Alinta: Duke of earn

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Australian gas company Alinta has clearly got a yen for growth by acquisition. Following on from its deal last year to purchase United Energy from Aquila, Alinta has reached financial close on a deal to buy the entire Australian business of Duke Energy, including both the gas and power generation businesses.

The A$1.69 billion ($1.2 billion) deal, led by Barclays Capital, Citibank and BNP Paribas, is financed with A$660 million of equity (involving a A$196 million institutional placement and a A$464 million rights issue), and A$1.336 billion of debt. According to one of the lead arrangers, the debt breaks down into two bullet tranches (three-year, A$472 million, tranche A and A$708 million, five-year, tranche B), a A$135 million capital expenditure facility, and a A$20 million working capital facility.

Alinta opted for this financing approach, having mulled alternatives including a US private placement, and issuing in the domestic debt capital market, because of the relative simplicity of a structure relying on unsecured bank debt. "The simplicity and certainty of the Alinta bid was a very important selling point. Other bids were based on secured financings but with Alinta's financing approach there were no tripartite agreements needed and Duke was not obliged to seek onerous consents from its customers," says one banker.

According to Robert Dunlop, executive director in the investment banking group at Macquarie (the financial adviser to Alinta), Alinta also enjoyed a significant advantage in a financing approach that viewed the two business portfolios jointly rather than separately - a route adopted by three other bidders. "Its difficult to raise bank debt for a growth gas business, but our approach allowed Alinta to use the earlier cashflows of the power business to support the growth profile of the gas business," says Dunlop. Underlining that difficulty, Duke had previously financed its expansion strategy in the Australian gas market with guarantees from its US parent.

The debt/equity split in the transaction is a function of these constraints, including gearing constraints placed on Alinta as a publicly-listed entity. Given the unsecured nature of the financing, the leads also employed a debt sizing formula of an average of 1.65 times the interest coverage ratio over a five-year period. "The arrangers ascertained that this was the number which would give the syndication greatest chance of success," says one of the leads.

Alinta was eager to fully utilize its entitlement for a new issue of shares, of up to 15% of its issued capital, to reduce the risk for its existing shareholders, hence the A$196 million institutional placement. Alinta also opted for the placement because it wanted to raise as much new equity as the stock exchange rules permitted, in line with the fact that the company's size would be substantially increased following the purchase of Duke's assets, says Dunlop.

The A$135 million capital expenditure and A$20 million working capital facility have been put in place as the gas business will require significant capex spend on assets, including compressor stations and pipelines, over the next few years.

The deal is not a strict project financing but instead includes de-risking elements to take the most significant market risks out of the financing. As the success of the acquisition rests heavily on the ability of Alinta to achieve major synergies between Duke's former assets and its own, one of these de-risking elements, according to a source close to the company, comes in the form of an operational guarantee from Alinta Energy Holdings, that operational expenditure will not exceed a certain level. Alinta is also guaranteeing a minimum offtake revenue from the Bairnsdale power station, thus also removing merchant power risk.

The lead arrangers had hoped to wrap up an early bird phase of the syndication at the end of last month. But when Project Finance spoke to the leads in the final week of April, the process was a little behind schedule. "This is simply because of logistics and the tight timetable rather than any other issue," says one banker. Early bird banks are being invited to participate pro rata across the 3 year and 5 year acquisition tranches only. The lead arrangers will hold the remaining capex, working capital and bank guarantee tranches between themselves.

The facility carries margins, at the current BBB level, of 0.80% for 3 years and 0.90% for 5 years with an offered early bird fee (for the 5 year tranche) of 0.65%. 5 year all-in pricing is therefore 103bps.

Marie McDonald, joint practice head of M&A at Blake Dawson Waldron (advising Alinta) says the gas firm will now put a proposal to its shareholders to adopt a new structure, following the acquisition of the Duke assets, under which shareholders will hold a stapled share in Alinta and in the Alinta Infrastructure Trust (which holds the Duke assets). McDonald says Alinta has done this because the Duke assets are new and depreciation costs are high and as a result cash flow is likely to exceed reported accounting profit. Adopting a trust structure best enables Alinta Infrastructure Trust to make distributions to shareholders. Stapled security structures are becoming more common in Australian M&A deals.

Duke Energy took a dual track approach to selling off its assets, considering both an IPO and a trade sale. While the dual track method is not uncommon in Australia, James Philips at Minter Ellison, which advised Duke on the IPO route, says the process was unusual in that the IPO option was well advanced when Duke decided on the trade sale approach. "We were just about to put the prospectus out when Duke decided to look at the trade sale alternative," says Philips. A trade sale was eventually favoured because it offered a better chance of successful execution and a quicker exit from the market.

Alinta Acquisition Financing

Status: Signed April 23

Size: A$1.69 billion

Location: Australia

Description: Acquisition financing for Alinta's purchase of Duke Energy's Australian and New Zealand assets gas and power assets

Financial adviser to Alinta: Macquarie Bank

Financial adviser to Duke Energy: JP Morgan

Equity: A$660 million comprising: A$196 million institutional placement, A$464 million rights issue

Debt: A$1.336 billion comprising: A$472 million three year bullet, A$708 million five year bullet, A$135 million capital expenditure facility, A$20 million working capital facility.

Lead arrangers:

Barclays Capital, Citibank and BNP Paribas

Legal counsel to Alinta:

Blake Dawson Waldron

Legal counsel to lenders: Freehills

Legal counsel to Duke Energy: Minter Ellison, Baker & McKenzie