

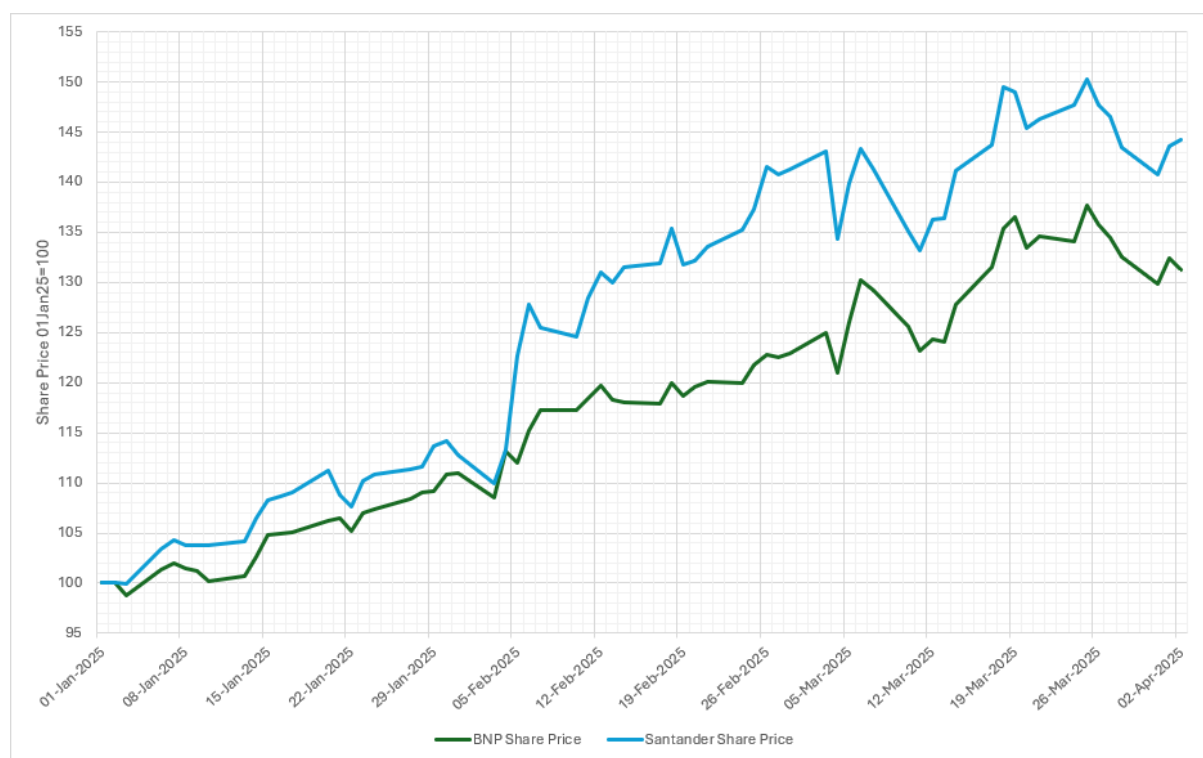
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Tier 2 Kangaroo Bonds - BNP & Santander

By Jenna Hayes

Volatility can create opportunities in markets and it's worth highlighting what is happening with tier 2s kangaroos. We rarely emphasise stock price movements for Kangaroo issuers, but the current divergence between stronger equity valuations and weaker bond pricing highlights a compelling trade opportunity.

As shown below, the share price for both **BNP** and **Santander** is up circa 40% since Jan 1st.



Source: Bloomberg

Interestingly, despite these equity rallies, BNP subordinated notes have notably cheapened and Santander Tier 2s are still trading around issuance levels.

Two factors appear to be driving this divergence:

- 1. General Weakness in Tier 2 Market:** Australian major bank Tier 2s have also widened during the same period, but we think this weakness in kangaroos is overdone. With BNP Tier 2 currently at around +200bps, there's considerable value given increased equity subordination and the clearing of previously heavy local inventories. This sets the stage for potential outperformance from here.
- 2. Asian Market Rotation:** Following the sell-off in AT1s, many Asian accounts rotated away from AUD Kangaroo bonds and into USD and EUR AT1 securities. However, with offshore AT1s now rallying back, a reverse rotation into AUD Kangaroo bonds could provide additional tailwinds for these securities.

Please see pricing below :

Issuer	Coupon Type	Coupon Formula	ISIN	S&P, Moody's, Fitch Rating	Maturity	Yield
BNP PARIBAS	FLOATING	BBSW3M+2.000%	AU3FN0094280	BBB+ , Baa2 , A-	03-Dec-36	5.797%
BANCO SANTANDER SA	FLOATING	BBSW3M+1.920%	AU3FN0096376	BBB+ , Baa2 , BBB+	06-Mar-35	5.474%
BANCO SANTANDER SA	FIXED	5.800%	AU3CB0319184	BBB+ , Baa2 , BBB+	06-Mar-35	5.512%
BNP PARIBAS	FIXED	6.198%	AU3CB0316099	BBB+ , Baa2 , A-	03-Dec-36	5.702%

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