



## “Raising money in the current markets”

- ❖ Stephen Halmarick, Colonial First State  
Global Asset Management
- ❖ Andrew Defina, UBS
- ❖ Ron Ross, ANZ Capital Markets

# Economic and markets update

Financial Executives International of Australia

Prepared 16 August 2010



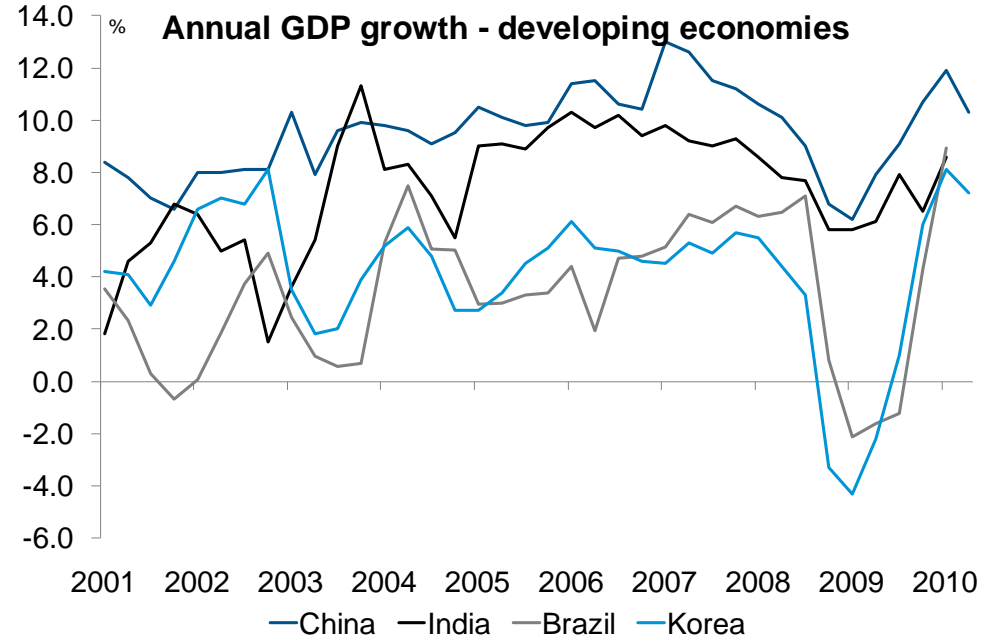
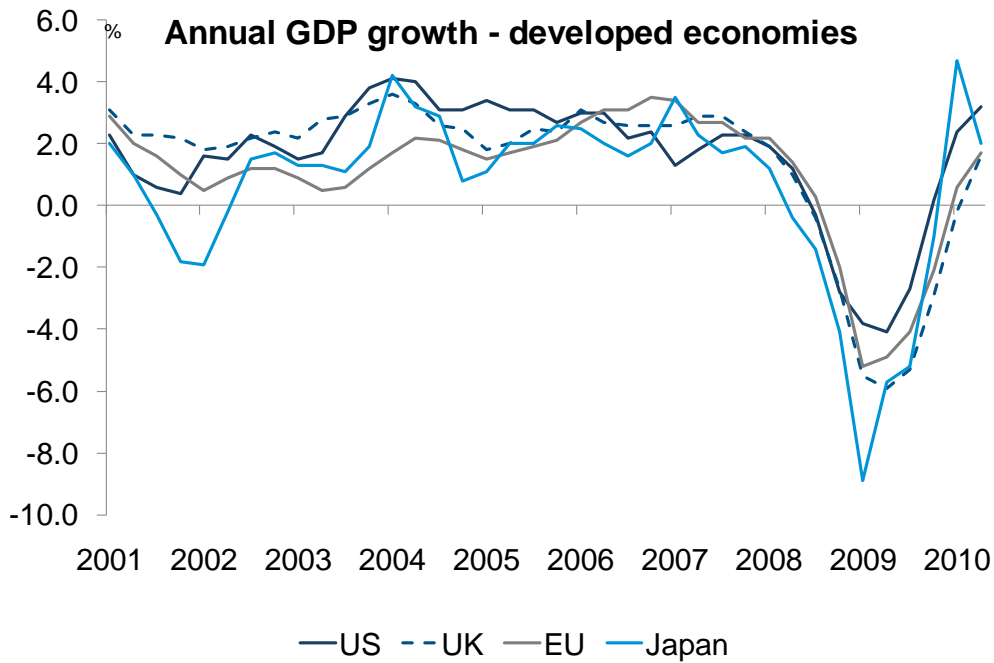
Stephen Halmarick

Head of Investment Markets Research

# The global economy

Still a long way to go

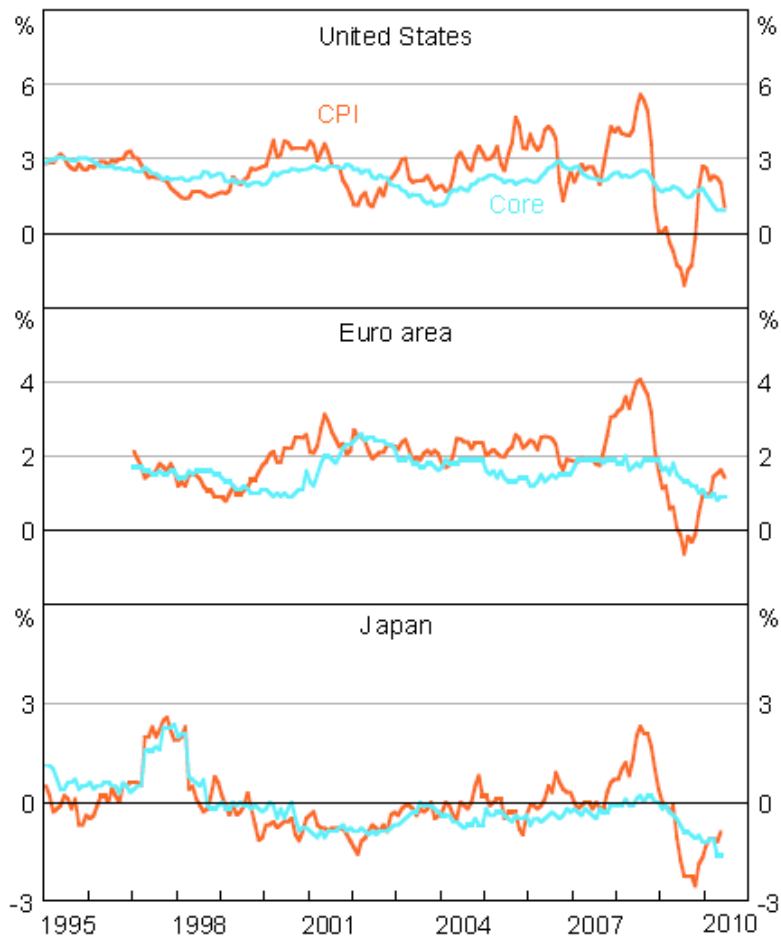
# Global economy is better, but still a long way to go



