APRIL 2022

NZX Top 50 Funding Composition

Trends & Insights

chapman tripp

In this report we analyse and track trends in debt funding arrangements of our largest listed entities.

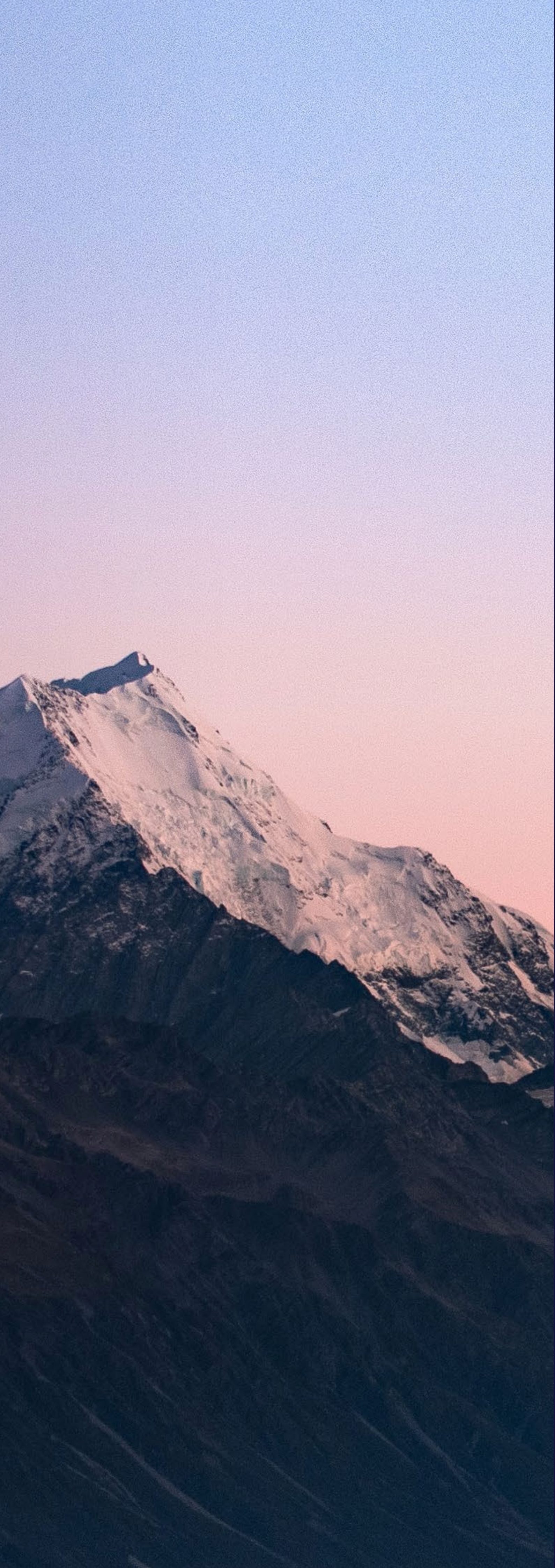
Method of analysis

Chapman Tripp reviewed the funding sources used by the New Zealand Main Board (NZX) Top 50 and Australian Main Board (ASX) Top 50, as reported in their annual reports at 31 December 2021.

To supplement the annual reports, we also reviewed the NZX and ASX announcements page. This allowed us to pick up any notable events which occurred post balance date.

Our sample comprises the Top 50 entities by market capitalisation at the close of trading on 31 December 2021. For the purposes of preparing both the New Zealand and Australian data sets, we have excluded banks, overseas companies and listed funds.

Every effort has been made to ensure the accuracy of this publication but the information is necessarily generalised and readers are urged to seek specific advice rather than relying solely on the text.



Contents

Cautious optimism for NZX Top 50

The NZX Top 50 are going into the post-Omicron phases of the COVID pandemic with significant proportions of their bank facility commitments available for drawing.

This is among the findings from the 2022 edition of Chapman Tripp's yearly NZX Top 50 funding composition analysis. We began the series, which collates financial information from the annual reports of the NZX Top 50, in 2019 to track trends in the debt funding arrangements of New Zealand's largest listed entities.

To add context to our research, we have also:

- reviewed the annual reports of the Top 50 entities listed on the ASX, and
- surveyed the Chief Financial Officers (CFOs) of the NZX Top 50 on the current status of their debt composition and their plans for 2022.

Gaining insight from those at the helm

Our CFO Survey provided an insight into the opinions and intentions of those who run New Zealand's largest listed entities. The Survey queried CFOs on their:

- confidence in the current funding composition of the relevant entity, and intentions to increase or decrease borrowing in the coming year
- strength of relationships with lenders, and
- plans to undertake any sustainability and/or green financing debt products in the next 12 months.

