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 RIGBY

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

The cement maker-debt position has tripled in the past five years to Sh97 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 Suresh Bhattacharya.

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 $500 million ($425.1 million) for new projects, which would sharply increase debt and impair its credit risk profile," said part of the credit rating report that affirmed ARM's 'A' rating.

Mr Bhattacharya said that any new debt was going to be ring-fenced in 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 $210 million ($179.3 billion) clinker factory in Naivasha. 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.

ARM is set to commission its new plant in Tanga, Tanzania, later this year - October being the target. Mr Bhattacharya said it was operating at a margin of an estimated two per cent this year with wider margins expected next year.

"Some comfort in this regard is drawn from the cash flow projections provided to GCR which reflect that an additional $15 million ($12.2 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 of its debt to equity. In 2012, the company received a loan of Sh6 billion ($74.4 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 Sh3 (Sh1.28) per share.

The price of $258 was before a share split of five for each one held at the end of 2012. The conversion will translate to 14.61 per cent shareholding in the company.

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

The company's stock is currently trading at Sh60 with having risen 21 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 Century are also said to be eyeing entry into the Kenyan cement market.

ARM has diversified to also make fertilizer, finance and sodium silicate but 80 per cent of its revenues last year were generated by the cement business.

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