# Global inflation moderate... allowing central banks to hold interest rates very low

## Consumer Price Inflation

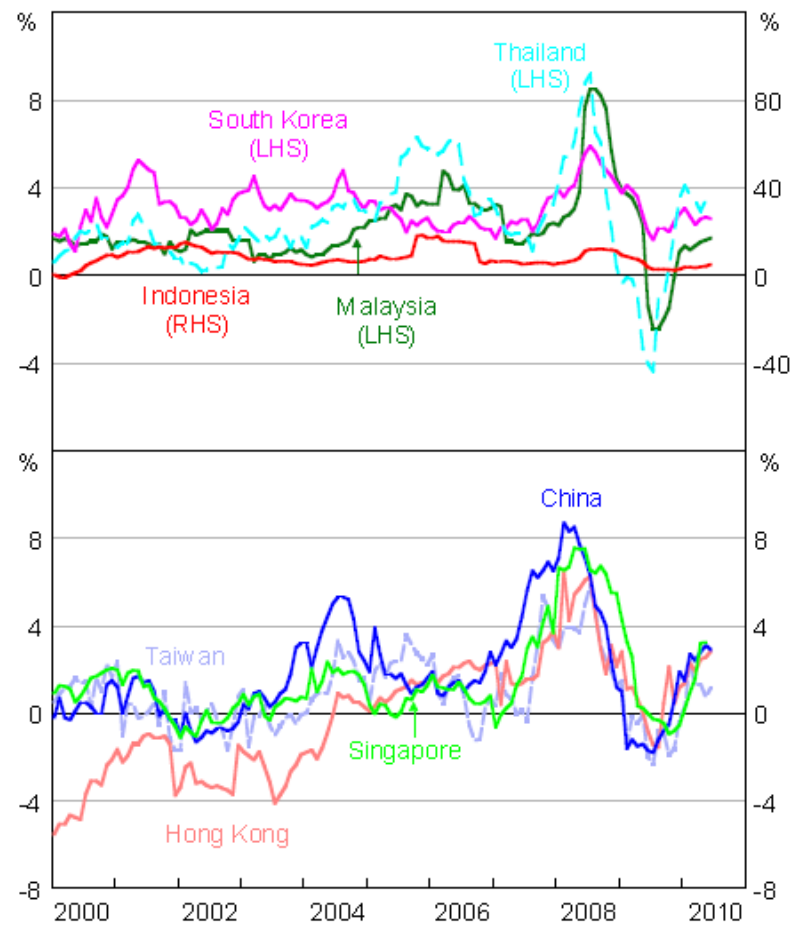
Year-ended



Source: Thomson Reuters

## Asia – Consumer Price Inflation

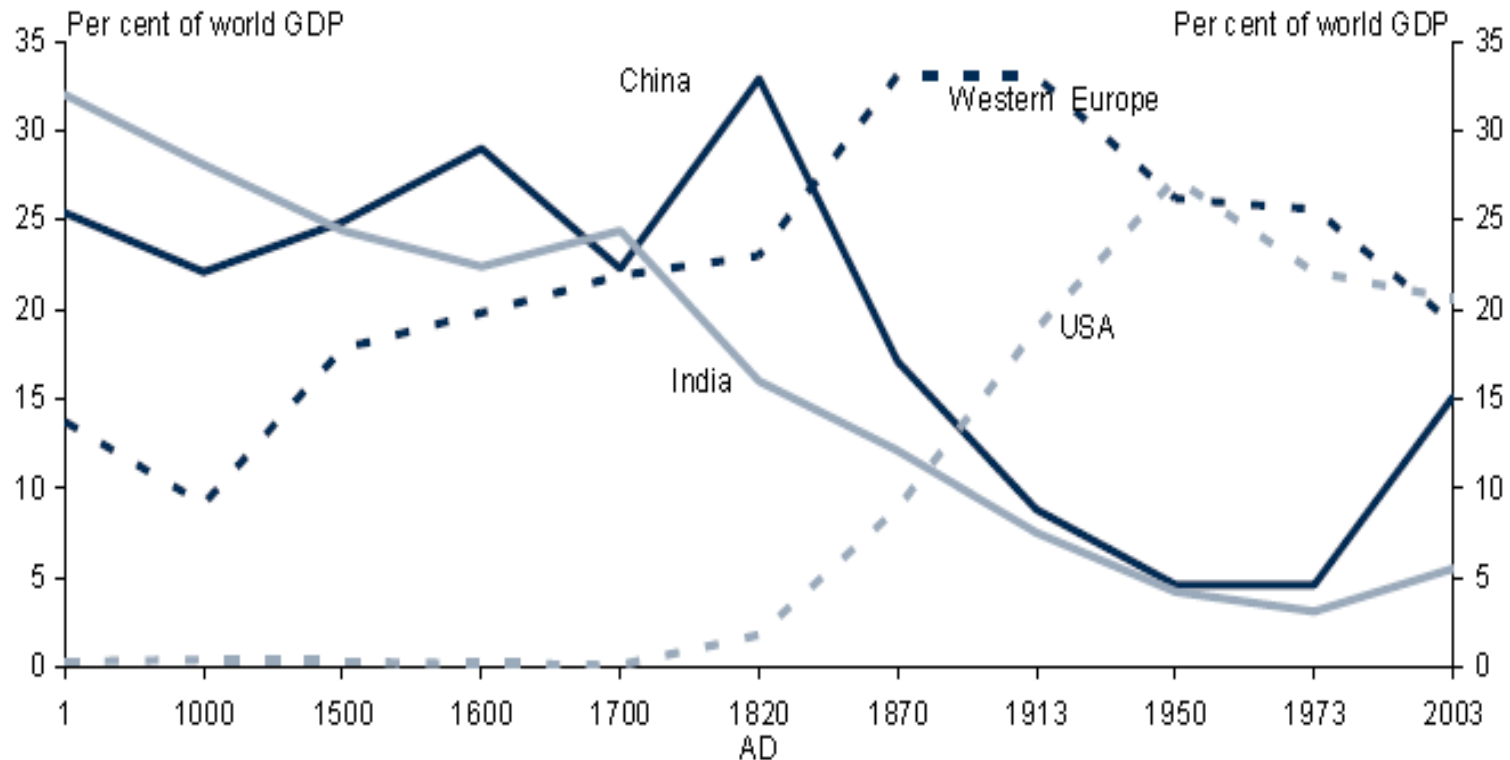
Year-ended



Source: CEIC

# The re-emergence of China and India is a major driver

## Chart 7: Share of world GDP, I-2003AD

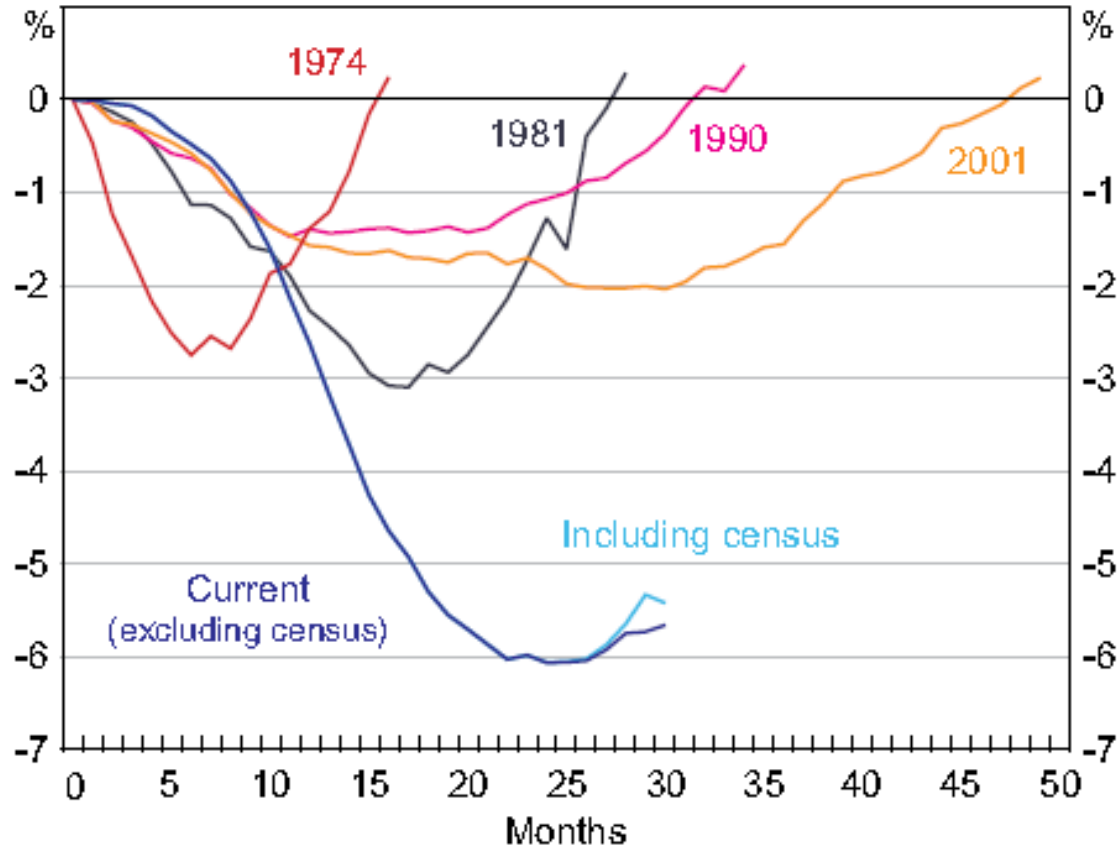


Source: Maddison A, 2007, *Contours of the World Economy I-2030AD*, Oxford University Press

# US employment recovery is very weak

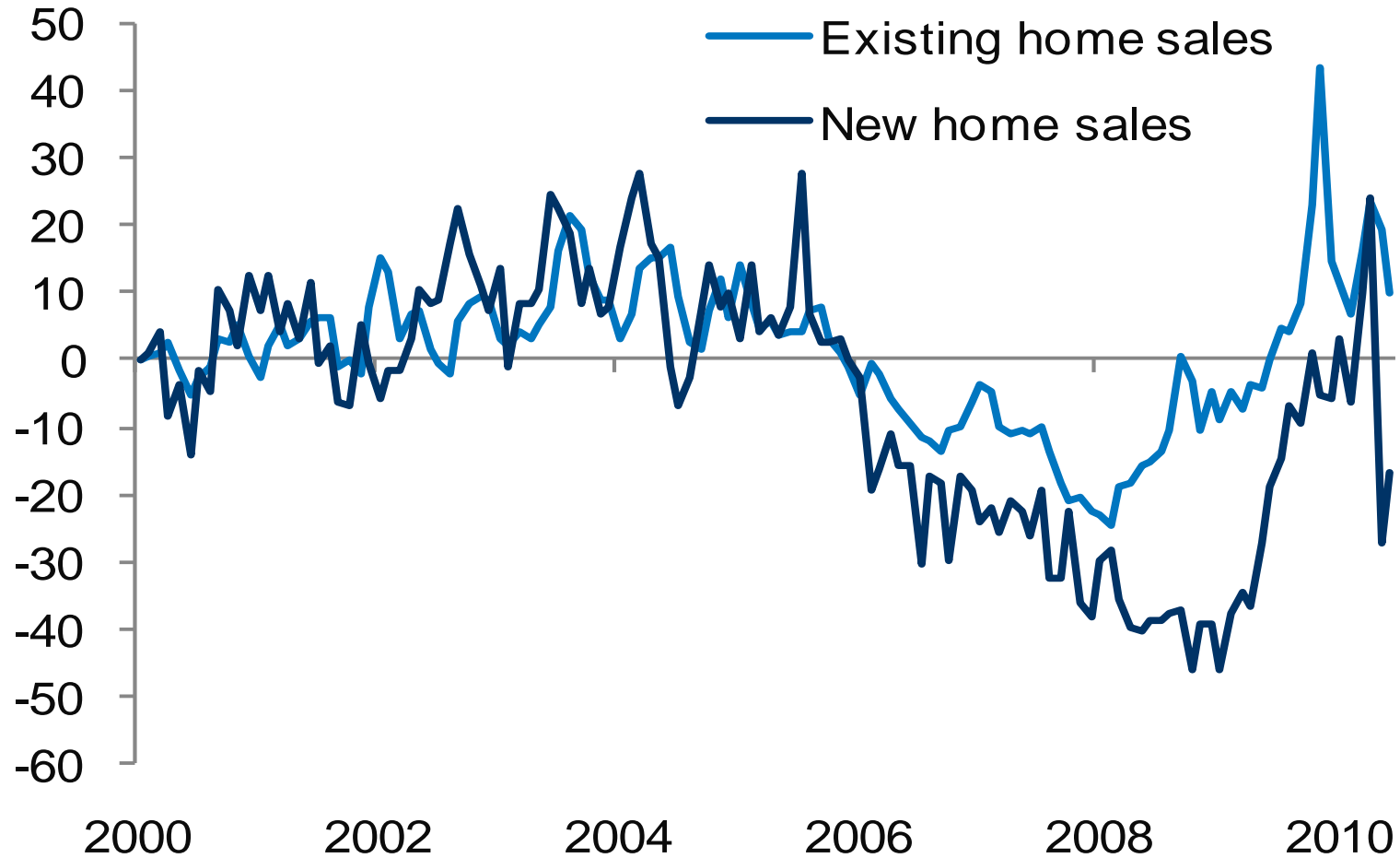
## United States – Non-farm Payrolls

Cumulative percentage change from peak month

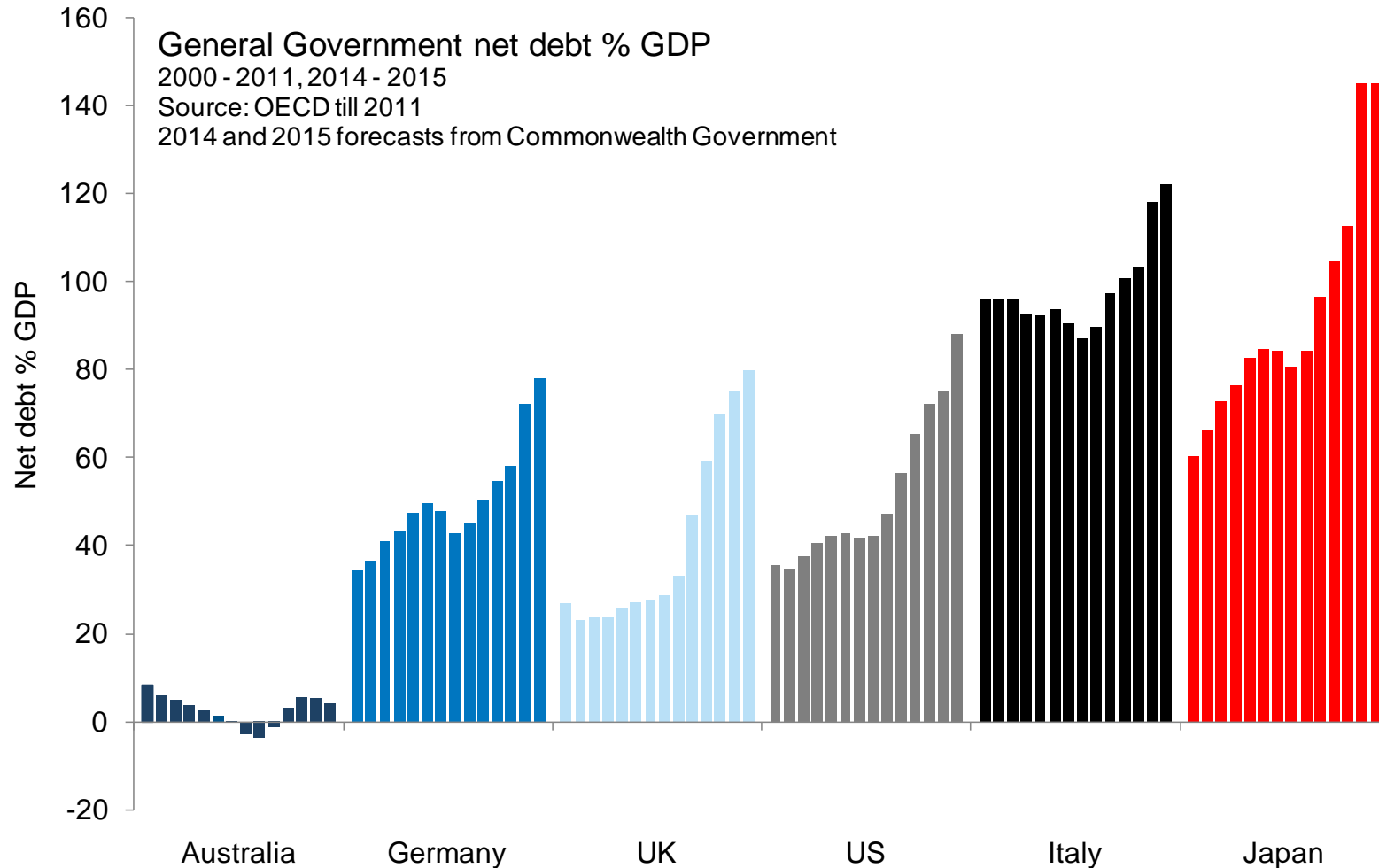


Sources: Bureau of Labor Statistics; Thomson Reuters

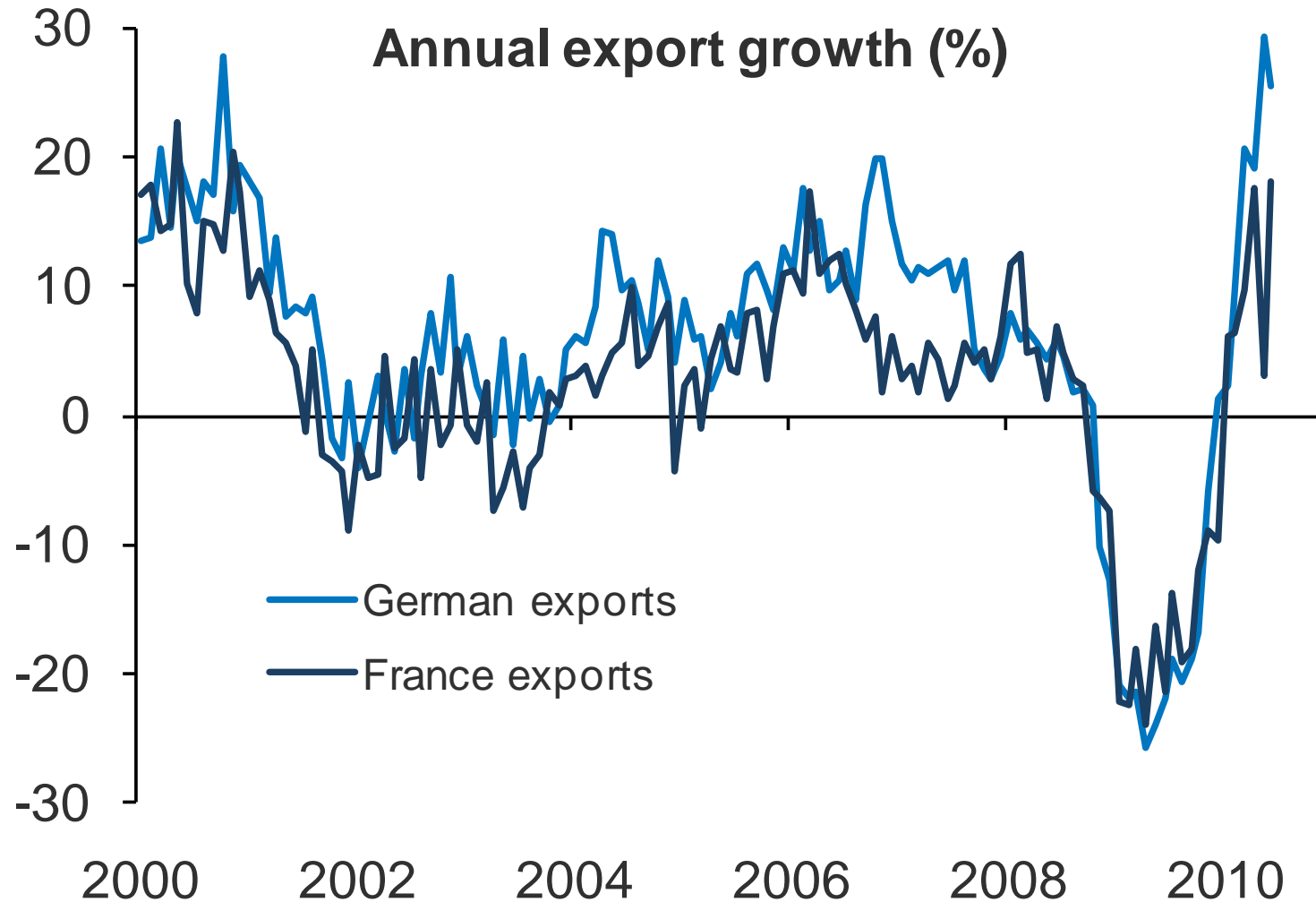
# US housing market recovery – risks post govt support