2021 snapshot

Key findings from our research of the NZX Top 50 and ASX Top 50 (as at 31 December 2021) can be summed up as follows:

01

Diversity of funding

The ASX Top 50 have a spectrum of debt products available to them. The same cannot be said for the NZX Top 50, as the second 25 rely heavily on bank debt as their primary source of funds.

02

A steady appetite for retail bonds throughout

Investor appetite for corporate issued New Zealand retail bonds remained steady. Throughout Financial Year 2021, seven NZX Top 50 entities listed retail bonds on the NZX Debt Market (NZDX), raising a combined $1.183b. We note four entities issued retail bonds post-balance date (but prior to 31 December 2021).

03

Raising funds across multiple currencies

A number of the NZX Top 50 have raised funds in one or two foreign currencies (such as USD, EUR or AUD) while a number of ASX Top 50 entities have accessed much wider foreign currency sources – particularly USD, EUR, GBP, CHF, JPY, HKD and, SGD. This reflects the size and debt requirements of the ASX Top 50.

04

Accelerating popularity for ‘green’ and ‘sustainable’

Green and sustainability-linked financing continued its upward trajectory in New Zealand.

05

Significant availability for bank facility drawings

Overall, the reporting season demonstrated that the NZX Top 50 still have significant proportions of their bank facility commitments available for drawing.

06

Rising costs

A number of entities reported a rise in interest and financing costs, a reflection of the incremental Official Cash Rate (OCR) hikes which have occurred over the 12 month period.

Bank arrangements

NZX Top 50

47

have bank debt available to them

45 of the 47 with bank debt available have drawn down at least some of their commitments. We note that a number of the NZX Top 50 have a significant portion of their bank debt still available, meaning most entities reported adequate liquidity levels.

3

have no debt

26

have offered security for their bank debt

18

have unsecured bank facilities

As was the case in 2021, of the 18 unsecured borrowers, eight are inside the Top 10. There remains a significant contrast with the second 25, 80% of which have granted security to their banks. The most common form of security is “all asset”, typically granted under the terms of a general security agreement.

3

have both secured and unsecured bank facilities in place

Interest and financing costs

A significant number of entities reported a rise in interest and financing costs for their bank debt in 2021. Generally, the increased funding costs associated with a rise in the OCR is passed on to customers. This also reflects the number of pricing increases we have seen. These are often, but not always, amended to coincide with tenor extensions.

CFO Survey Insights

The heavy reliance on bank funding of the NZX Top 50 is reflected in the responses provided to our CFO Survey. Nearly 85% of respondents reported they had a very strong relationship with their banks. The remaining 15% reported a satisfactory relationship.

ASX Top 50

100%
have bank debt available to them

40
have drawn down on their bank debt

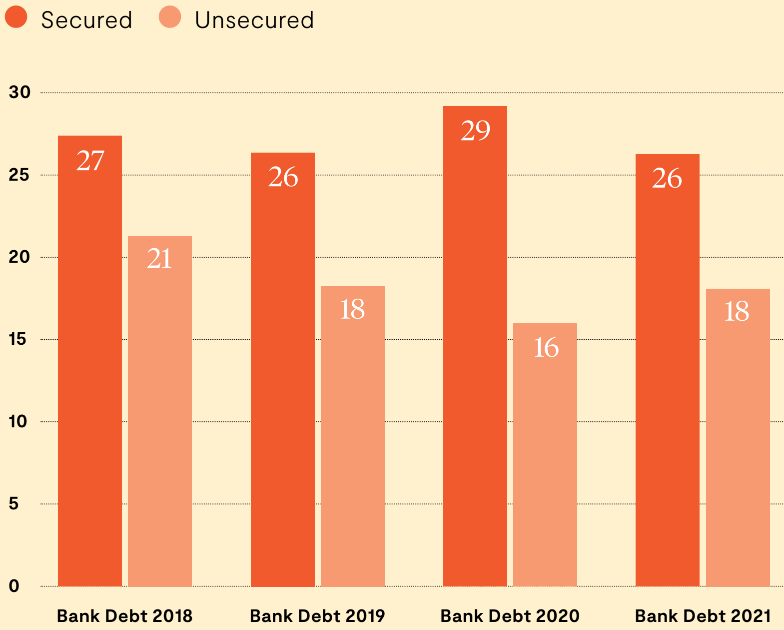
This is five fewer than the NZX Top 50. That may be a reflection of the diversified nature of the ASX 50's funding arrangements and of their lesser reliance on bank funding.

