

Tobacco deal sealed prior to global finance market going up in smoke

The global credit crunch which so rocked international capital markets this summer is likely to lead to a long tail of negotiated and renegotiated deals and debt issues long into the autumn.

But the manifestation of a bad bout of the wobbles was preceded by some of the megadeals that the equity market had been expecting for much of the last two years.

One such long awaited deal was the €16.2bn takeover of Altadis by **Imperial Tobacco**.

Strategically the Imps acquisition of Altadis has been seen as the must-do in a global industry, which was expecting one last big consolidation deal.

Altadis was the creation of the dominant, domestic, state-owned players in the French and Spanish markets, merging the iconic Gauloises and Gitanes brands with Spain's bestseller, Fortuna.

The deal sees Altadis merged into the UK's largest player, with its historic John Players and Embassy brands, and which has latterly produced Britain's favourite puff, Lambert & Butler.

The merged company makes Imps western Europe's second-largest cigarette manufacturer and the world's fourth-largest tobacco house.

The funding of the €50 a share recommended offer – twice increased from Imps' original €45 a share bid – is not straightforward.

Imps is planning for later this year Britain's second-largest-ever rights issue of around £5bn, pipped only by BT's £5.9bn rescue rights of 2001.

Hoare Govett, the City stockbroker owned by ABN Amro, has been lined up to execute the rights issue.

In lieu of that, to secure the deal, Imps took a

£5.4bn bridging loan with ABN Amro, Morgan Stanley, Citigroup and Lehman Brothers.

In addition it is rescheduling £9.2bn of debt – both its existing commitments and that sitting on the balance sheet of Altadis – through a new facility to be arranged by Citigroup, Royal Bank of Scotland, Lehman, Barclays and Banco Santander.

Finance Director Bob Dyrbus said: "Refinancing of the facilities is the start of a process that is not expected to complete until the first quarter of the next financial year.

"Imperial Tobacco only does deals that can generate great returns for our shareholders and can bring strategic benefits to the company."

Another industry in which the last of the major skirmishes – for now – are being fought is among the international metals and minerals miners.

Few were surprised that aluminium producer Alcan of Canada would be taken out, but the appearance on the scene of **Rio Tinto**, deal-shy in the big arena since the turn of the millennium, turned some heads.

Rio's \$37bn offer was accepted by the Alcan board. At \$101 a share it was 32% above any other offer on the table.

Rio has made no secret that it is swayed by the notion that supplying China is the big deal of the next decade.

"It's all about China," said Rio's new Chief Executive Tom Albanese as he argued that Alcan's global aluminium position sits well with Rio's pre-eminence in the copper and iron ore markets.

Rio's FD Guy Elliott admitted that Rio had to fight off opposition in framing the terms of its

deal. "It had become an auction involving one or more possible white knights," he said.

Elliott said the deal would be part-funded by a large-scale disposal of Rio Tinto assets worth as much as \$10bn. Rio's diamonds, gold and industrial minerals businesses are now reckoned to be favourites to be sold.

Financing the deal will be new underwritten facilities provided by Royal Bank of Scotland, Deutsche Bank, Credit Suisse and Société Générale, while Deutsche and CIBC are acting as principal advisors on the deal with the help of Credit Suisse and Rothschild. Morgan Stanley acted for Alcan.

The summer of big deals continued with the long-awaited takeover of ICI by **Akzo Nobel** of the Netherlands, which made no secret that the goal of the deal was to control ICI's world-famous Dulux brand to put alongside its own Crown Paints.

The £8bn, 670p a share recommended offer is to be co-financed by the €11bn sale of Akzo's Organon biosciences division to Schering-Plough as well as the sell-on of ICI's adhesives and National Starch businesses.

Banking facilities to complete the transaction were provided by ABN Amro, Barclays, BNP Paribas, Citigroup, Deutsche Bank, HSBC, ING, Morgan Stanley and Société Générale.

Morgan Stanley acted as financial adviser to Akzo Nobel. Merrill Lynch and UBS acted as financial advisers and brokers to ICI.

Robert Lea is City Correspondent of *The London Evening Standard*.