# Debt levels are unsustainable in some countries ...

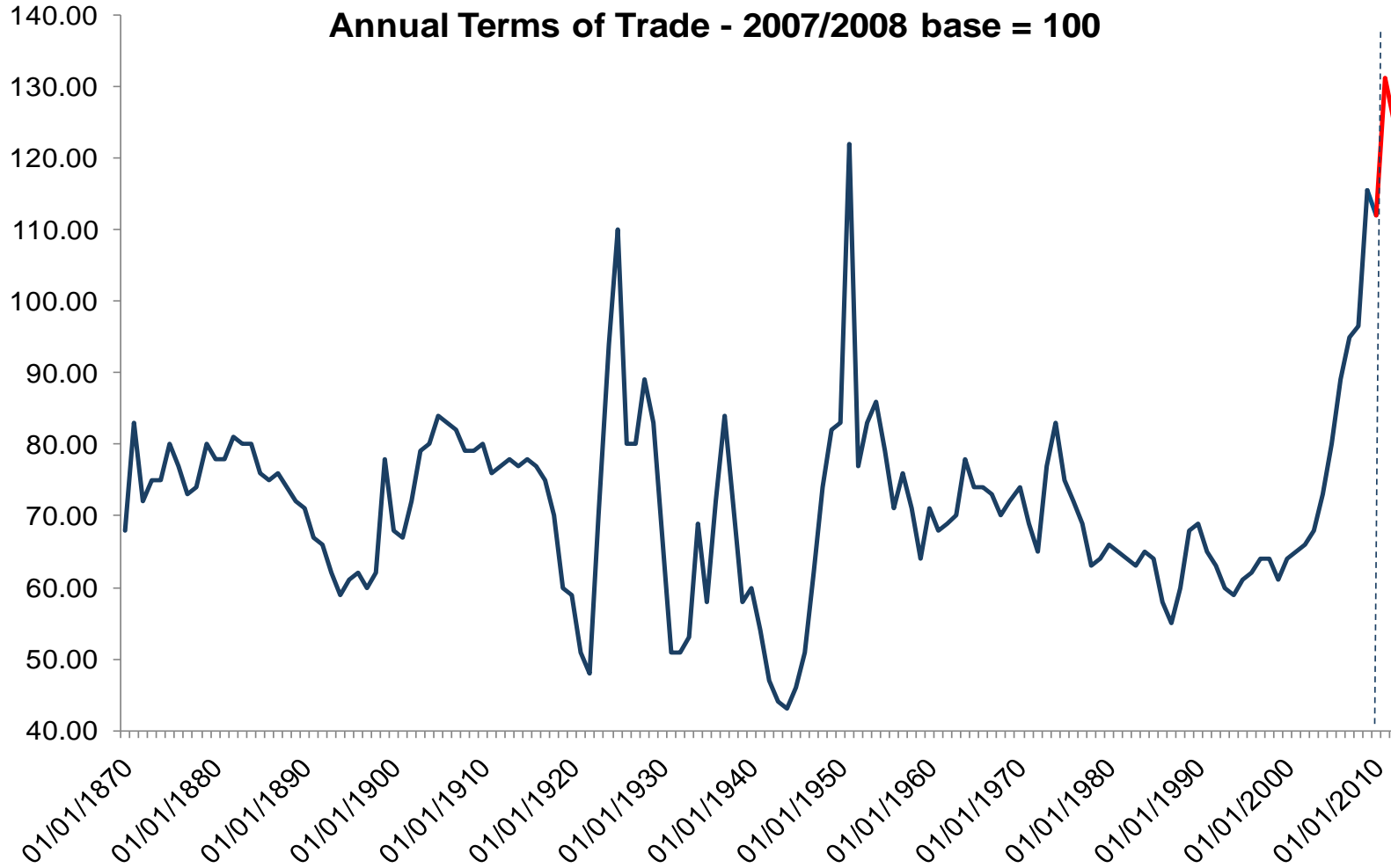


# ... but weaker EUR is benefiting EU exports



# Australia

# The world is changing in Australia's favour

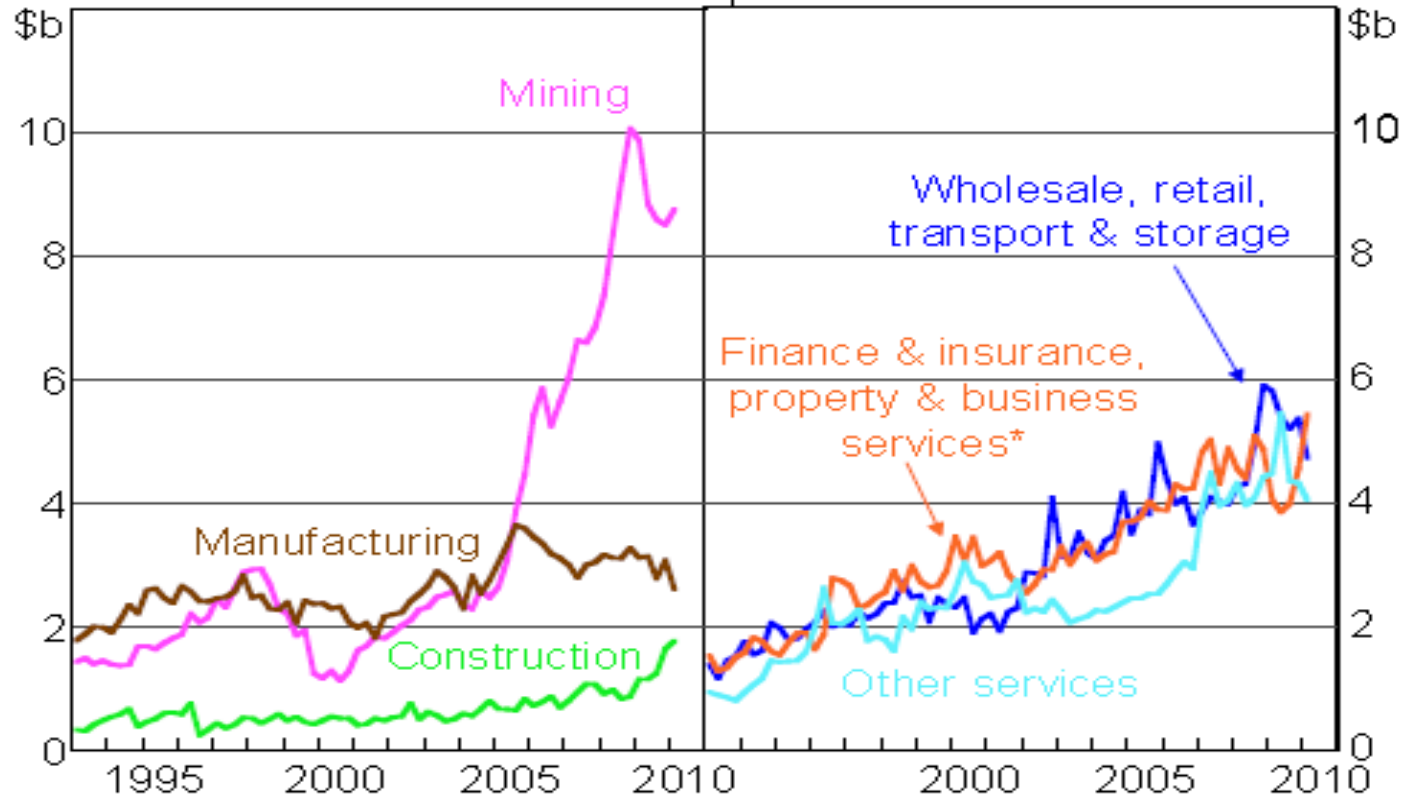


Source: ABS; Gillitzer and Kearns (2005), RBA forecasts to right of dotted line.

# Investment focus is on resources

## Capital Expenditure Survey

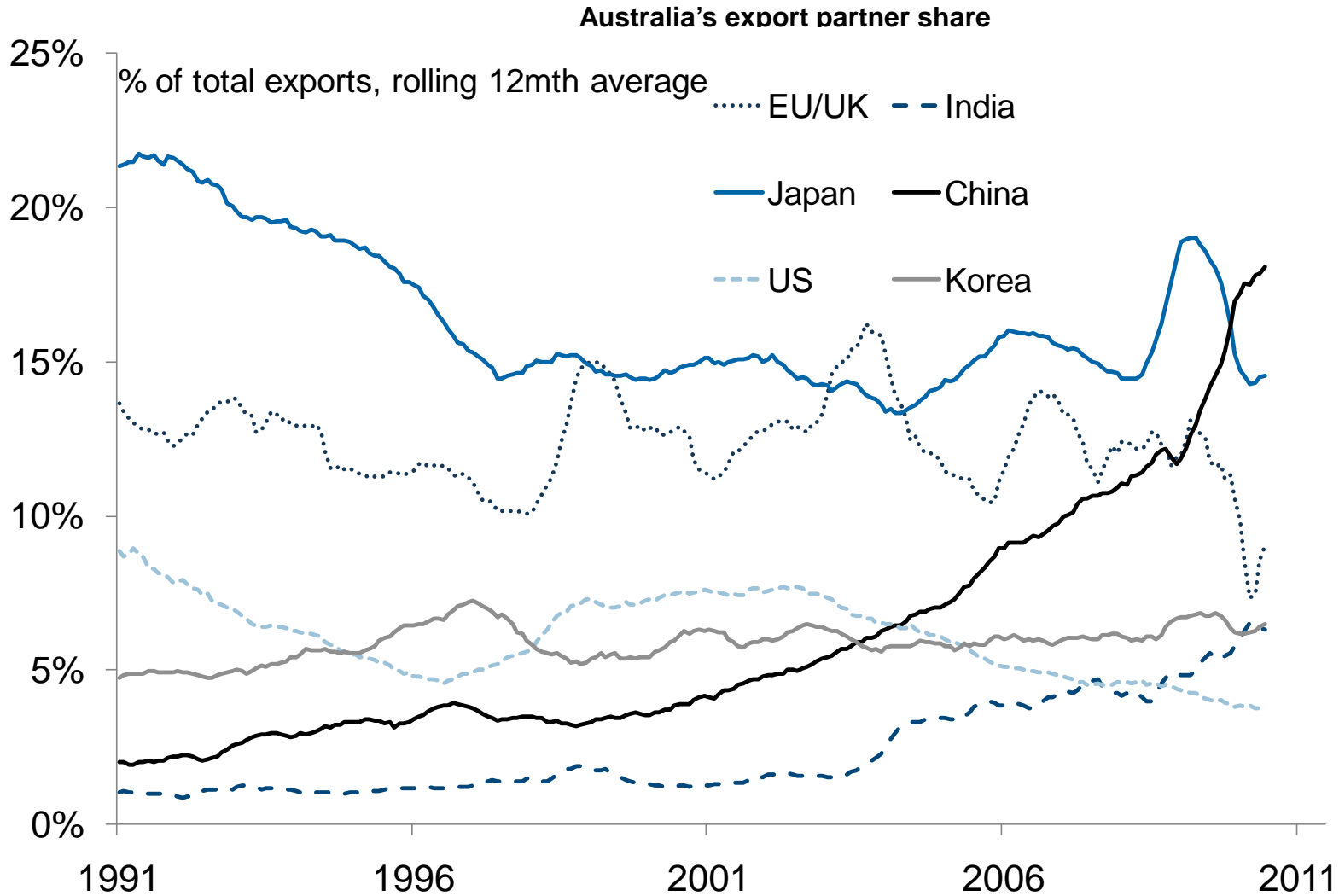
Current prices



\* This is the sum of Financial & Insurance, Rental, Hiring, Real Estate Services and Professional, Scientific & Technical Services.

