign that green programmes are well received by the market. Mercury's deal was sharply priced but discerning an exact advantage derived from the green label remains difficult, particularly given the prevalence of other pricing tailwinds such as the lack of rated corporate supply so far in 2021.

Smits says Mercury did not implement its green financing framework with pricing benefits front of mind, rather to demonstrate commitment to a more sustainable future and drive priorities toward more sustainable, renewable-energy investments.