11
offered security for their bank debt, 31 have not

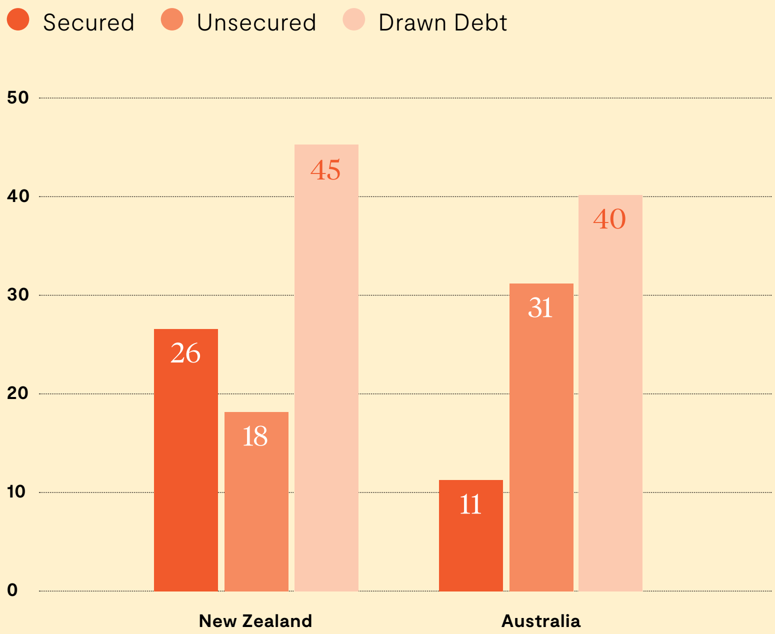
8
have both secured and unsecured bank facilities

As with the NZX Top 50, the majority of the unsecured facilities belong to those in the ASX Top 25.

Bank Debt: NZX Top 50



Bank Debt: NZX Top 50 vs. ASX Top 50



Debt capital markets

Retail bonds continued to be a preferred source of debt funding for NZX Top 50 entities in the retirement village, utilities and property sectors.

Retail bonds

Investor appetite for corporate-issued, New Zealand retail bonds remained steady. Throughout the 2021 Financial Year seven NZX Top 50 entities issued retail bonds on the NZDX, raising a combined value of $1.183b. Four entities issued retail bonds post-balance date.

Green bonds remain popular with commercial property companies. Precinct Properties issued $150m of Green Bonds in May 2021; and Kiwi Property Group issued $150m of Green Bonds in July 2021. We also note that Mercury successfully issued, post balance date, green bonds in the Australian debt market, securing AU$200m of funding. This was the first green bond issuance by a New Zealand corporate in an offshore market.

The steady churn of green bonds reflects the increased adoption of green and sustainability-linked financing frameworks by entities inside the NZX Top 50 and is in keeping with our CFO Survey responses. A third of all CFO respondents said their entity will have debt products which are green or sustainability-linked in the next 12 months.

24 have issued retail bonds. 17 of those are in the Top 25 and seven in the second 25.

By contrast, no ASX Top 50 entity has a retail bond on issue. This reflects the very small size of the retail bond market in Australia – something the Australian government is seeking to address in a comprehensive review of its corporate bond market, but which will take time to see results. By contrast to New Zealand, Australian issuers typically focus on wholesale bond markets (both domestically and internationally), as discussed below.

A third of all CFO respondents said their entity will have debt products which are green or sustainability-linked in the next 12 months.

Green bonds remain popular with commercial property companies.

Read more about our expertise on green bonds here.

Domestic wholesale bonds

Nine of the NZX Top 50 have raised funds in the domestic wholesale bond market. The ASX Top 50 also rely on their domestic wholesale bond market to raise funds, with 14 having issued wholesale domestic bonds or notes. The tenor of these issuances typically range from five to 10 years and the currencies are normally NZD or AUD denominated.

Seven of the NZX Top 50 have commercial paper programmes in place versus six of the ASX Top 50. This is in line with our finding that a number of entities have not drawn down on their revolving credit facilities. Revolving credit facilities are often used as a backstop, in the event that the issuer defaults on its payments.

9

of the NZX Top 50 have raised funds in the domestic wholesale bond market.

> “Debt capital market investors continue to strongly support our bond issues and the banks have been very accommodating and supportive of our three requests over the last two years for banking covenant accommodations. We have a strong relationship with our bankers and bond investors. They very much appreciate, and are highly complementary, of our proactive approach to keeping them abreast of our financial situation and future outlook.”

