



What Lies Ahead? Corporate Credit Reaches \$114 Billion Despite Higher Costs

Description

Cash hoarding seems to be the preoccupation of Canadian companies as the [impact of the Russia-Ukraine](#) war intensifies. According to data from BNN Bloomberg, corporate borrowings have reached \$114 billion, year to date, compared to only US\$43.57 billion a year ago.

There's a frenzy in the issuance of bonds for the domestic and international markets despite higher borrowing costs. David Loh, capital markets head at HSBC Securities Canada, said, "The recent flurry of activity is likely a function of the [current state](#) of markets and expectations that things could get worse." He adds that issuers are grabbing liquidity while it is available.

Financial institutions are also raising funds through the bond markets. BNN Bloomberg cites the five-year bonds of the **Bank of Nova Scotia** ([TSX:BNS](#))([NYSE:BNS](#)). The price of the \$2.25 billion offering was about 10 basis points, an indication that risk spreads are increasing.

Corus Entertainment ([TSX:CJR.B](#)) was a step ahead as it high-yield issuance raised \$250 million before the war broke out. The media and content company issued high-yield bonds with eight years maturity.

High-yield big bank stock

BNS investors shouldn't worry because Canada's third-largest bank is stronger than ever. The Big Bank stock is among the steady performers on the TSX this year and remains a top choice of dividend investors. At \$92.65 per share, the divided yield is 4.34%, the highest in the banking sector.

On March 3, 2022, the \$111.59 billion lender increased its prime lending rate from 2.45% to 2.75%. The increase came after BNS presented its Q1 fiscal 2022 (quarter ended January 31, 2021) results. Net income rose 14.3% to \$2.74 billion versus Q1 fiscal 2021.

Notably, the net income of its International Banking business segment climbed 40.1% to \$545 million compared to the same quarter in the prior fiscal year. BNS President and CEO Brian Porter also highlighted the strong growth in loans and fee income during the quarter. He adds, "2022 has started

well reflecting the full earnings power of the Bank, with very strong operating results in all our four business lines.”

Good spot in half a decade

On the high-yield bond offering, Corus Entertainment CFO John Gossling said, “We had to get a little more flexible just in terms of pricing and in terms of size of the deal.” He adds the company’s priority was to push out duration by raising debt due in eight years, and repay some bank debts. The deal should put Corus in a good spot for the next five years, Gossling said.

In Q1 fiscal 2022 (quarter ended November 30, 2021), revenue increased 10.4% to \$463.87 million versus Q1 fiscal 2021. Net income, however, declined 2% to \$80.92 million. The quarter’s highlight was the 16% year-over-year increase in Television advertising revenues that surpassed pre-pandemic levels.

This growth stock trades at only \$5.09 per share but pays an attractive 4.83% dividend. Management is confident about the growth opportunities in digital video and its content business in the future.

Market dislocation

Loh said many issuers are pulling forward their financing activities in anticipation of a severe [market dislocation](#) in the latter part of 2022. Nonetheless, BNS and Corus Entertainment should be solid dividend stocks if you have the appetite to invest.

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