New funding lines emerge

Mirvac enters the Registration S market to broaden its investor base.

By Domini Stuart

For some years, Mirvac Group's treasury strategy has included diversifying its sources of debt capital. This has included debt issuance into the United States private placement market (USPP), the Australian domestic bond market and, last September, the uncommon decision to issue US$400 million of Registration S (Reg S) bonds under the group's Euro medium-term note (EMTN) program.

"Over the past few years, our Australian dollar domestic bonds have attracted a growing number of buyers in Asia," says Darren Lake, who has been Mirvac's group treasurer for the past 12 years. "During our discussions, some of our Asian investors said they would also be interested in bonds issued in US dollars in a Reg S format, which targets investors who aren't based in the United States. As a result, we decided that the latest issue should be Reg S only – which is not a popular a choice for many businesses because most US dollar issuances from Australia have used Reg S and Rule 144A so the bond can be sold to both Asian and US investors."

Rule 144A was introduced in 1990, at least in part to encourage capital raising in the US by non-US issuers. It permits qualified institutional buyers to transact without providing the onerous amount of information required for full Securities and Exchange Commission (SEC) registration. Reg S makes life even simpler. As it allows US issuers to issue securities outside of US SEC protection and there is no requirement to register the securities with the SEC at all. Global and regional corporates deemed by the SEC to be qualified institutional buyers can offer US dollar denominated debt securities issued from an EMTN program – a flexible debt instrument traded and issued outside the United States and Canada.

"It's important to understand 144A requires a higher level of disclosure than Reg S so there is also an increase in potential liability," says Lake. "As a result, 144a issues have significantly higher legal costs."

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Lake promoted the Reg S offering at a roadshow in London, then in Hong Kong and Singapore with chief financial officer Shane Gannon.

"We met more than 80 potential investors over a four day period and we were very pleased with the support we received," says Lake. "Demand came predominately from Asia, with approximately 20 per cent from Europe and the UK."

The issue was heavily oversubscribed. "We wanted to raise US$300 million, but when the initial book build grew to more than $US2.1 billion, we decided to upsize the deal to US$400 million," says Lake. "This was the maximum amount we were prepared to issue in one bond so that we wouldn't have more than A$500 million maturing in any individual issue."

The issue's proceeds will be used to repay existing bank facilities.

September brought good news for Mirvac when Moody's Investor Service upgraded its crediting rating from Baa1 to A3, validating the group's strategic direction and conservative approach to capital management.

"This upgrade will enable us to continue to diversify Mirvac's sources of debt and lengthen its weighted average debt maturity profile, providing the group with greater operational and balance sheet flexibility for the long term," said Mirvac's CEO and managing director, Susan Lloyd-Hurwitz.

Mirvac has now opened up a third source of debt funding with new investors in Asia.

"This is one of the fastest growing debt markets in the world," says Lake.

"We expect to issue further debt into this region in the future as well as into the US private placement and domestic medium-term note markets," he says.

Only time will tell whether more local listed businesses will tap new debt markets as Mirvac has.