

# New Malta Government Issues

25.10.2012



## Recommendation

**BUY**

4.8% MGS 2028 (I)

## Analyst

Kristian Camenzuli

## Contact Details

## Telephone

+356 25 688 688

## Email

[info@cc.com.mt](mailto:info@cc.com.mt)

## Website

[www.cc.com.mt](http://www.cc.com.mt)

## Offering

The Accountant General is offering an aggregate of €100mln of Malta Government Stocks (MGS) with an over-allotment option of €40mln which are being offered and made available in any one or a combination of the following stocks:

Bond	Price	YTM	Interest Pyt	Maturity	S&P
3.75% MGS 2017 (IV) F.I.	€105	2.633%	20/02, 20/08	2017	A-
4.3% MGS 2022 (II) F.I.	€102.50	3.982%	15/05, 15/11	2022	A-
4.8% MGS 2028 (I)	€100.75	4.732%	11/03, 11/09	2028	A-

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 short dated ones 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	Euro Benchmark Yield*2	MGS Yields	Spread of MGS over Euro Swap	Spread of MGS over Euro Benchmark Yield
5 year	1.0325%	0.6037%	2.633%	1.6005%	2.0293%
10 year	1.8735%	1.6055%	3.982%	2.1085%	2.3765%
15 year	2.299%	2.0367%	4.732% (16 yr)	2.433%	2.6953%

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 5-year and 10-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 contract by 0.5% in 2012 and report a growth rate of just 0.3% and 1.2% in 2013 and 2014 respectively. 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 **4.8% MGS 2028 yielding 4.732%**. This bond has the lowest interest rate risk but the highest price risk of the three MGSs on offer. Higher duration means higher swings in price movements and 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 <a href="http://www.cc.com.mt">www.cc.com.mt</a>
Opening of subscriptions	29/10/2012
Closing of subscriptions	31/10/2012
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

## Disclaimer

This document has been issued by Calamatta Cuschieri & Co. Ltd ("CC"). CC is licensed to conduct Investment Services in Malta by the Malta Financial Services Authority. This document is prepared for information purposes only and should not be interpreted as investment advice. It does not constitute an offer or invitation by CC to any person to buy or sell any investment. Any investment should be based on the full details contained in the Prospectus which can be downloaded from <http://finance.gov.mt> or from [www.cc.com.mt](http://www.cc.com.mt). This document has not been prepared in accordance with legal requirements designed to promote the independence of investment research and it is not subject to any prohibition on dealing ahead of the dissemination of investment research. No person should act upon any recommendation in this document without first obtaining professional investment advice. Security values may go up as well as down and past performance is not necessarily indicative of future performance, nor a reliable guide to future performance. Currency fluctuations may affect the value of investments and any income derived. This document may not be reproduced either in whole, or in part, without the written permission of CC. CC does not accept liability for any actions, proceedings, costs, demands, expenses, loss or damage arising from the use of all or part of this document. Approved and issued by Calamatta Cuschieri & Co Ltd, 5th Floor, Valletta Buildings, South Street, Valletta VLT 1103. Company registration number C13729.