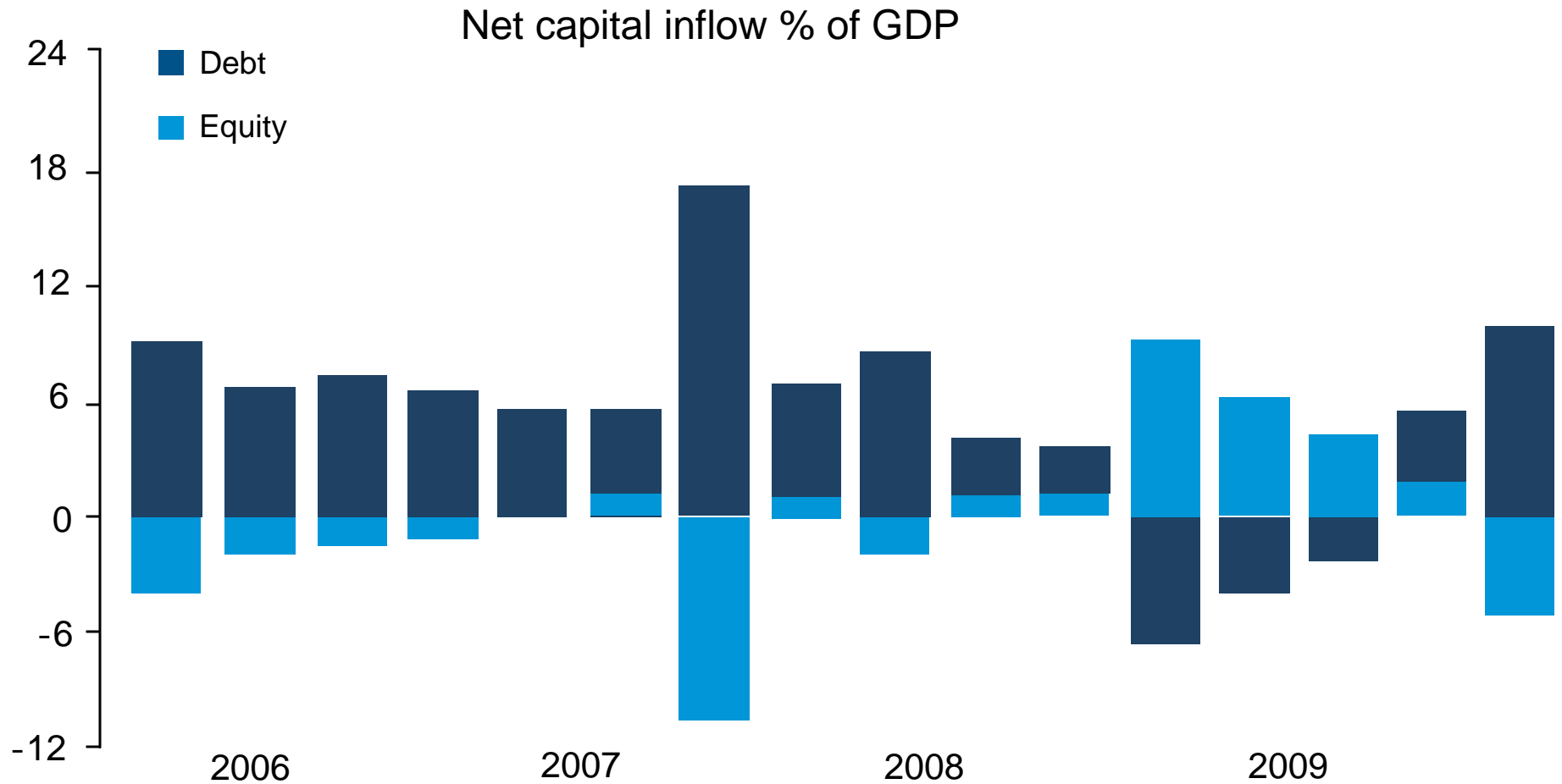
Source: ABS

# China dominating Australian trade



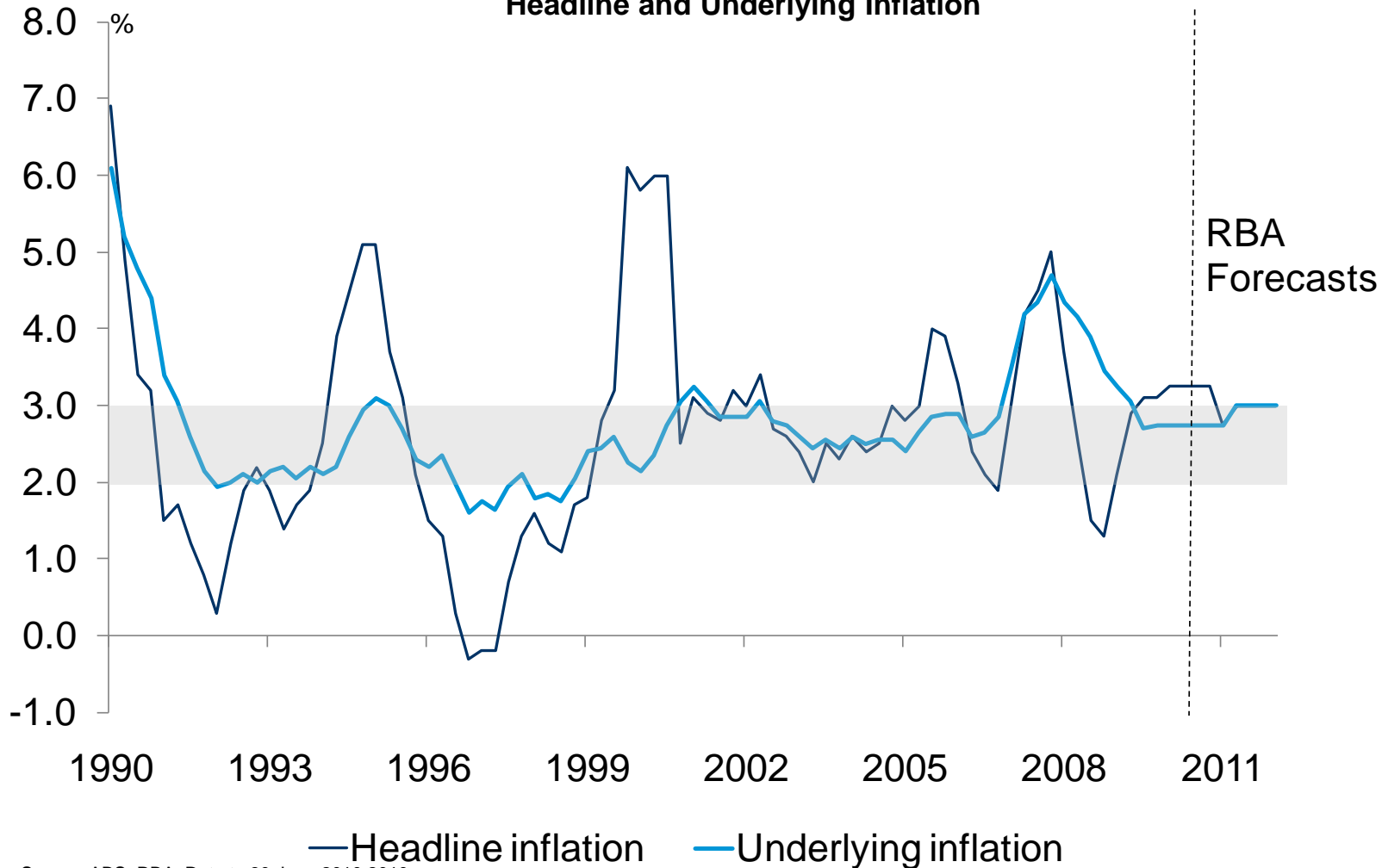
Source: ABS. Data to 30 June 2010

# International investors still happy to fund Australia-switching back to debt



# Australian inflation risks to the upside

### Headline and Underlying Inflation

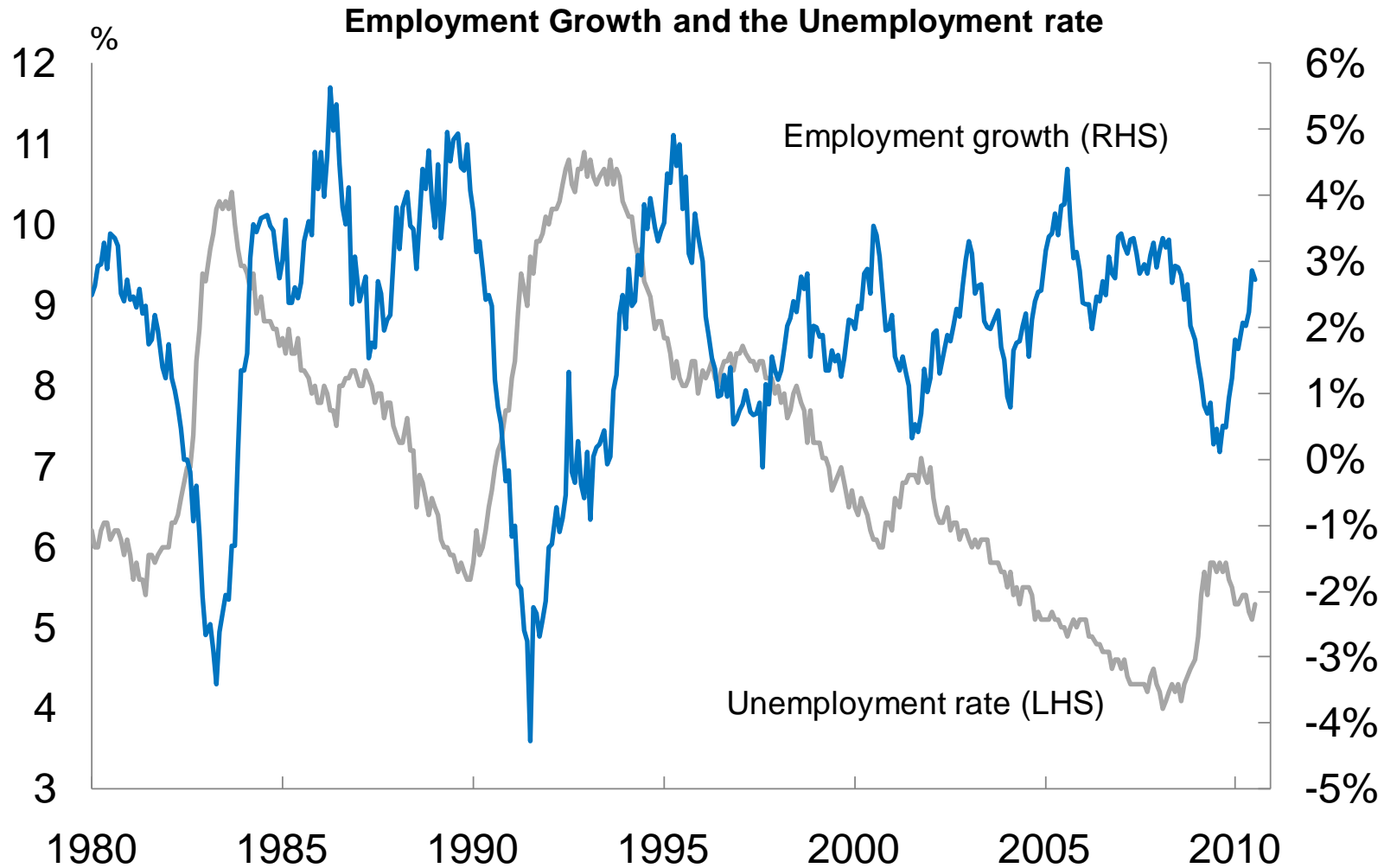


Source: ABS, RBA. Data to 30 June 2010.

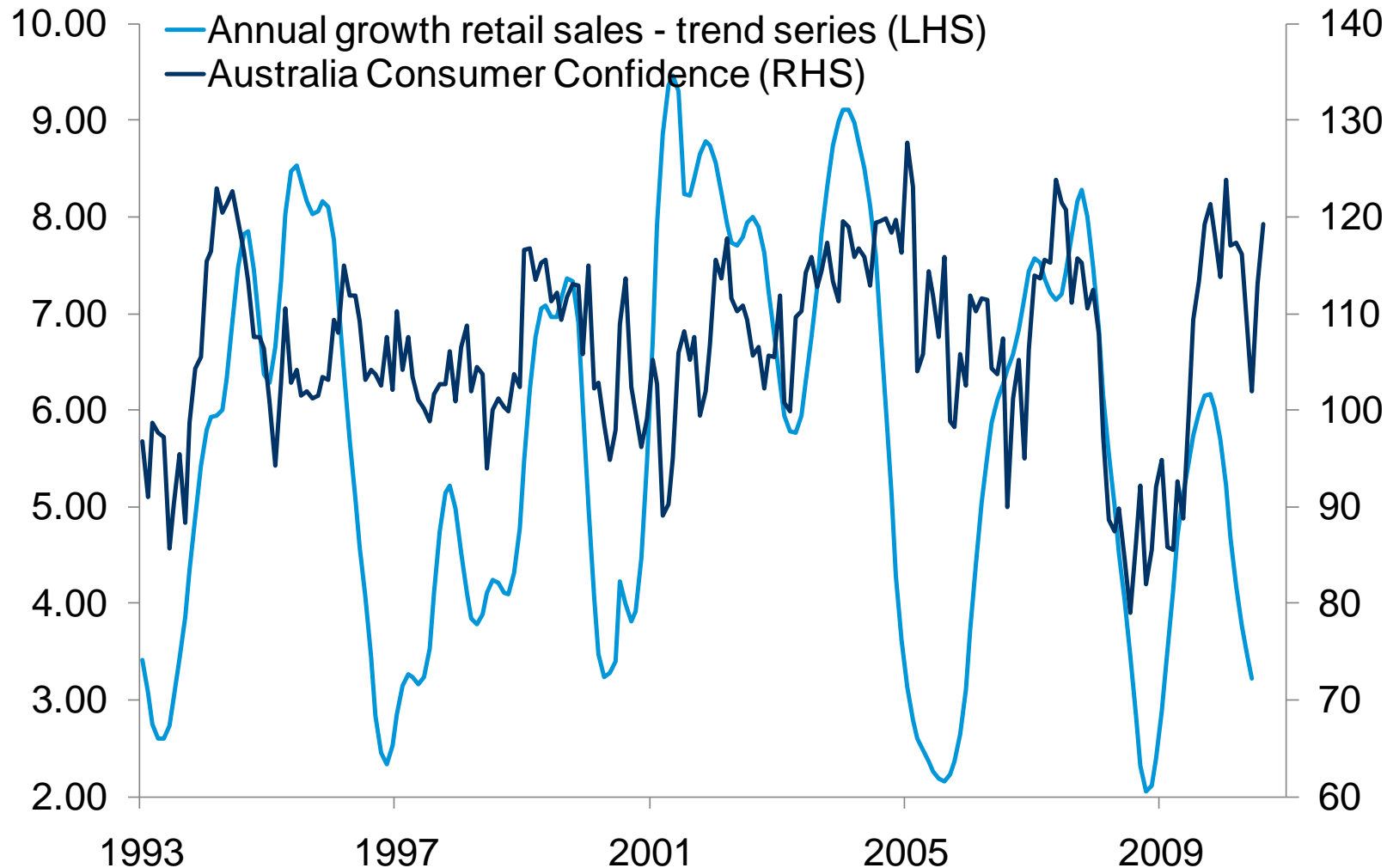
Underlying inflation is an average of trimmed mean and weighted median.

Forecasts provided in RBA statement on monetary policy, August 2010 edition.