Survey respondent, CFO Survey, March 2022

The US Private Placement market is a sophisticated, private US bond market open to both US and non-US domiciled corporates.

EMTNs and international bond issuances

Only four of the NZX Top 50 have raised funds in the international bond market. The issuances have all occurred under a Euro Medium Term Note (EMTN) programme.

By contrast, the ASX Top 50 have issued 27 bonds or notes in the international bond market. These are issued under the Rule 144A and Regulation S regimes and allow the issuer to issue the bonds without needing to register them under the United States Securities Act 1933.

No NZX Top 50 entity has accessed this market.

A US144A bond generally has two key processes

(i) an issuer private placement of securities to one or more investment banks or broker-dealers called initial purchasers and

(ii) the resale of those securities by the initial purchasers to qualified institutional buyers under Rule 144A. The US144A exclusion relates to offerings made inside the US by both United States and foreign issuers. The Regulation S bonds are available for offers and trades of securities outside of the United States to non-US investors.

The tenor of these bonds typically ranges from five to 10 years.

US Private Placement

The US Private Placement (USPP) market is a sophisticated, private US bond market open to both US and non-US domiciled corporates. 12 NZX Top 50 entities have issued bonds in the USPP market, compared with 16 of the ASX Top 50.

The USPP market typically provides a longer tenor than funding available from banks or domestic bonds, with maturities ranging from five to 20 years (or longer). Another key distinction of the market is that it provides access to funds without the need for formal reporting requirements, which are necessary in the public bond markets.

In 2021, only one NZX Top 50 entity issued new bonds on the private placement market. Australian issuers are generally very active in the market and typically make up about 10% of total USPP volume, but the volume was down last year.

12

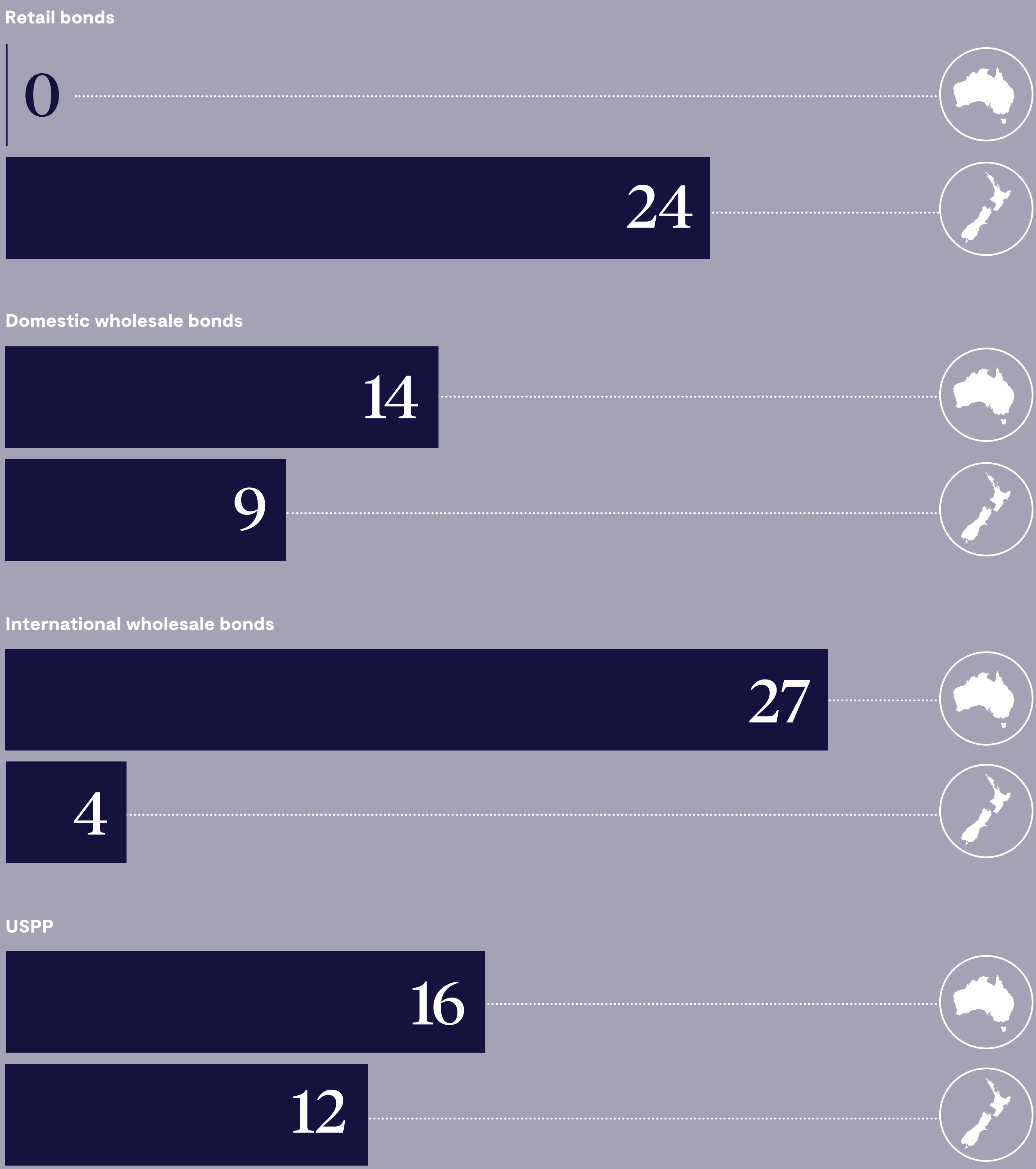
NZX Top 50 entities have issued bonds in the USPP market, compared with

