MAPLE MAGIC

LAST YEAR, NATIONAL GRID ISSUED TWO BONDS IN CANADA, RAISING OVER $1BN. WE DISCUSS THE DEALS WITH THE KEY PARTICIPANTS

In September 2012, British utility company National Grid issued the largest-ever corporate maple bond at CAD$750m. The bond had a 2.73% coupon and a maturity date of 20 September 2017. Two months later, it followed this with a further CAD$400m issue. This time, the bond had a 2.90% coupon and a maturity date of 26 November 2019.

The maple market denotes a foreign-domiciled company issuing in the Canadian market to Canadian investors. Over the past few years, this market has continued to grow as Canadian investors have shown a significant appetite for diversification, and it has become an important part of many international funding programmes.

The key learnings from the National Grid deals were discussed at a recent roundtable conference between *The Treasurer*, National Grid and its lead dealers, RBC Capital Markets and TD Securities. The participants in the discussion were: Malcolm Cooper, director of tax and treasury, National Grid (MC); Kwok Liu, head of capital markets, National Grid (KL); Felix Fletcher, vice president, RBC Capital Markets (FF); and Patrick Scace, managing director, TD Securities (PS).

***TT*: What made National Grid come to the Canadian market when it has no Canadian assets?**

MC: Our treasury has always pursued funding opportunities away from its core funding markets in the UK and US in order to benefit from investor diversification and competitive pricing in other markets.

We have funded in many currencies such as Australian dollars, Hong Kong dollars, Japanese yen and even Slovakian koruna and Romanian leu. We have flexibility as to what currency is actually issued, as long as the rate looks attractive when swapped to sterling or dollars. It is important for us to diversify our investor base away from the UK since we are one of the largest corporate issuers of sterling bonds.

FF: Although these deals were a competitive source of funding compared with sterling, I think an equally important point is that you don't want to be reliant on just one market. During the eurozone crisis, we saw corporates that were reliant on the euro market struggling to fund.

PS: National Grid also noticed that 2012 was a record year for corporate maple issuance volume, with a number of new issuers entering the market. It was also already familiar with the market as it issued CAD$200m of holding company (holdco) bonds in June 2006 and has a very good understanding of the issuance process.

***TT*: What were the most positive aspects of the 2012 transactions?**

KL: The amounts that we achieved were the main positive of the transactions. We were stunned by the size that we achieved – CAD$750m and CAD$400m, at attractive coupons. Only a few years ago, a maple bond of CAD$200m-$300m would >

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have been a good result. We hope the Canadian market will develop into a genuine core funding option for us.

FF: If Patrick and I are honest, at the start of the roadshow in September, we did not expect to get a size of CAD$750m. We were confident of a successful transaction, but for this to be the largest corporate maple bond ever was a pleasant surprise.

PS: The main takeaway I have is that the transactions clearly demonstrate the value of face-to-face investor meetings. National Grid has always prided itself on keeping investors up to date and it has been very diligent in Canada. The roadshow it did the week prior to launching its first CAD$750m tranche included meetings in Toronto, Montreal and Winnipeg, and involved 45 investors. I think this was a key driver for the success of the deal.

***TT*: Why do you think the deals were so successful?**

MC: We have always had good demand globally, especially for our regulated operating entities due to the regulated nature of our business. The markets in Canada were very strong and investors were keen on investing in a name such as ours.

PS: The UK regulatory model is also very similar to what is used in Canada and so the domestic investors are familiar and comfortable with the structure.

FF: National Grid, particularly at the operating company level, has always performed well in all capital markets and generally trades tighter than its peers.

PS: The Canadian investors certainly saw value in the deals compared with similar domestic utilities. These companies typically trade very tight and so investors saw this as an opportunity to buy bonds with a similar risk profile, but with extra yield.

FF: It was a win-win for both the issuer and the investor – that is rare these days. The issuer was borrowing money at an attractive rate compared with other markets available to them and the investor achieved a better yield than similarly rated domestic Canadian utilities provide.