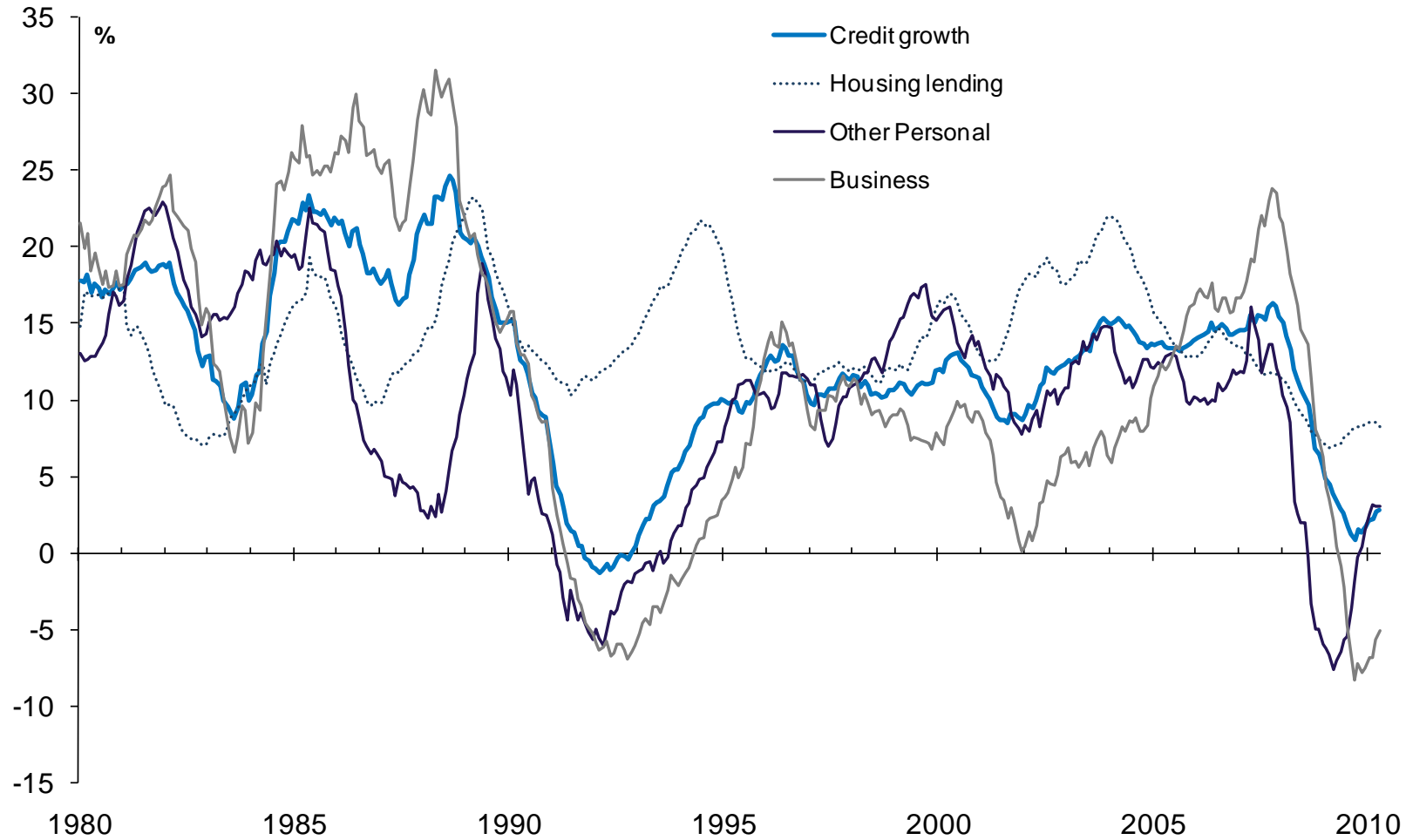
# Employment market is strong....



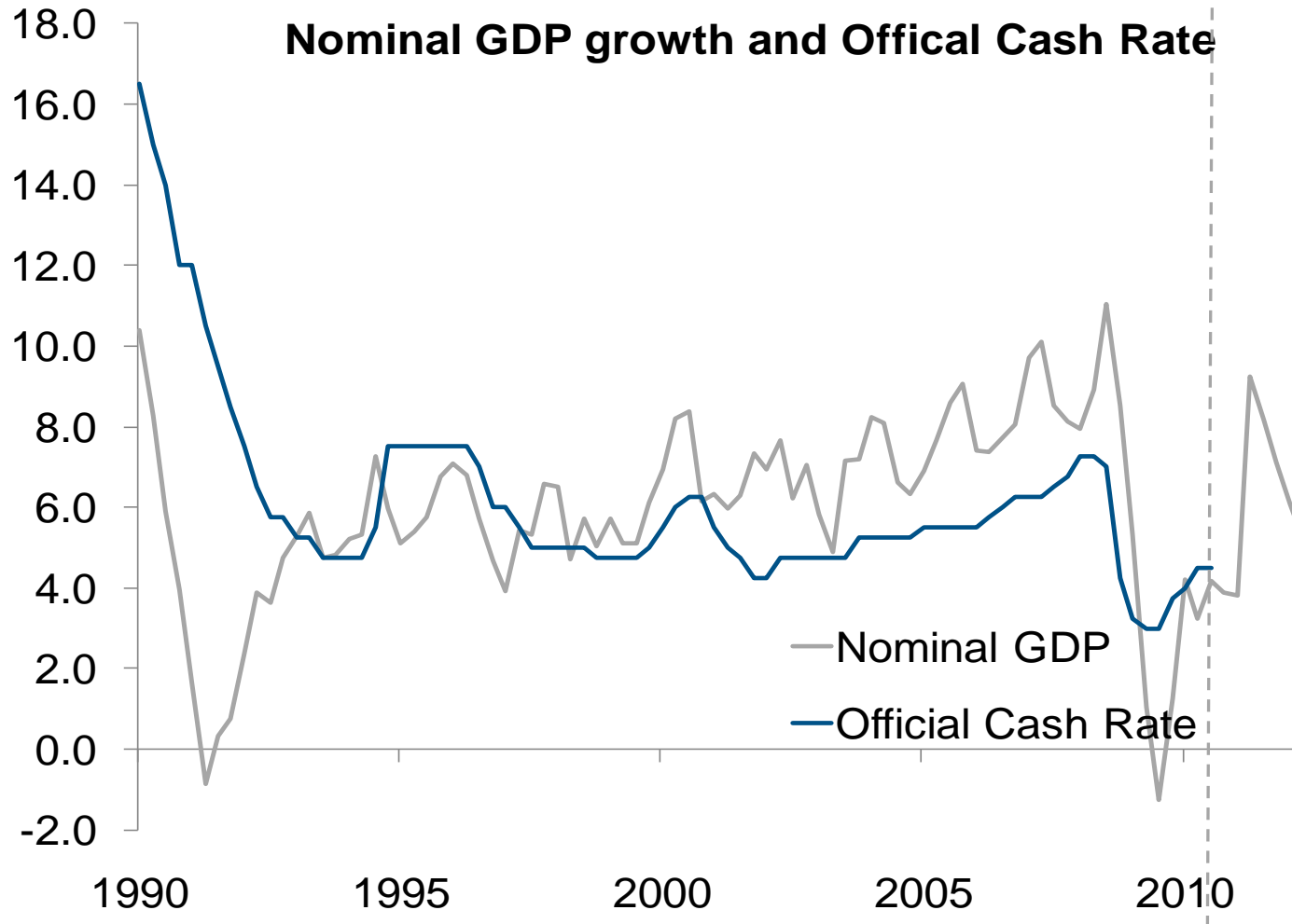
# ... but although consumers are confident, they are not spending



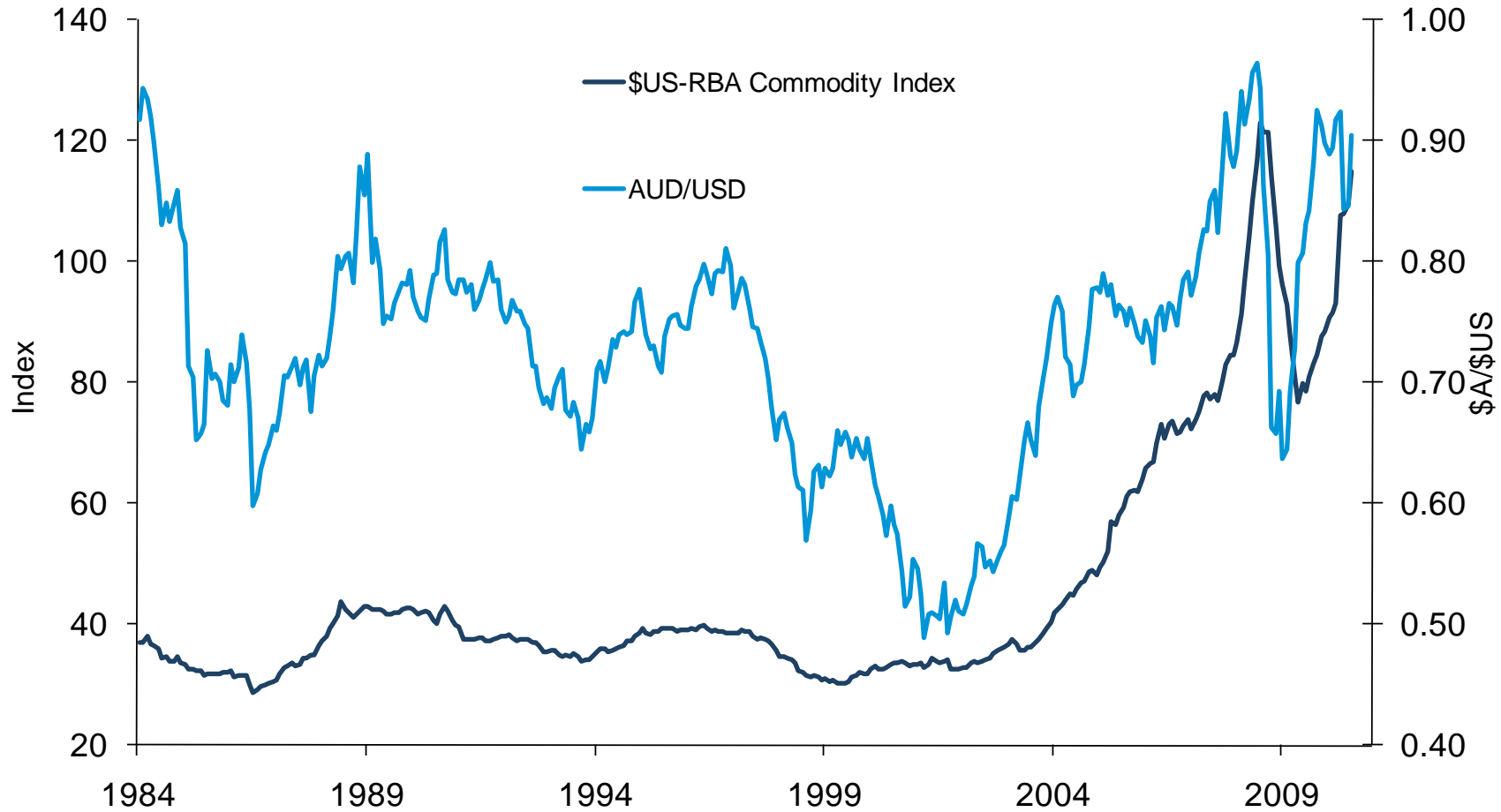
# Credit growth – headwind for growth



# Australian interest rates....have been 'normalised', more is needed based on nominal GDP



# A\$ supported by commodity prices



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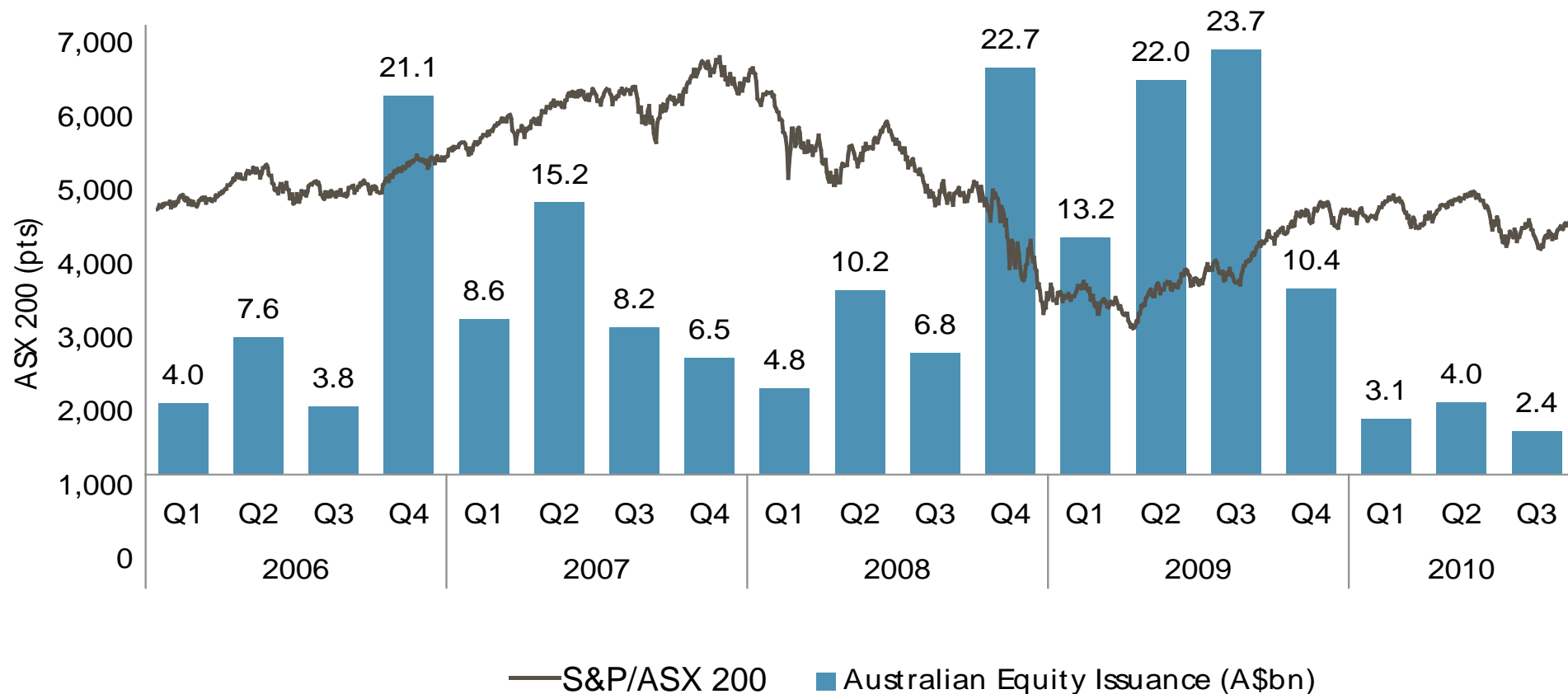
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# Financial Executives International of Australia

