

New Malta Government Issues

21.02.2013



Recommendation

BUY

4.5% MGS 2028 (II)

Offering

The Accountant General is offering an aggregate of €200mln of Malta Government Stocks (MGS) which are being offered and made available in any one or a combination of the following stocks:

Analyst

Kristian Camenzuli

Bond	Price	YTM	Interest Pyt	Maturity	S&P
3% MGS 2019 (III)	€100.5	2.937%	22/03, 22/09	2019	BBB+
4.5% MGS 2028 (II)	€100	4.550%	25/04/25/10	2028	BBB+

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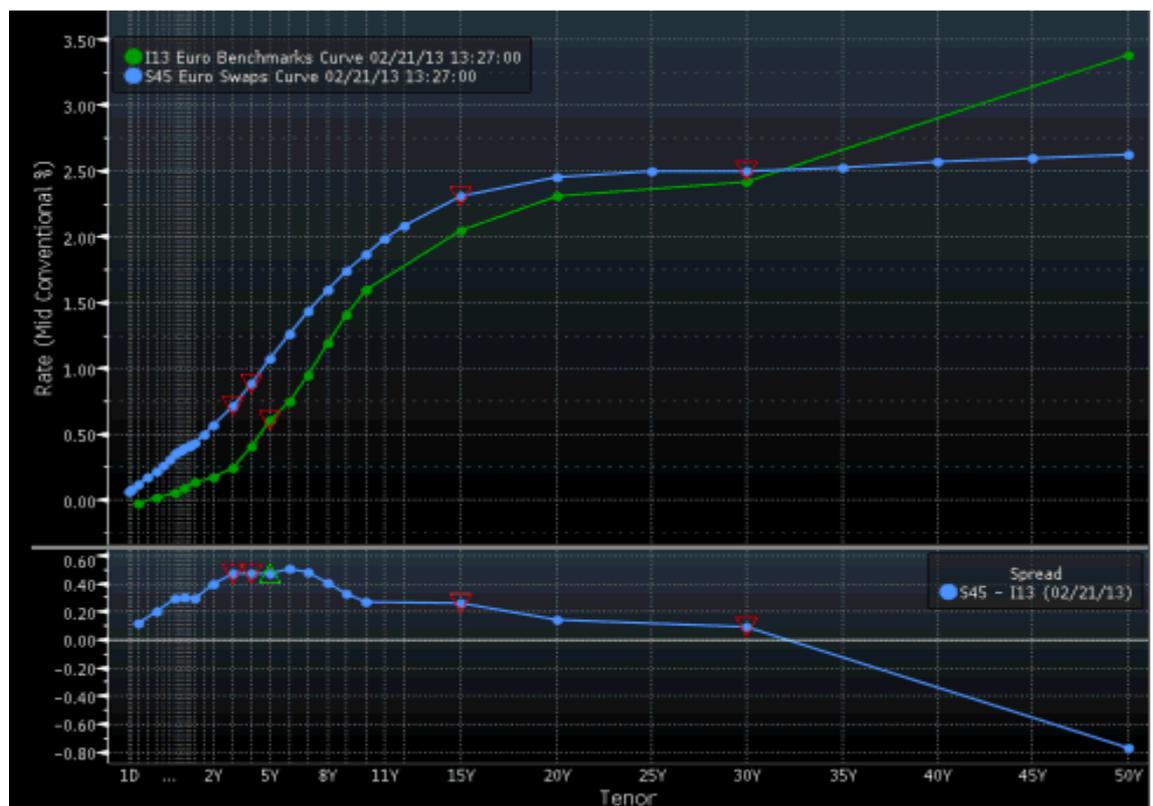
The bonds can be applied for in multiples of €100 not exceeding €100k per person. Applications for over €100k can be applied for via auction.

Preamble

The MGS yield curve is upward sloping. This means that bonds with longer maturities yield more than bonds with shorter maturities because of the risk premium assigned to longer dated paper. The longer the duration* the higher the risk. We are of the view that an investor would benefit from adding the 2028s as opposed to the 2019s because we feel that investors are compensated adequately for the risk taken. **However, portfolios must be reviewed periodically.**

**Duration is a measure of the sensitivity of the price (the value of principal) of a fixed-income investment to a change in interest rates. Duration is expressed as a number of years. Rising interest rates mean falling bond prices, while declining interest rates mean rising bond prices.*
Source: Investopedia

Analysis



Source: Bloomberg

Years to maturity	Euro Swap Rate*1	Euro Benchmark Yield*2	MGS Yield to Maturity	Spread of MGS over Euro Swap	Spread of MGS over Euro Benchmark Yield
6 year	1.264%	0.7476%	2.915%	1.651%	2.1674%
15 year	2.316%	2.0474%	4.500%	2.184%	2.4526%

Source: Bloomberg

*1 - Euro Swap is the fixed for floating interest rate. The fixed rate that will be exchange for a floating rate over the years to maturity.

*2 - The Euro Benchmark is comprised of euro-denominated fixed-rate government bonds from France and Germany.

The 2028s have a wider spread (i.e. more attractive risk premium) over both benchmarks when compared to the 6-year and 15-year bonds. We are of the opinion that interest rates will remain low in the Eurozone for the next couple of years until we see growth starting to pick up. Analysts are expecting the Euro area to remain in recession in 2013 and report a growth rate of 1.2% in 2014. Although the worst of the crisis seems something of the past, there is still a lot which needs to be done in the Eurozone. EU Leaders are focused on the debt problems which EU countries have and are putting growth on the back burner. Infact, the European Central Bank is the only Central Bank that has inflation as its number one priority, before growth.

Conclusion

We are of the opinion that investors should opt for the **4.5% MGS 2028 yielding 4.5%**. This bond has the lowest interest rate risk but the highest price risk of the two MGSs on offer. Higher duration means higher price risk when the economy starts to improve and the ECB starts increasing rates. So it is important that the bonds are monitored periodically in order to make sure that the outlook and recommendation of the 2028s remains favourable for them to remain as a constituent in your portfolio.

Application Procedure

Application forms	Available immediately. You can pick them up from our offices or download them from our website www.cc.com.mt
Opening of subscriptions	25/02/2013
Closing of subscriptions	27/02/2013 or earlier at the discretion of the Accountant General
Minimum investment	€100 nominal
Additional lots	€100
Maximum subscription	€100,000 per person in either or each of the two fixed rate stocks. Amounts above €100,000 can be applied for via auction

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