

StockCo Holdings Pty Ltd

22 June 2018

In this note we take a look at specialised agricultural finance provider StockCo as a potential short to medium-term option for investors, and contrast this for sellers who are looking to take profits. The bond is now available to retail investors.

This document has been prepared by FIIG Portfolio Strategy Services. Opinions expressed may differ from those expressed by our Research group.

Background

StockCo is a niche provider of specialty agricultural finance. It provides short-term “finishing” finance facilities for pasture and feedlot based cattle and sheep producers. The business was established in 1995 in New Zealand. StockCo Australia has been in operation since 2014, and has financed over AUD450m of livestock

Finishing financing is considered a lower risk form of stock financing given it is short-term, and secured against an asset which naturally increases in value

An updated FIIG Research report is available and the bond has a Market Perform recommendation from Research

Rationale for buyers

Although maturing in 2022, the company has expressed its intention to call the bond at the first available opportunity in October 2019, in part tied to its current plan to establish a securitisation structure aimed at lowering its funding cost. Although this is not a certainty, we view this intention as a clear sign that the company is working on an early refinancing plan. Any delay would likely be immaterial since the notes would still have three years to go until their maturity date. Consequently, absent a change of mind, we believe it is likely the bond will be called in October 2019.

The issuer call price for the October 2019 call date is \$103.00, and although this is lower than the purchase price today, the bond offers buyers monthly cashflows with a high coupon rate of 8.75% p.a. and a yield to the next call of circa 6.00%. In the event of the bond not being called in October 2019, this will lead to a higher overall yield as clients will earn the 8.75% p.a. coupon monthly for longer.

Sector

Non bank FI

Issuer

StockCo Holdings Pty Ltd

Bonds

8.75% senior unsecured maturing October 2022, callable October 2019

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Indicative Offer

Next Call Date	06 October 2019
Maturity Date	06 October 2022
Coupon Type	Fixed
Coupon (p.a.)	8.75%
Yield to Maturity (p.a.)	6.65%
Yield to Next Call (p.a.)	6.00%
Running Yield (p.a.)	8.25%
Call Price at Next Call Date	\$103.00
Indicative Price	\$106.25
Face Value	\$10,000.00
Capital Value	\$10,625.00
Accrued Interest (T+2)	\$48.60
Consideration (T+2)	\$10,663.60

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Rationale for sellers

Many of our clients have earned strong returns on the bond to date, particularly those who purchased at issue at \$100.00. However even clients who purchased after issue date have been experiencing strong regular monthly coupons.

As the bond is trading at a healthy premium above par (\$100.00), we observe clients who may want to crystallise gains and sell before the bond starts decreasing in price, which typically happens as we approach the call date with a known issuer intention to repay investors.

We also have clients who are looking for longer term investments and wish to extend the maturity of their investments beyond 2019, since the issuer intention to call the bond at the first opportunity has become known.

There is currently longer maturity stock available for investors who are looking for longer term coupon income.

Conclusion

We believe StockCo will see good two way interest with the bond now available to retail investors, and the 6.00% p.a. yield representing good value for a bond that, based on current intention, is likely to be called before the end of 2019.

Wholesale sellers of the bond should consider the new Virgin Australia 2023 bond for reinvestment with 8.25% coupons, and a yield to worst of circa 7.50% (p.a.). The Virgin bond has an Outperform recommendation from FIIG Research.

Alternatively, please contact your relationship manager to discuss other suitable options.

Links

Click below to access the StockCo Holdings factsheet and latest Research

Report: <https://fiig.com.au/research-and-education/fiig-research/2018/06/22/stockco-holdings-retail-research-report---june-2018>

Factsheet: <https://fiig.com.au/issuerfs/au3cb0240117>

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