Australian Equity Capital Markets overview



# Equity raised by Australian companies



Source: Thomson (excludes T3), IRESS

# Equity raisings by the ASX50

## Since Q4 2008, 33 of the Top 50 have raised equity

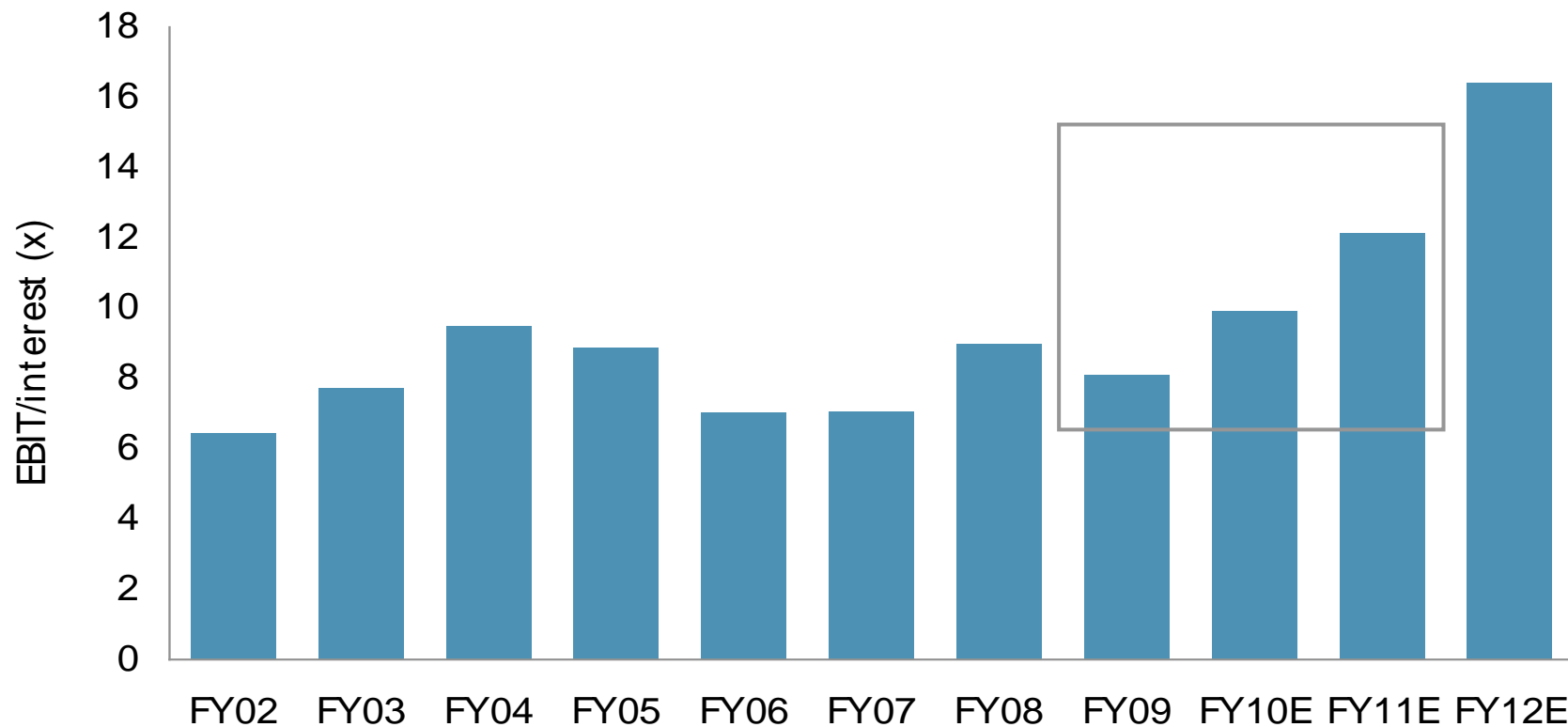
1	BHP Billiton	26	Insurance Australia Group
2	CBA	27	News Corporation
3	Westpac Banking Corp	28	AGL Energy
4	ANZ Banking Group	29	Oil Search
5	National Australia Bank	30	Transurban Group
6	Telstra Corp	31	Coca-Cola Amatil
7	Wesfarmers	32	Qantas Airways
8	Woolworths	33	Fortescue Metals Group
9	Rio Tinto	34	AXA Asia Pacific Holdings
10	Westfield Group	35	Incitec Pivot
11	Woodside Petroleum	36	ASX
12	CSL	37	GPT Group
13	QBE Insurance Group	38	Asciano Group
14	Newcrest Mining	39	WorleyParsons
15	Origin Energy	40	Computershare
16	Macquarie Group	41	Bluescope Steel
17	Santos	42	Leighton Hldgs
18	AMP	43	OneSteel
19	Foster's Group	44	Sonic Healthcare
20	Suncorp-Metway	45	CFS Retail Property
21	Lihir Gold	46	Crown
22	Stockland	47	Tabcorp Hldgs
23	Orica	48	Toll Holdings
24	Amcor	49	Lend Lease Corporation
25	Brambles Industries	50	Telecom Corporation of NZ

Source: IRESS; Company Announcements, Note: Shading indicates company has raised capital.

# Corporate balance sheets are in much better shape

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## Industrial companies interest cover



Source: UBS Research

# From recaps to acquisition and growth funding

## 2010 YTD raisings >\$250 million

Issuer	Date	Size (A\$m)	Use of Proceeds
 IVANHOE AUSTRALIA	10 Aug	269	<ul style="list-style-type: none"> <li>Acquisition of Osborne, development of Merlin project and ongoing exploration</li> </ul>
 GLOUCESTER COAL LTD	4 Aug	455	<ul style="list-style-type: none"> <li>Acquisition of Middlemount JV interests</li> </ul>
 RIVERSDALE MINING	15 Jul	337	<ul style="list-style-type: none"> <li>Development of Benga Project and ongoing exploration</li> </ul>
 BORAL	6 Jul	491	<ul style="list-style-type: none"> <li>MonierLifetile acquisition, near term planned capex and future growth</li> </ul>
 CITADEL Resource Group	21 Jun	262	<ul style="list-style-type: none"> <li>Development of Jabal Sayid project</li> </ul>
 <b>transurban</b>	10 May	542	<ul style="list-style-type: none"> <li>Acquisition of Lane Cove Tunnel</li> </ul>
 Nufarm	20 Apr	251	<ul style="list-style-type: none"> <li>Strengthen balance sheet</li> </ul>
 mirvac	7 Apr	350	<ul style="list-style-type: none"> <li>Strengthen balance sheet ahead of future acquisitions, including Westpac Office Trust</li> </ul>
 <b>Lend Lease</b>	25 Feb	806	<ul style="list-style-type: none"> <li>Provide flexibility to fund identified growth opportunities</li> </ul>
 Charter Hall	11 Feb	258	<ul style="list-style-type: none"> <li>Acquisition of Macquarie's core real estate management platform</li> </ul>

Source: IRESS

# Offer structure evolution

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1

Shift to renounceable entitlement structures

2

Bookbuilds have returned

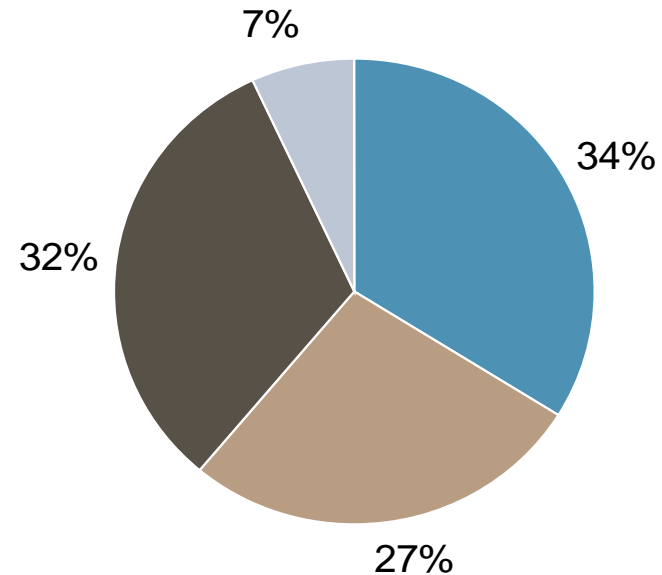
3

Discounts have generally fallen

4

New structures emerged (e.g. SAREO, attaching options)

Follow on issuance (last 12 months)



- Placement
- Non-renounceable entitlement
- Renounceable entitlement
- Other (SPP, DRP)

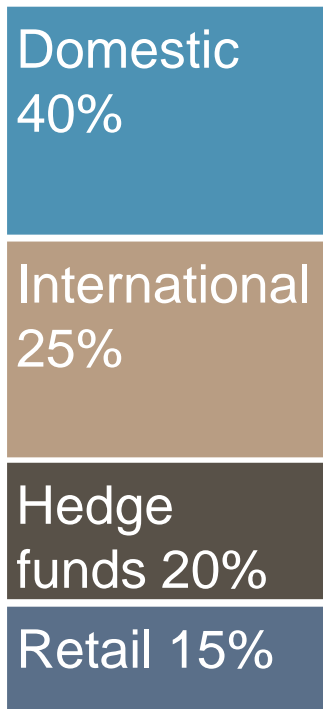
Source: Thomson

# Who is buying?

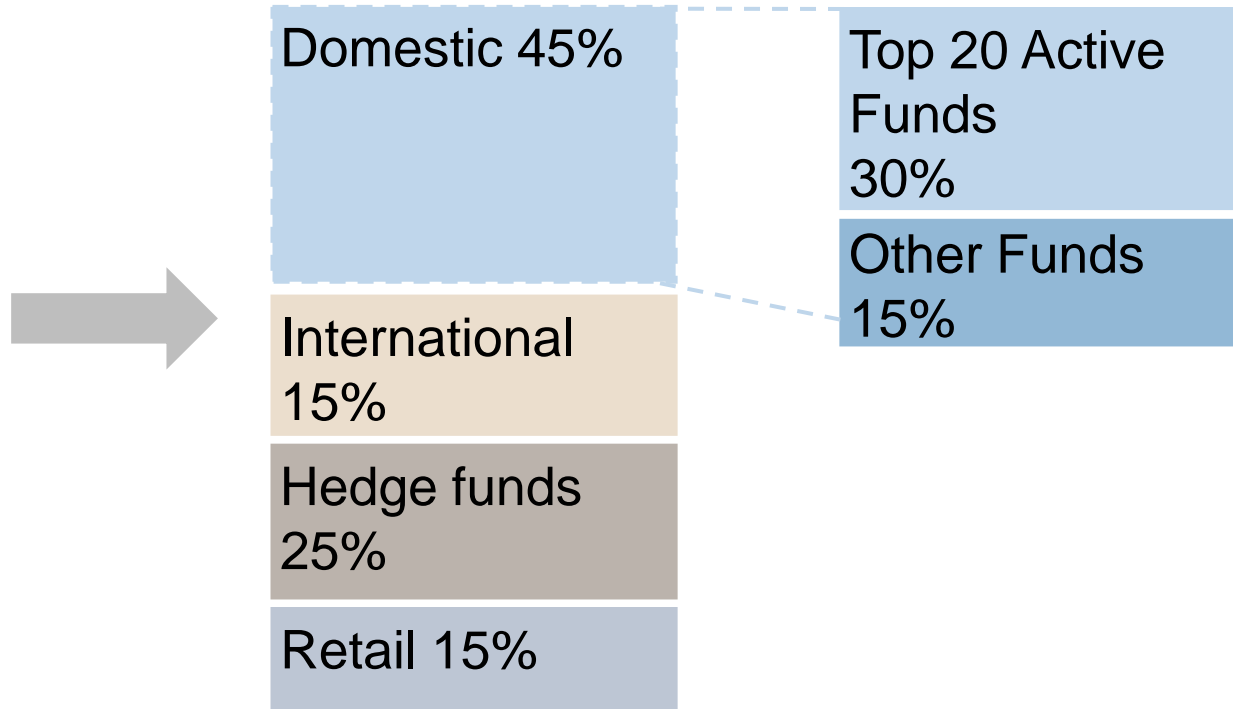
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## Typical equity offering demand