EQUITIES

ISSUER	AMOUNT	TYPE	PRICING DATE	EXCHANGE	ISSUER NATIONALITY	BOOKRUNNER
Tognum AG	\$2,702m	IPO	29/06/2007	Frankfurt – General	Germany	Deutsche Bank, Goldman Sachs
Paris Re Holding Ltd	\$306m	IPO	12/07/2007	Paris	France	Citi, Credit Suisse
Aeffe SpA	\$194m	IPO	19/07/2007	Milan	Italy	Mediobanca, Merrill Lynch

IPO=Initial Public Offering

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The ones that escaped the wobble

Given the state of the market's nerves over the US sub-prime housing loan debacle, it is pretty surprising that any deals got away at all. The fervent wish of many is that the market revives in fairly short order, reverting to credit costs and covenant requirements that were the norm in the autumn of 2006.

Before the summer credit crunch brought the bond market to a crashing halt, Italian utility **Enel** secured its €5.5bn deal with all but one tranche priced at the tight end of the guidance. Enel will use the cash from the deal to

refinance part of a loan it used to acquire the Spanish utility Endesa. "The market was soft when we launched the deal, so we realised that we had to work closely with investors," said a syndicate banker at one of the leads. Enel used five days of roadshows to convince investors that it was committed to maintaining its credit rating, despite a downgrade to single-A from A+ by Fitch on 11 June. The utility is not planning to issue again this year.

BT was so reassured by Enel's success that after a six-year absence it returned to

the bond markets with a €2.2bn offering of its own, although some in the market questioned why the company had followed so hard on the heels of the Italian company after such a long time away. The BT bond came in three equivalent tranches. The company had seen its debt drop from £31bn to £8bn since its last issue in 2001. Perhaps the company used a five-day roadshow to remind people who exactly they were. One banker commented: "We managed to build a book with €8bn equivalent of orders. This allowed us to price tight." Those were the days...

SELECTED PUBLIC BONDS SUMMER 2007

DATE	ISSUER	COUNTRY	RATING	CURR	SIZE (M)	COUPON	MATURITY	SPREAD	BOOKRUNNERS
13.06	ENEL	Italy	A1/AAA	£	550	5.750%	2037	94	Goldman Sachs, Morgan Stanley, Intesa Sanpaolo, BBVA, Banco Santander Central Hispano, Credit Suisse, Deutsche Bank, Dresdner Kleinwort, UniCredit Group, Mediobanca, RBS, UBS
13.06	ENEL	Italy	A1/A	€	1,000	3m+20bp	2014	N/A	
13.06	ENEL	Italy	A1/A	€	1,500	5.250%	2017	62.6	
13.06	ENEL	Italy	A1/A	€	850	5.625%	2027	77.5	
14.06	British Telecommunications	UK	Baa1/BBB+	€	750	5.250%	2014	47	Barclays Capital, Deutsche Bank, RBS
14.06	British Telecommunications	UK	Baa1/BBB+	£	500	6.625%	2017	108	Barclays Capital, Deutsche Bank, RBS
14.06	British Telecommunications	UK	Baa1/BBB+	£	500	6.375%	2037	148	Barclays Capital, Deutsche Bank, RBS
20.06	Rexam plc	UK	Baa3/BBB	€	750	6.750%	2067	217.8	Barclays Capital, Citi
22.06	Autoroutes du Sud de la France	France	Baa1/BBB+	€	1,500	5.375%	2022	101.5	BNP Paribas, Calyon, Natixis, RBS, SG Corporate & Investment Banking
25.06	Volkswagen Bank	Germany	A2/A	€	1,250	3m+12.5bp	2011	N/A	BNP Paribas, Commerzbank Group, UniCredit Group
27.06	BAT	UK	Baa1/BBB+	€	1,000	5.375%	2017	85.3	BNP Paribas, Citi, JPMorgan
09.07	3M	US	Aa1/AA	€	750	5.000%	2014	42.1	Deutsche Bank, JPMorgan, UBS
10.07	Deutsche Bahn	Germany	Aa1/AA	€	600	5.000%	2019	46.6	Citi, Credit Suisse, RBS
10.07	Air Liquide	France	NR/A	€	500	5.250%	2017	68.2	BNP Paribas, Calyon, Citi
17.07	Groupe Auchan	France	NR/A	€	650	5.125%	2014	52.3	BNP Paribas, Natixis, SG Corporate & Investment Banking
18.07	Telecom Italia	Italy	Baa2/BBB+	€	500	3m+63bp	2013	N/A	Lehman Brothers
09.08	GE Capital	US	Aaa/AAA	€	500	4.625%	2010	9	Credit Suisse, Deutsche Bank, UBS

Key deals, 11 June to 9 August, Euromarket deals and European issuers into US market

Data sourced from banks