More CMBs go on the market

Banks love their AAA rating and attractive pricing

Barry Critchley
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Now there are three so-called benchmark Canada Mortgage Bonds where the outstandings are more than $10-billion.

But there is only one benchmark bond -- the one that matures on Sep. 15, 2011 -- that has outstandings of more than $11-billion. And that milestone was achieved this week, and it will become official when the bond offering closes next Monday.

This week, Canada Mortgage Trust sold off $6.35-billion of five year Canada Mortgage Bonds (CMB). Those were sold by way of a reopening -- meaning the issuer added to what it had issued previously. The amount raised this week is the largest CMBs deal ever done in Canada.

Before this week's deal, which was jointly led by TD Securities, CIBC World Markets, Merrill Lynch, RBC Capital Markets and Scotia Capital, there were $5.1-billion of outstanding CMBs. That issue will mature on Sept. 15 2015. The original $5.1-billion of CMBs was issued last June.

To put that $11.45-billion of CMBs maturing on Sept. 15, 2011 into some sort of perspective: It is larger than the underlying government of Canada benchmark for the same date.

Two other CMB issues -- ones that mature on Dec. 15, 2008 and March 15, 2011 -- have outstandings of more than $10-billion. In all, CMB outstandings are more than $87-billion. In June 2001, the first deal raised $2.2-billion.

The banks love CMBs because they offer very attractive pricing: The AAA-rated bonds were priced at less than 12 basis points above comparable Canada bonds.

According to to CMHC's Web site, CMBs "allow institutional investors and, on a smaller scale, individuals to invest in Canadian residential mortgages through high quality, easily tradeable guaranteed investments."

Indeed one of the advantages of large benchmark is liquidity, meaning the ability of investors to trade efficiently with minimum difficulties.

Still with a debt theme A new name entered the fixed income markets this week and it was a banner foray by Bell Aliant Regional Communications Income Fund. Investors soaked up $1.25-billion of its paper.

The new issuer, which emerged from a reorganization of some assets owned previously by Bell Canada and Aliant Inc., planned to raise a minimum of $850-million but the issue was upsized because of strong investor interest.

Bell Aliant issued $750-million of five year bonds (originally it planned a minimum of $550-million) and $500-million of 10-year bonds (the original minimum was $300-million.)

But despite the strong demand, the issuer chose to maintain the pre-determined spread: the 5-year bonds were priced at 75 basis points over comparable Canada bonds; the 10-years at 135 basis points back.

Bell Aliant is rated BBB (high) by DBRS and BBB by Standard & Poors.

Mainstreet Equity Jimmy Khing Shan and Frank Meyer are the only two analysts who have published reports on Mainstreet Equity Corp., a consolidator of mid-market residential rental properties.

Apart from their shared interest in covering the Calgary-based firm, their work shares another similarity: Both have upped their targets on the stock this year.

- This week, Shan, who works for the National bank of Canada, raised his target to $13.50. In July when he initiated coverage, Shan posted a target of $11.75.

Shan said he upped the target because he expects Mainstreet to be able to extract higher rents for its Calgary and Edmonton properties than it previously forecast. From now on, he believes Mainstreet will be able to charge $985 a unit in Calgary, up from $950, and $700 for units in Edmonton up from $650.

"Mainstreet is benefiting from robust operating conditions in Calgary and Edmonton and has several near-term catalysts that should directly drive its net asset value," Shan wrote.

- In May, Meyer, who works with Desjardins Securities, initiated coverage on Mainstreet and posted a $11.40 target. Later he upped his one-year forecast to $15.25.

Mainstreet (MEQ/TSX) closed yesterday at $10. In the past year, the stock has traded between $4.70 and $10.50.

The MYDAS touch To clarify a point made in yesterday's column, the MYDAS Income Fund was slated to wrap up next June. At that time, unitholders stood to receive net asset value less costs. It yesterday's column, we said unitholders would receive back their original investment. MYDAS was merged with two other Citadel funds two months ago to form the Citadel Premium Income Fund. That fund allows for annual redemption at net asset value (less costs) in June, 2007. Annual redemption wasn't a feature of the three previous Citadel funds.