*Demand pre-GFC*



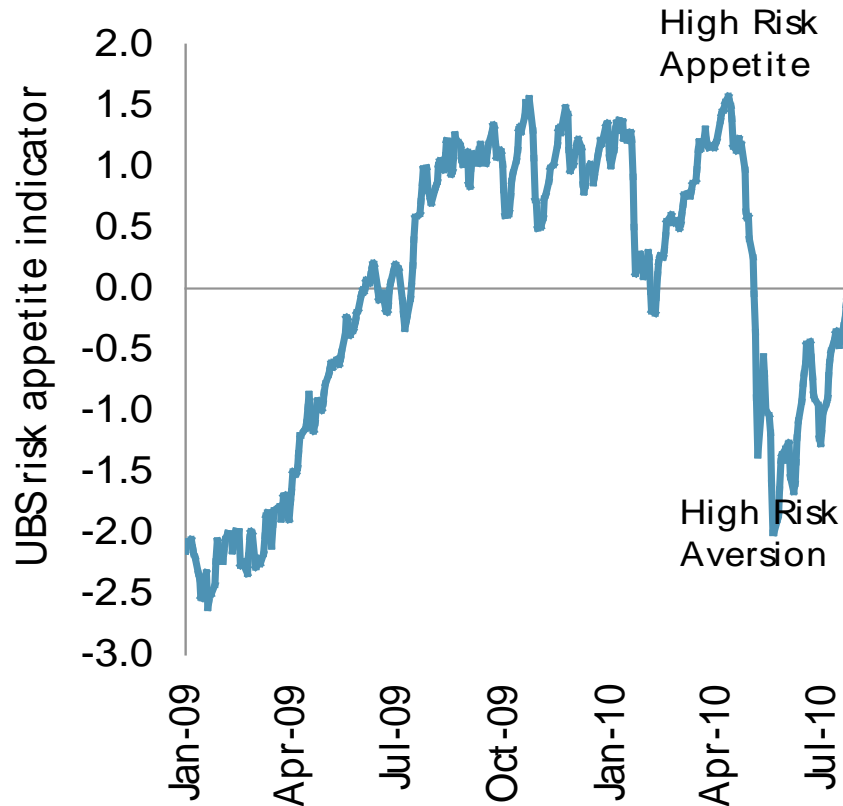
*Current*



Source: Average demand, UBS ECM orderbooks 2008–2010

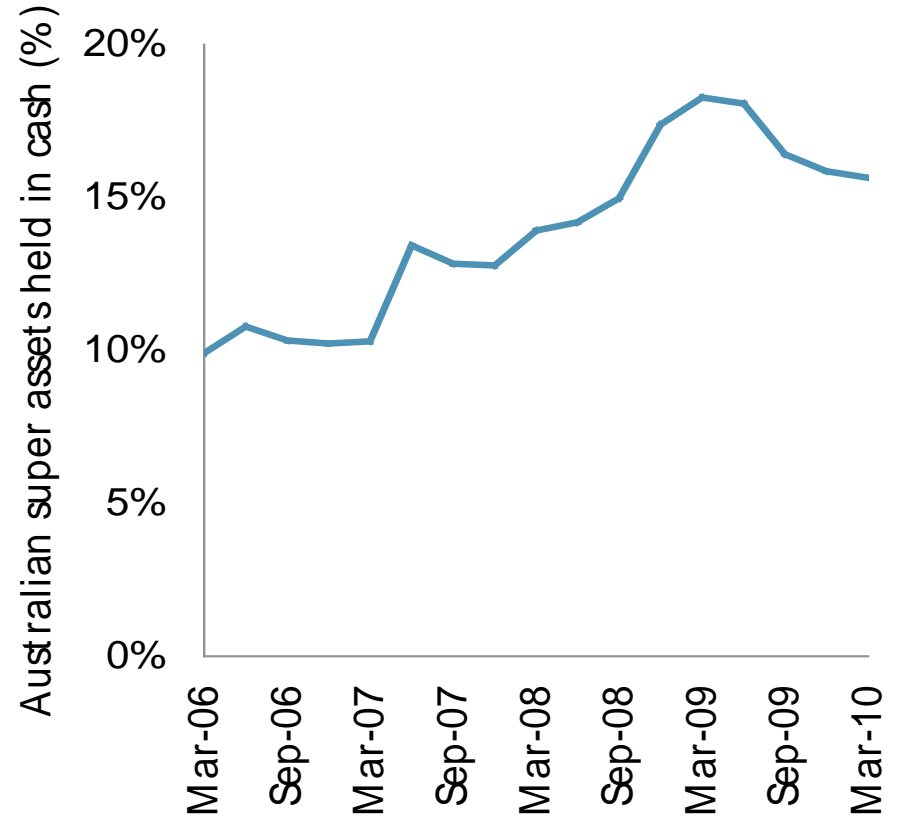
# Current investor appetite

## Risk appetite improved



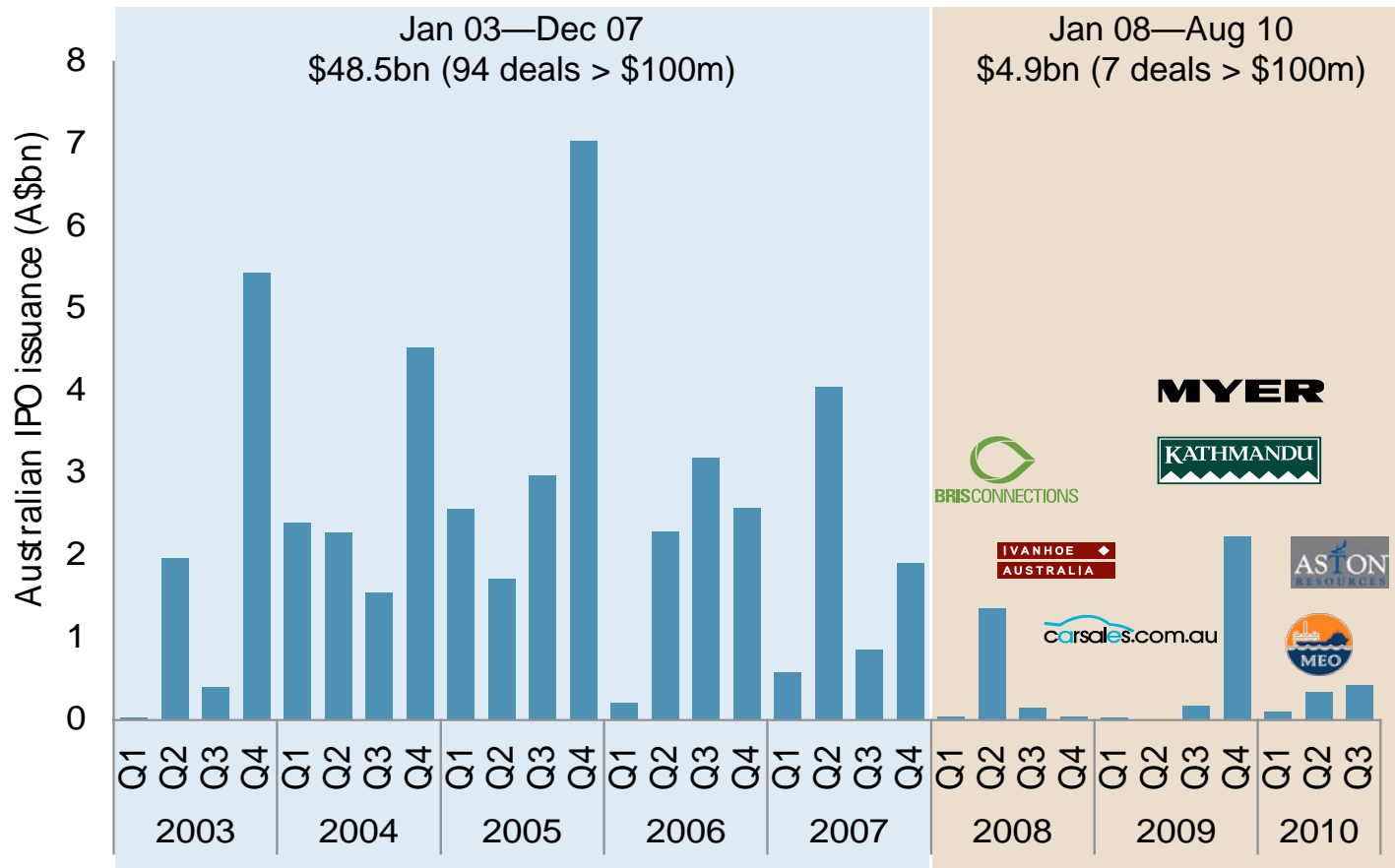
Source: UBS Research, Thomson Datastream

## Cash levels remain high



Source: ABS

# When will the IPO market return?



Speculated future IPOs

- QR NATIONAL
- MANASSEN FOODS  
THE POWER BEHIND THE BRAND
- VALEMUS LIMITED
- Brookfield MULTIPLEX
- REBEL GROUP
- PACT GROUP
- INVESTA
- HOYTS
- SMC
- DP WORLD

Source: Thomson, IRESS

# Precedent IPO pricing relative to market



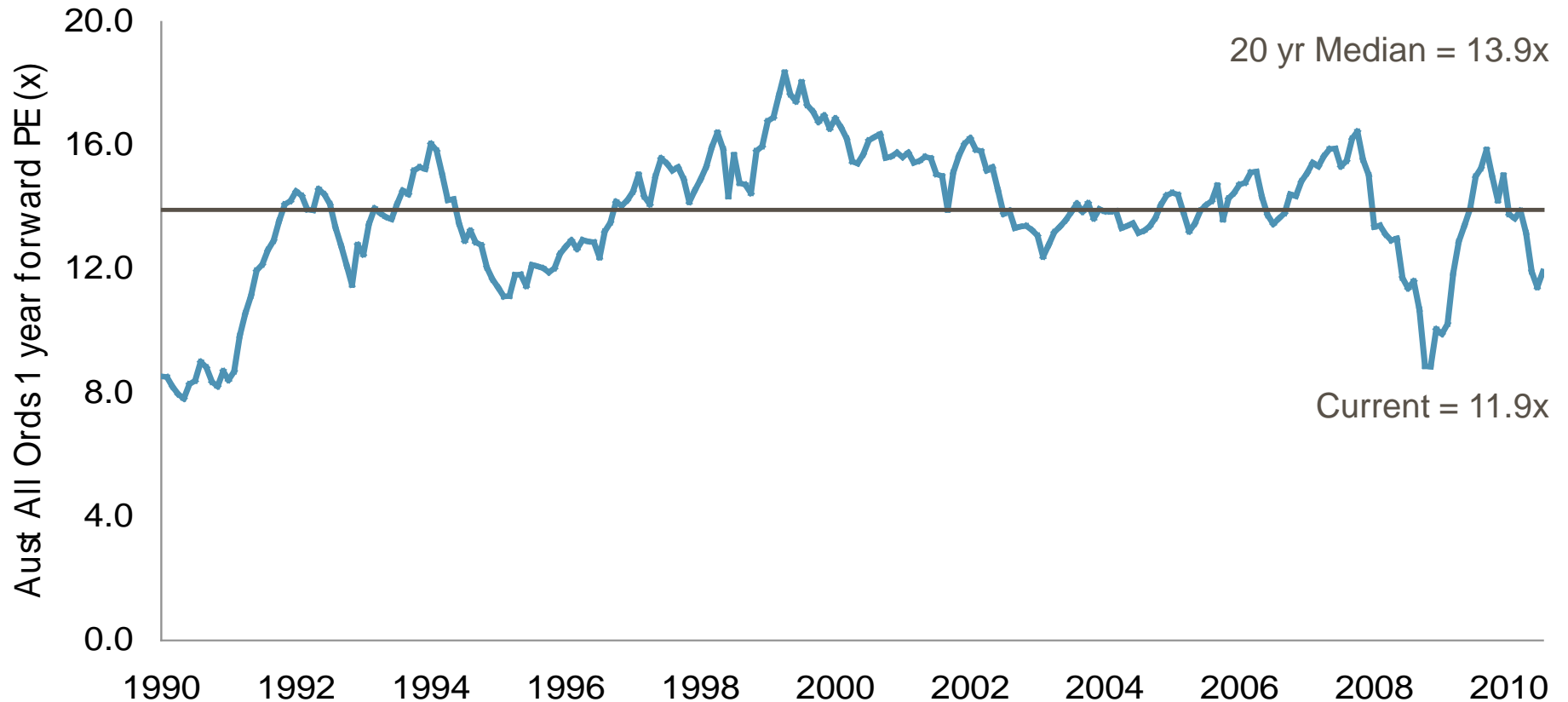
Notes:

1 IPOs > A\$100 million offer size

2 Excludes Property Trusts and Managed funds

# Where to from here for equity markets?

## Australian market P/E



Source: IBES

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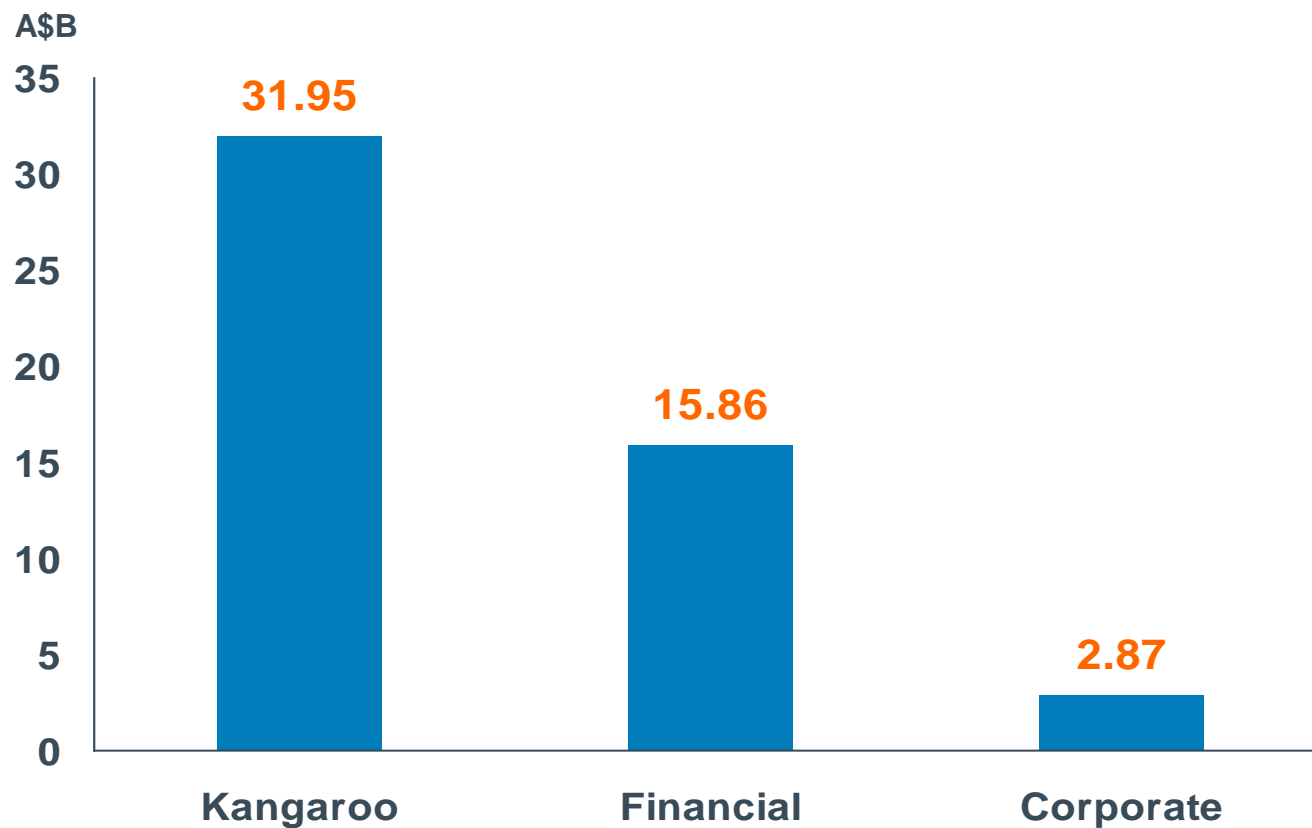
# ANZ Debt Capital Markets

August 2010



# DOMESTIC BOND ISSUANCE IN 2010 YTD

Total of A\$51bln issued so far...










