

## Crown Subordinated Notes

Crown limited has just announced the launch of a new income offer: Crown Limited Subordinated Notes. The first round of access is through a broker firm allocation, prior to shareholder offer and listing in September.

The Notes will pay a quarterly coupon of 5.00% over the 90 day bank bill swap rate (BBSW), which is 3.63% as of 10th August, with an initial indicative rate of 8.63%pa. (The first quarter's pricing is due to be set on date of issue) The Notes are expected to redeem on the 14<sup>th</sup> September 2018\*. The Notes will be tradable on the ASX.

Crown Limited Subordinated Notes Offer Details	
<b>Issuer</b>	Crown Limited
<b>Security Name</b>	Crown Limited Subordinated Notes (CWNHA)
<b>First Call Date</b>	14st September 2018
<b>Maturity Date</b>	14th September 2072 (unless redeemed earlier)
<b>Margin</b>	90 day BBSW + 5.00% (rate to be determined by bookbuild)
<b>Size</b>	\$400m+
<b>Minimum Parcel</b>	\$5,000 (Wealth Focus minimum is \$10,000)

*Source: Crown Limited Subordinated Notes prospectus*

*Until September 2018, it is expected that around 50% of this debt is considered equity by ratings companies, enhancing their rating and lowering the overall cost of borrowing in the institutional markets.*

Although this is a 60 year Note, it is expected that the issue will be repaid at the first opportunity in September 2018 as a result of the change in the treatment of the security by credit ratings agency, S&P, if it is not redeemed at the first opportunity.

### Comparative Securities

We feel that Crown is a difficult note to compare to current issues on market. The casino business is a very different business to Tabcorp's gambling business and unlike many of the other businesses currently listed on market.

One key concern investors should note is that unlike the other cumulative issues that also allow an accruing deferral of income, Crown Limited has highlighted they would intend (but are not obliged) to repay any deferred income within 5 years.

Supporters of this issue make their case that this will be an unlikely event due to the dividend stopper to ordinary share holders, however, with Crown undertaking considerable capital expenditure in new projects over the next 2-3 years, this is a higher risk hybrid note.

## Comparison of Crown Notes with other recent Note issues

	Crown Subordinated Notes CWNHA	APA Subordinated Notes AQHHA	Caltex Subordinated Notes CTXHA	Tabcorp Subordinated Notes TAHBB	AGL Energy Subordinated Notes AGKHA	Origin Energy Notes ORGHA
<b>Spot in capital structure</b>	Subordinated	Subordinated	Subordinated	Subordinated	Subordinated	Subordinated
<b>Maturity Date</b>	30th September 2072 (60 years)	30th September 2072 (60 years)	15th September 2037 (25 years)	22nd March 2037 (25 years)	8th June 2039 (27 years)	22nd December 2071 (60 years)
<b>Expected Call Date</b>	14th September 2018	31st March 2018	15th September 2017	22nd March 2017	8th June 2019	22nd December 2016
<b>Step-up</b>	0% (1% step up in Sep 2038)	0% (1% step up in Mar 2038)	None	0.25%pa (March 2017)	0.25%pa (June 2019)	0% (1% step up in Dec 2016)
<b>Optional interest deferral</b>	Yes	Yes	Yes	No	No	Yes
<b>Distributions</b>	Unfranked - Floating interest rate, paid quarterly	Unfranked - Floating interest rate, paid quarterly	Unfranked - Floating interest rate, paid quarterly	Unfranked - Floating interest rate, paid quarterly	Unfranked - Floating interest rate, paid quarterly	Unfranked - Floating interest rate, paid quarterly
<b>Mandatory Interest Deferral Clause</b>	Mandatory deferrals apply (in the event interest coverage and leverage ratios breached)	No	No	Mandatory deferrals apply (in the event interest coverage and leverage ratios breached)	Mandatory deferrals apply (in the event interest coverage and leverage ratios breached)	Mandatory deferrals apply (in the event interest coverage and leverage ratios breached)
<b>Issue margin</b>	<i>5.0% over 90 day BBSW</i>	<i>4.5%-4.7% over 90 day BBSW</i>	<i>4.5% over 90 day BBSW</i>	<i>4.0% over 90 day BBSW</i>	<i>3.8% over 90 day BBSW</i>	<i>4% over 90 day BBSW</i>
<b>Current Trading margin</b>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>4.37% over 90 day BBSW</i>	<i>3.8% over 90 day BBSW</i>	<i>4.06% over 90 day BBSW</i>

### Key Points

- Indicative floating yield of 8.63%** provides investors the opportunity to take advantage of historically high hybrid margins.
- Interest protected** - Although the issue terms allow Crown to defer interest payments at their discretion, investors are somewhat protected by the dividend stopper requiring non payment of ordinary dividends.
- Financial Strength** – CWNHA provides investors with exposure to an ASX 50 listed company with a market cap of over \$6bn.
- Redemption highly likely in 6 years** - although CWNHA has a 60 year maturity, we think Crown will redeem at the first redemption date in September 2018. Two major incentives for redemption include the potential for reputational damage and the loss of equity credit as applied by ratings agencies. Not paying in 6 years is likely to lead to an increased cost of funding on future debt issues.

### Our View

We have a bias in considering hybrid issues, we like our hybrids to behave like fixed income. We believe that companies like Crown are more likely to be impacted by economic conditions and as a result their hybrids are more likely to correlate to the share market. Our preference is for issues such as [APA Subordinated Notes](#) and [Whitefield CRPS](#) (just listed this week) which are arguably less likely to be impacted by economic turmoil.

That aside, investors should take some comfort in James Packer's Consolidated Press Holdings reportedly tipping \$100 Million as a cornerstone investor (AFR – 15/08/12).

Our view is we would like to see a higher margin but expect that the historically high margin of 5% over the 90 day BBSW will have investors clambering for a piece of the pie.

*Note: Crown Limited Subordinated Notes will be listed on the ASX and as such the price of the Note's will be subject to market movements. Investor's selling on market may receive a price lower (or higher) than the issue price.*

***Investors looking for an allocation can contact us on 1300 559 869***

***We encourage you to view our online presentation [An Introduction to Fixed Income](#)***