DEAL ANALYSIS: Alinta Energy refinancing

05/11/2013

Alinta Energy Finance closed a $1.4 billion equivalent dual-currency financing refinancing in August. The issuer, a subsidiary of Australian utility Alinta Energy, will use the proceeds to pay down existing debt and fund future capital expenditure. This was the first time that Alinta has tapped the US term loan B market, an increasingly attractive option for sub-investment grade Australian issuers.

Volumes of US leveraged loans for international issuers have risen in the last few years, primarily because of an improvement in margins, as more and more investors seek out yield in a low interest rate environment. Even when cross-currency swaps are factored in, foreign issuers are still able to obtain more attractive terms than they would in their domestic market,

There has also been a move to less restrictive covenant structures and longer tenors, offering borrowers increased flexibility on debt maturities. B loans flexible amortisation profiles make them attractive options for borrowers that are faced with more volatile revenue streams. Alintas generation portfolio is exposed to some merchant risk and its retail business is reliant on the spot market for some of its supply.

Several Asian borrowers have been frozen out of the term loan B market, primarily because their credits do not appeal to US investors. But the number of Australian issuers has soared, in part because the creditworthiness of its issuers is higher, and partly because the political risk is lower. But the biggest factor in the Australian B loan boom is the absence of an Australian sub-investment grade market to create competitive tension.

The recent increase in issuance from Australian borrowers started with the $5 billion 5-year loan to Fortescue Metals Group in October last year and other Australian corporates such as Hoyts Corporation, Spotless Services and Pact Group have followed, at ever more competitive debt margins and maturities.

Alinta Energy Finance

STATUS

Closed 7 August 2013

SIZE

$1.4 billion

DESCRIPTION

Refinancing of the existing debt for Australian energy company Alinta Energy

SPONSORS

TPG Capital, Oaktree Capital, Anchorage Capital

LEAD ARRANGERS

BNP Paribas Credit Suisse, Deutsche, Goldman Sachs, Macquarie

SPONSORS LEGAL COUNSEL

Cleary Gottlieb Steen & Hamilton; Gilbert & Tobin

LENDERS LEGAL COUNSEL

Cahill Gordon & Reindel; Allens

But Alinta may indicate that lender enthusiasm has started to wane. Explanations include the hints during the middle of the year that the US Federal Reserve might scale back its bond-buying programme. Alintas Credit Suisse-led lead arranger group had to sweeten pricing and terms on Alitntas covenant-lite term loan to bring it to close.

Lead arrangers BNP Paribas, Credit Suisse, Deutsche, Goldman Sachs and Macquarie initially launched the deal in July at 425-450bp with a 1% Libor floor, a discount to par at issue of 1.5% and 101 soft call protection for the first 12 months. The arrangers then sweetened the terms of the loan towards the end of July before revising them again in early August ahead of the deal closing.

The arrangers finally priced a 6-year $1.07 billion term loan B facility at 537.5bp over Libor on 7 August. The loan reportedly carries a 1% floor, was offered at an issue price of 95% of par, and includes 102 and 101 soft call premiums, in years one and two, respectively. The package also includes a A$240 million ($232 million) revolving credit facility and a $70 million 5-year delayed draw facility.

The sponsors also completed simultaneously a A$440 million equity recapitalisation through the placement of an additional class of shares to existing shareholders. Although this new class of equity has some debt-like features, both Moodys and S&P treat the new shares as equity because of the rights they hold in a distressed scenario.

One novelty in the final documentation is a cash sweep under the base case, which was inserted at the insistence of the lenders. Such sweeps are not unheard of, and the sponsors can draw comfort from the fact that the sweep hinges on whether there is any excess cash flow, and mandatory amortisation is just 1% per year. This feature reflects the fact that Alintas leverage is high, and Moodys expects debt/Ebitda to peak at 5.6x in the 2014 financial year.

But Moodys has also said that it does not expect Alintas financial profile to alter drastically as any improvement in leverage would probably prompt a debt-funded distribution to shareholders. This is because 81% of the companys equity is in the hands of three hedge funds TPG Capital, Oaktree Capital and Anchorage Capital. The three took majority control of Alinta in 2011 in a debt-for-equity swap. Alintas former owners include Babcock & Brown and Singapore Power.

Although Alinta could have hoped for more borrower-friendly terms, the financing shows that the US high-yield market is still able to offer competitive terms. Following the election of the Liberal/National coalition in September, investors have speculated about a revival of Australias dormant bond market. But until that happens, Australian infrastructure sponsors are likely still to consider the US as a source of financing.