TRADE IDEA

IAM
INCOME ASSET MANAGEMENT

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Woodside 6% 10yr

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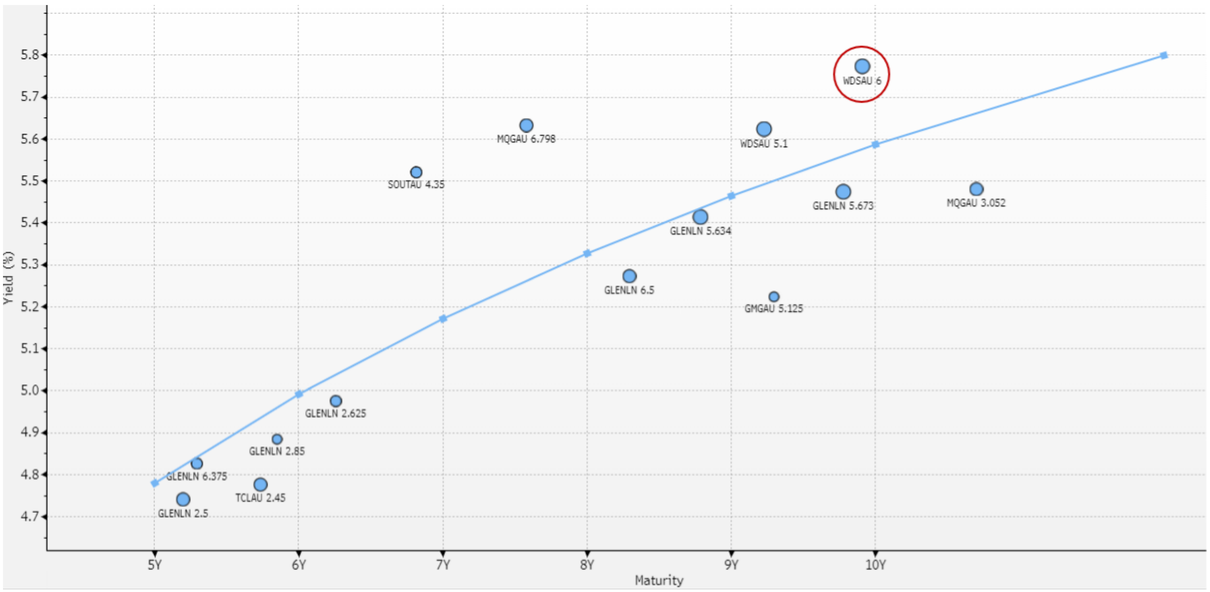
Escalating tensions in the Middle East as Israel and Iran trade blows have led to a sharp increase in the price of oil and a drop in broader risk sentiment. Markets are anticipating a prolonged period of uncertainty and disruptions to the global oil supply chain.

Woodside Energy looks to be a beneficiary of such a scenario, with about 70% of revenue generated from operations in Australia, and 20% coming from international operations in the Gulf of Mexico, Africa, and the Caribbean.

Woodside recently issued USD1.25bn of 10yr senior unsecured bond paying 6% semi-annually. The bonds initially traded softly in the secondary market but have caught a bid on the back of the recent tensions. If the situation in the Middle East continues to deteriorate, this may provide tailwinds for further performance. With the outlook for interest rates in Aus and the US, there is the potential to further weaken the AUD/USD cross, which would benefit an unhedged investor.

The bonds are investment grade rated at Baa1 by Moody's and BBB+ by S&P, offering good value on an outright yield basis relative to similar Australian USD issuers in the same ratings bucket (graph below). Currently, IAM can source bonds at a yield of ~5.8% and in minimum parcel sizes of 50k.



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