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Athi River mulls Sh25bn bond to ease debt burden

SCORECARD Miner retains 'A' rating, but agency warns further borrowing will hurt its credit profile

BY GEORGE NGIGI

Athi River Mining is mulling over issuing a Sh25 billion bond as it seeks to restructure its debts holding by consolidating them in long-term paper.

The cement maker debt position has tripled in the past five years to Sh14.7 billion, highlighting the company's undertaking of capital intensive projects.

"We were looking at one long-term bond to replace all existing debts, but now we are looking at different structures. Not that we have dropped the bond," said ARM deputy managing director Surendra Bhatia.

The chief executive was responding to a rating report by GCR Credit Rating Agency, which warned that increased uptake of debt was likely to impair the firm's credit profile.

"ARM recently announced plans to raise $300 million (Sh26.2 billion) for new projects, which would sharply increase debt and impair its credit risk profile," reads part of the credit rating report that affirmed ARM's 'A' rating.

Mr Bhatia said that any new debt was going to be ring-fenced on specific projects, ensuring it does not affect the company's position.

Some of the new projects that have been linked to the cement maker include the construction of a $250 million (Sh21.9 billion) clinker factory in Nairobi. Clinker is the main ingredient used in making cement. Manufacturers have been looking for ways of feeding their clinker demand in order to avoid importing as it inflates their production price.

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> GCR CREDIT RATING AGENCY

ARM is set to commission its clinker plant in Tanga, Tanzania, later in the year – October being the target. Mr Bhatia said its being operational would increase its margin by an estimated two per cent this year with wider benefits expected next year.

"Some comfort in this regard is drawn from the cash flow projections provided to GCR that reflect that an additional $55 million (Sh4.8 billion) will be raised in the next three years," said South African based, GCR Rating.

ARM currently produces about one million tonnes of cement in Kenya per annum and with the new plant in Tanzania it expects to add 1.5 million tonnes a year cement capacity.

GCR has also advised ARM to convert some its debt to equity. In 2012, the company received a loan of $50 million (Sh4.4 billion) from Nigeria-based Africa Finance Corporation, which may be converted to debt any time before 2018 — at the option of the investor — at a fixed price of $ 3.20 (Sh268) per share.

The price of Sh268 was before a share split of five for each one held at the end of 2012. The conversion will translate to 13.62 per cent shareholding in the company.

"AFC are already in the money so it would be beneficial for them to convert but they can get more as time goes," said Mr Bhatia.

The company's stock is currently trading at Sh80 a unit, having risen 24 per cent in the last 12 months.

Ongoing infrastructure developments give the cement industry a positive outlook with the only spot being aggressive competition.

Price wars have become a feature in the sector as new entrants seek market share resulting in slim margins. Nigerian Dangote and India's Cemtech are also said to be eyeing entry into the Kenyan cement market.

ARM had diversified to also make fertiliser, lime and sodium silicate but 86 per cent of its revenues last year were generated by the cement business.

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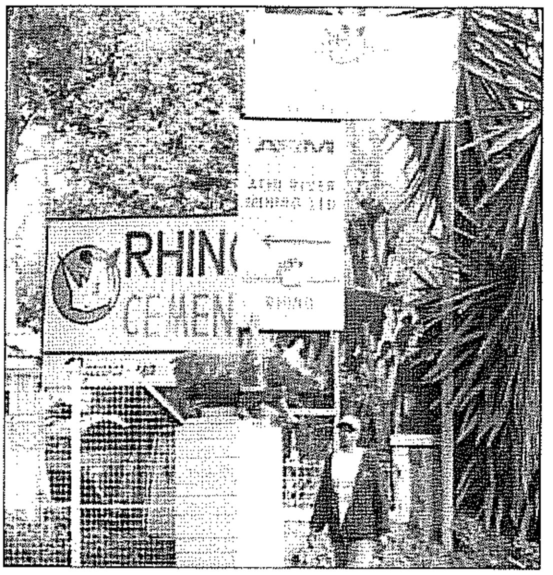

The entrance to Athi River Mining company offices in Nairobi. FILE