

Tough terms for funding

One of the few big M&A deals of the last few months has been accompanied by one of the first big equity money-raising in some time.

Electricite de France which trades in the UK as EDF Energy announced its plans to execute a £12.4 bn takeover of British Energy, the UK nuclear power generator.

However as part of the highly political deal – the French state-owned company is taking control of more than one sixth of the UK’s total electricity generating capacity – the British Gas group Centrica came forward as the British company to take on 25% control of the business.

As part of that deal Centrica announced it is to raise £2.2bn through a rights issue, the kind of equity issue barely seen in recent months outside the distressed financial sector.

“Following the rights issue Centrica will be well-capitalised to fund the potential acquisition of a 25% interest in British Energy,” said Centrica chairman Roger Carr. “Assuming we reach agreement with EDF, the proceeds of the rights issue will be directed towards this opportunity with the balance of the consideration being funded with additional debt and, possibly, asset sales.”

The 3 for 8 rights issue was priced at 160p a share, a steep discount to the share price at the time of 306.25p and a 39.9% discount to the theoretical ex-rights price.

Centrica said one of the reasons it signed up to the EDF takeover of British Energy is because, although it is itself Britain’s largest energy supplier accounting for around 50% of British households on its customer register, Centrica

remains short of its own electricity generating capacity, meaning it has to buy in the more expensive wholesale power markets.

It said the deal also gives it the opportunity if it so wishes to co-invest on a 75:25 basis in the fleet of four new British state-of-the-art nuclear plants which EDF has committed to building.

Goldman Sachs, Credit Suisse and UBS acted as joint bookrunners on the rights issue with HSBC, BNP Paribas, RBS Hoare Govett and Barclays Capital acting as lead managers.

Prior to this **Centrica** had raised £750m on the bond market through a two tranche issue. A £450m 25 year bond was set to pay 7% as was a 10 year bond raising £300m.

Barclays, BNP Paribas, HSBC, and Royal Bank of Scotland acted as advisers on the issues.

In credit-constrained times, the **World Bank** made much of the attraction of safe havens as it tapped the market. Raising \$1.5bn, its first dollar benchmark bond since May 2006, World Bank treasurer Kenneth Lay said: “The past several months have been a particularly difficult period in international finance.”

He continued: “This deal shows that given the right opportunity issuers, bankers and investors can begin the rebuild of a continuous and liquid market for term finance.”

The five year bond is paying 3.5%, giving investors a yield of 77.75 basis points over the equivalent US treasuries. It was oversubscribed with orders coming in for \$1.8bn.

Goldman Sachs, JPMorgan and Morgan Stanley joint-led the issue.

The **European Investment Bank** was similarly playing the flight-to-quality card.

It issued a \$4bn dollar-denominated three year bond yielding 40 basis points over mid-swaps to 132.7 basis points over the equivalent 2010 US treasuries.

“This is the tightest level achieved among comparable high grade issuers for a US dollar global benchmark issue in years,” said the EIB’s head of dollar fund-raising Sandeep Dhawan. The offer attracted bids up to \$5.3bn.

Lead managers on the issue were Citigroup, Goldman Sachs and JPMorgan Chase.

Samurai bonds – Japanese yen denominated debt-raising for international companies – remain in vogue. German car maker **Daimler** raised more than \$400m in three and five year bonds paying 2.28% and 2.78% respectively.

Mitsubishi UFJ Securities, Daiwa and Mizuho acted as lead managers.

The Mexican oil and gas company **Pemex** raised \$600m in samurai bonds. The 12 year bonds were priced at 75 basis points over yen Libor. HSBC and Sumitomo Mitsui acted as lead managers.

Robert Lea is city correspondent of the London Evening Standard.

EQUITIES

ANNOUNCEMENT DATE	EXPECTED DATE	DEAL VALUE \$ CURRENT	DEAL TYPE	ISSUER NAME	ISSUER NATIONALITY	BOOKRUNNER
31/10/2008	12/12/2008	3,671m	Follow on	Centrica plc	UK	Goldman Sachs, Credit Suisse, UBS

DEBT CAPITAL

DEAL PRICING DATE	ISSUER PARENT	ISSUER	DEAL VALUE \$ (PROCEEDS)	TRANCHE VALUE \$ (PROCEEDS)	DEAL NATIONALITY	DEAL TYPE	BOOKRUNNER	YEARS TO MATURITY
07/11/2008	Diageo plc	Diageo Capital plc	510m	510m	UK	Corporate Bond-Investment-Grade	Banc of America, Credit Suisse, Goldman Sachs, HSBC	5
10/11/2008	France Telecom SA	France Telecom SA	770m	770m	France	Corporate Bond-Investment-Grade	BNP Paribas, Barclays Capital, HSBC	20
12/11/2008	Circle Anglia Social Housing plc	Circle Anglia Social Housing plc	428m	428m	UK	Mortgage-Backed Security	RBC Capital Markets	30

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