16

of the ASX Top 50.

Capital markets product

NZX Top 50 and ASX Top 50 (as at 31 December 2021)



2022 outlook

We expect 2022 to be challenging for the NZX Top 50.

The Reserve Bank of New Zealand has signalled it will continue to hike official cash rates until at least 2023 – meaning interest and financing costs will continue to rise. This, combined with rising inflation, may create a challenging environment to navigate – although we think both the NZX and ASX Top 50 are well placed to handle these challenges.

We expect the steady adoption of green and sustainability linked frameworks to continue. Investors are becoming increasingly concerned with understanding the environmental or social impact of their investment, and it is positive to see a willingness of NZX Top 50 entities to adopt such policies. The early adopters recognise that addressing these issues now will stand them in good stead in years to come.

The heavy reliance on bank funding of the NZX Top 50 is reflected in the responses provided to our CFO Survey.

Over half of the CFOs who responded to our Survey intend to increase their borrowings in Financial Year 2022/2023.

90% of respondents are optimistic about their ability to raise the funds needed to operate their businesses. We expect banks to continue to provide the majority of those additional funds.

Contacts

Key contacts

Cathryn Barber
Partner

T: +64 9 357 9025 M: +64 27 447 9163
E: cathryn.barber@chapmantripp.com

Luke Ford
Partner

T: +64 27 242 8143 M: +64 9 357 9298
E: luke.ford@chapmantripp.com

Emma Sutcliffe
Partner

T: +64 4 498 6323 M: +64 27 294 9114
E: emma.sutcliffe@chapmantripp.com

Other key team members

Mark Reese
Partner

T: +64 4 498 4933 M: +64 27 231 1925
E: mark.reese@chapmantripp.com

Gerard Souness
Partner

T: +64 9 357 9045 M: +64 204 067 3863
E: gerard.souness@chapmantripp.com

Leigh Kissick
Partner

T: +64 4 498 6358 M: +64 21 415 638
E: leigh.kissick@chapmantripp.com

Josh Jones
Special Counsel

T: +64 9 357 9084 M: +64 27 240 3294
E: joshua.jones@chapmantripp.com

Jana Hitchcock
Senior Associate

T: +64 9 357 9090 M: +64 27 590 8776
E: jana.hitchcock@chapmantripp.com

Chapman Tripp is a dynamic and innovative commercial law firm at the leading edge of legal practice. With offices in Auckland, Wellington and Christchurch, the firm supports clients to succeed across industry, commerce and government. Chapman Tripp is known as the 'go to' for complex, business-critical strategic mandates across the full spectrum of corporate and commercial law. Chapman Tripp's expertise covers mergers and acquisitions, capital markets, banking and finance, restructuring and insolvency, Māori business, litigation and dispute resolution, employment, health and safety, government and public law, privacy and data protection, intellectual property, media and telecommunications, real estate and construction, energy, environmental and natural resources, and tax.

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AUCKLAND

Level 34, PwC Tower
15 Customs Street West
PO Box 2206, Auckland 1140
New Zealand

T: +64 9 357 9000

WELLINGTON

Level 17
10 Customhouse Quay
PO Box 993, Wellington 6140
New Zealand

T: +64 4 499 5999

CHRISTCHURCH

Level 5
60 Cashel Street
PO Box 2510, Christchurch 8140
New Zealand

T: +64 3 353 4130

chapmantripp.com