***TT*: How important was the cross-currency swap back into sterling?**

KL: When we compare our funding opportunities across the different markets available to us, we look at the spread to sterling Libor. The currency basis is therefore extremely important to us when deciding which market to fund in. We monitored the cross-currency basis from Canada to sterling Libor very closely in the weeks and months prior to launching the deal. A sharp move against us on this basis could have scuppered the deal altogether.

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FF: The cross-currency swap also had an important bearing on the maturity options for the bond. Longer than seven years ramps up the risk and capital charge for the banks as swap counterparty. That, in turn, increases the credit charges, which National Grid obviously wanted to avoid.

PS: The maturity constraint caused by the cross-currency swap was less relevant on these first two issues as the core demand was for the five- to seven-year terms. Domestic borrowers have access to maturities as far out as 100 years, but investors still generally prefer 10 years and under for maple issuers. This may change in the future as investors become more comfortable with international borrowers, but the swap constraints will impact longer-term borrowers.

ABOUT THE MAPLE BOND MARKET

The maple bond market is a term used to indicate Canadian dollar-denominated bonds that are sold in Canada by foreign financial institutions and companies. They allow domestic Canadian investors to invest in foreign companies without being exposed to the risk of currency exchange fluctuations. The market has grown significantly since the elimination in 2005 of the Canadian foreign property rule, which specified that no more than 30% of the assets held in tax deferred retirement savings accounts be foreign property. Over CAD$5.5bn was raised on the maple bond market in 2012.

TT: Were there any lessons learned that could help other corporates looking to fund in Canada?

MC: We found the level of sophistication among Canadian investors to be very high. They had certainly done their homework on us when we went to see them and we were impressed by the quality of the questions they asked.

A small number of Canadian banks also dominate this market and it is important to employ banks that know the market and investors well, and are able to provide secondary market support. RBC Capital Markets and TD Securities specifically have done a tremendous job in helping to set up the programme and assist international issuers to access the Canadian market.

FF: National Grid had the advantage of being quite well known to the Canadian investor base, as many of the larger funds have bought their credit in sterling, euros and US dollars. Other corporates may not have that luxury and so I would encourage them to educate investors on their credit as thoroughly as possible. National Grid also focused on issuing into demand, which at the time was greatest in the five-year term. This resulted in a very strong issue, which in turn helped drive support for a follow-on seven-year issue.

PS: One of the advantages of the Canadian market is the relative ease of documentation. European issuers can simply use their euro medium-term note programme as the base document and add a Canadian 'wrap', which is a simple, short document with specific terms and conditions relevant to Canadian investors. While this is a straightforward process, I would always recommend starting the legal documentation work as early as possible. Another advantage is the ease and speed of marketing. In Canada, a company is able to meet the entire investor base over a two-day period, as most investors are concentrated in Toronto and Montreal.

I also think Canadian investors continue to look for diversification, and issuers such as National Grid that have a good credit story and strong cash flows are enjoying the most support. Any borrower with global appeal and funding transparency should view the Canadian market as a potential funding opportunity.

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ABOUT NATIONAL GRID

- **International electricity and gas company National Grid is one of the largest investor-owned energy companies in the world.**
- **It is primarily listed on the London Stock Exchange and is a constituent of the FTSE 100 index. It also has a secondary listing on the New York Stock Exchange. National Grid provides energy to millions of customers across the UK and Northeast US.**
- **In the UK, it owns the electricity transmission system in England and Wales, and operates the system in Great Britain. National Grid also owns and operates the gas transmission system in Great Britain, as well as four of the eight gas distribution networks.**
- **In 2006/7, National Grid bought US gas distributor and electricity producer KeySpan and Rhode Island-based New England Gas Company. These acquisitions doubled the size of National Grid's existing American subsidiary.**
- **National Grid's revenues for the 2011/12 financial year were £13.8bn.**

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Malcolm Cooper is director of tax and treasury, National Grid

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