# 2010 A\$ CORPORATE BOND ISSUANCE

## KEY HIGHLIGHTS

- 14 deals so far for 2010, with a strong pipeline for Q3/Q4
- **5 transactions from the BBB band**
- A range of tenors out as far as 10 years

## H1 2010 vs H1 2009

- Average Tenor: 5.3 vs 4.2 years
- Tenor of 7yrs or More: 4 vs 0 deals
- Average Deal Size: A\$194m vs A\$189m

Date	Issuer	Rating	Launch Vol. (A\$m)	Approx. Book Size (A\$m)	Oversubscription (from launch vol.)	Deal Vol. (A\$m)	Maturity	Issue Spread to SWAP/BBSW	
Aug-10	Melbourne Airport	A-	200	650	3.25	350	Aug-16	160 & 190	
Aug-10	Volkswagen	A-	100	160	1.6x	125	Aug-13	165	
Jul-10	SPIAA	A-	200	600	3.0x	500	Aug-15	185	
Jul-10	APT Pipelines	BBB	200	300	1.5x	300	Jul-20	240	
Jun-10	Sydney Airports <sup>S</sup>	BBB	175	175	0	175	Jun-15	265	
Jun-10	Caterpillar (FRN) <sup>RE</sup>	A	125	150	0	150	Jun-12	125	
Jun-10	Telstra Corp <sup>RE</sup>	A	150	150	0	150	Jul-20	200	
Apr-10	AMP Shopping Centre Fund <sup>S</sup>	A	200	400	2.0x	200	Apr-15	185	
Apr-10	Dexus Property Group <sup>1</sup>	BBB+	100	180	1.8x	180	Apr-17	270	
Mar-10	Adelaide Airport <sup>1S</sup> (FRN)	BBB	150	235	1.6x	235	Sep-15	255	
Mar-10	Volkswagen	A-	100	150	1.5x	150	Mar-14	225	
Mar-10	Mirvac Group	BBB	100	250	2.5x	150	Mar-15	265	
Mar-10	SP AusNet	A-	200	600	3.0x	300	Sep-17	160	
Mar-10	Transurban <sup>S</sup>	A-	150	-	-	250	Mar-14	180	

Note: Light blue font indicates ANZ led deals

1 - Buyback and reissue

S - Secured MTN

RE – Reverse Enquiry

Source: ANZ Markets

# AUS CORPORATES WHO HAVE ISSUED OVERSEAS IN 2010

## USPP & 144A

Envestra US\$150m  
ElectraNet US\$350m  
Brambles US\$750m  
United Energy Distribution US\$435m  
Leighton Holdings US\$350m  
Energy Partnership Gas US\$185m  
Goodman Fielder US\$300m  
AGL Energy US\$300m  
Orica US\$600m

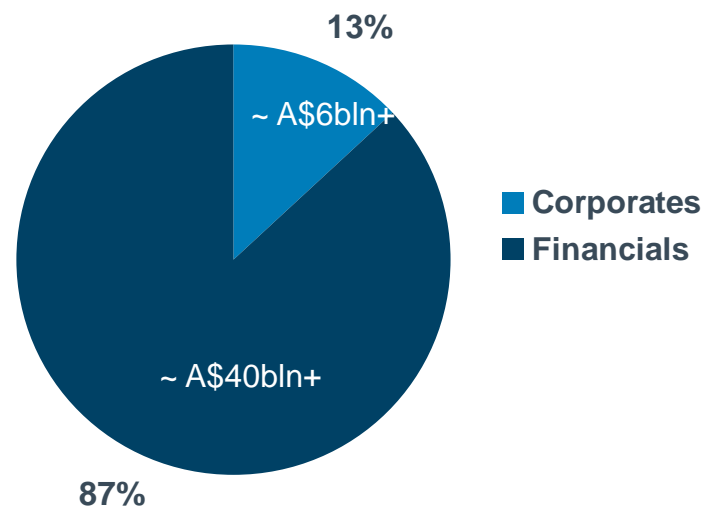
## EMTN

Wesfarmers €500m  
Telstra €1B  
SPIAA CHF\$475

## ASIA

SPIAA HK\$700m  
Telstra HK\$330m  
Optus HK\$1B

## BANKS VS CORPORATE OVERSEAS ISSUANCE



# AUS ITRAXX



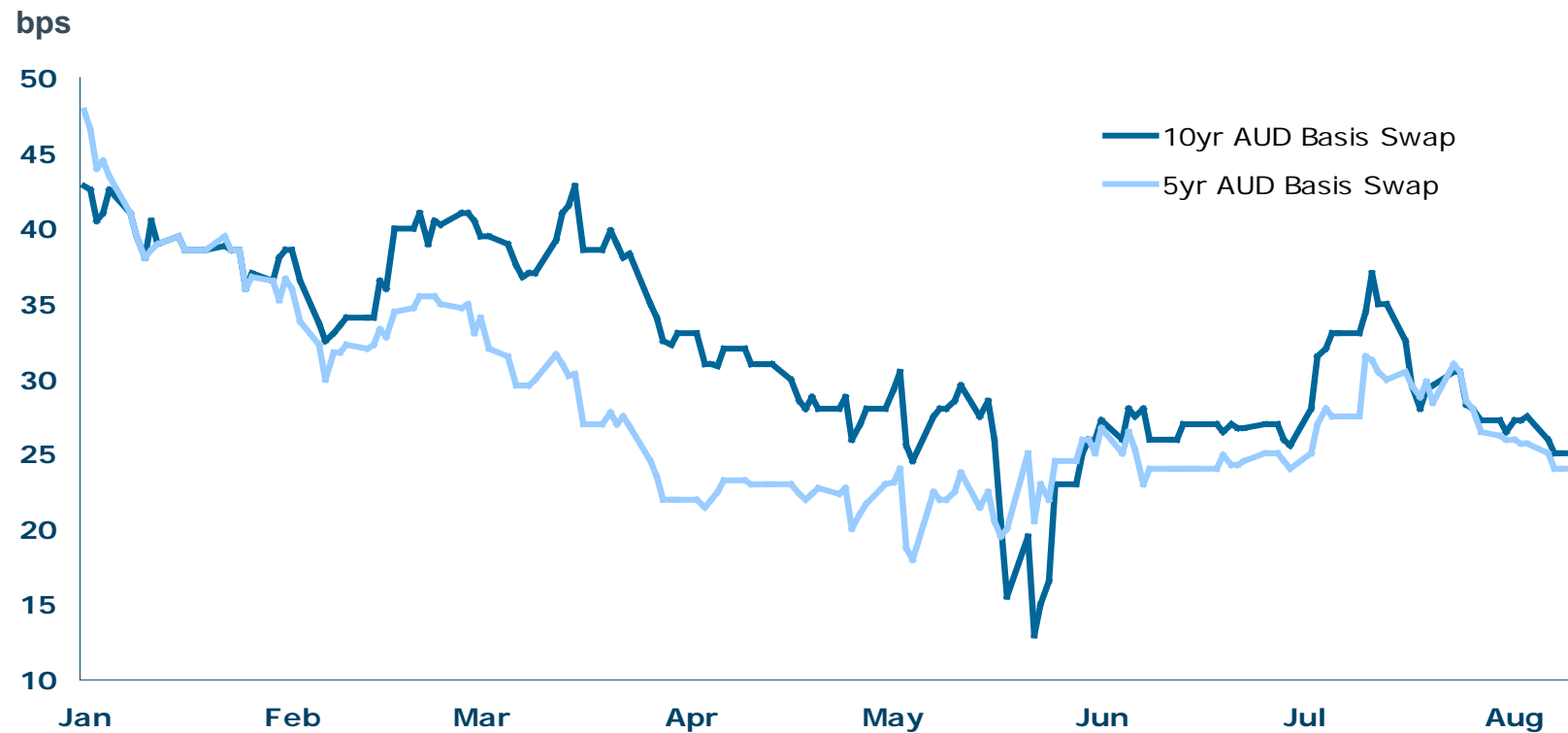
# 'BBB' U.S. CORP CREDIT SPREADS HAVE TIGHTENED DRAMATICALLY

'BBB' rated U.S. Corporate credit spreads are projected to tighten in FY'10

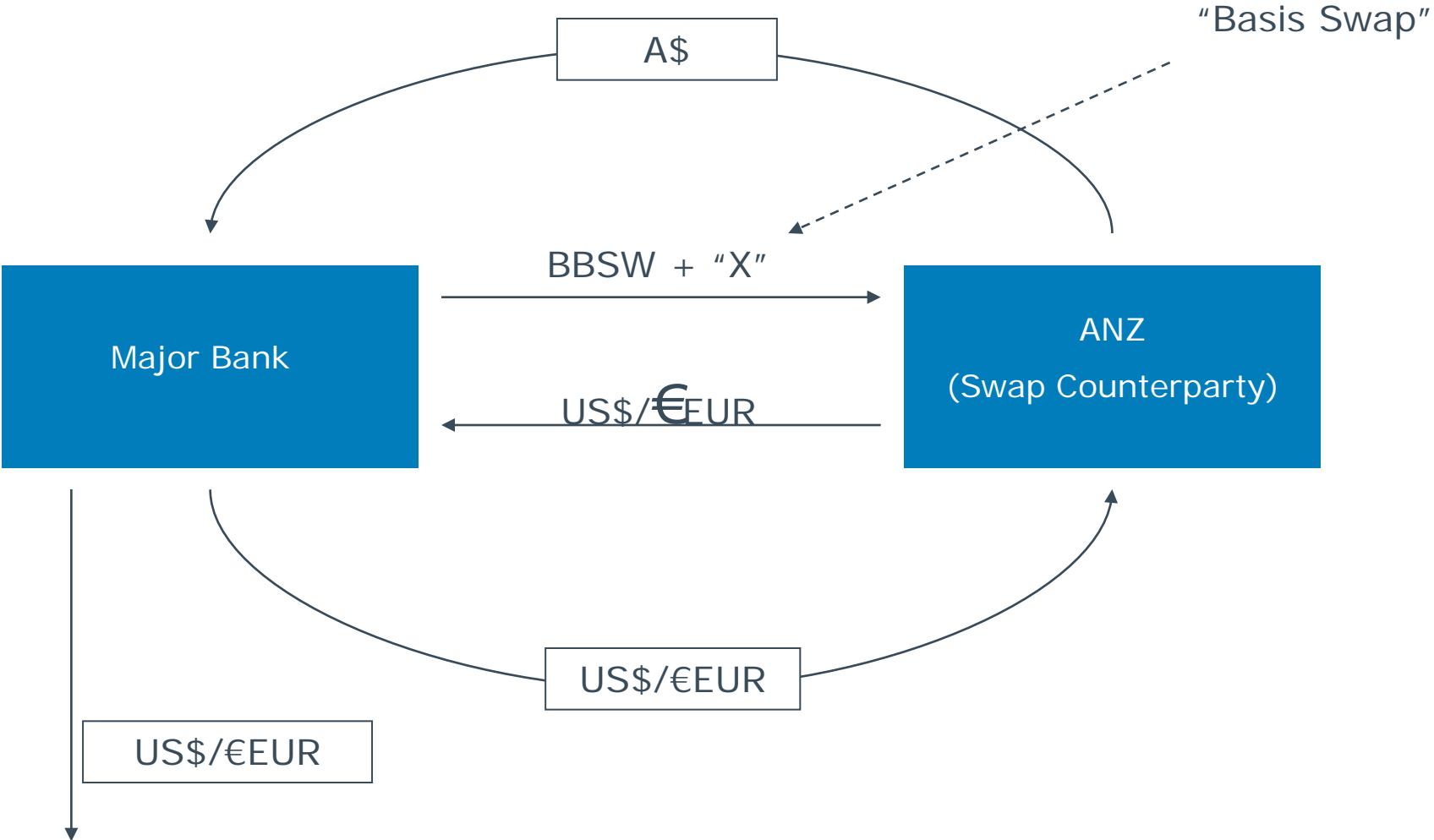


Source: Bank of America Merrill Lynch, BBB Rated U.S. Corporates Index; Note: boxes denote recession period

# AUD BASIS SWAP IN 2010



# THE BASIS SWAP



# WHERE TO FROM HERE??!?

- > Continued Offshore Issuance by the 4 Majors: A\$130bln+
- > ACGB issuance forecast: A\$60bln
- > Increased Corporate Activity
  - Domestic
  - Offshore
- > 50% of Fund Managers To Allocate More To Credit!
- > 65% Keen To See Longer Maturities

➔ BE PROACTIVE