Checking out a super deal

Cheaper debt and a cut in a groaning pension deficit – it sounds like the corporate treasurer's version of the perfect supermarket buy-one-get-one-free special offer.

And with **J Sainsbury** managing to tackle both those conundrums and make use of an underutilised property portfolio on the balance sheet, you can understand why Darren Shapland, the group's Chief Financial Officer, believes that the recent £2.07bn refinancing of Britain's second largest supermarket chain represents something of a win-win-win deal.

Sainsbury has issued two commercial mortgage-backed securities in a high-profile move which many in the City feel could be followed by other property asset-rich retailers.

The proceeds from the financing – indirectly secured on half of the group's property portfolio – saw Sainsbury spend £1.7bn buying back five tranches of outstanding unsecured bonds. Of the rest, Sainsbury is putting £350m of cash towards helping plug the company's £582m pension shortfall.

"This provides us with cost-effective long-term finance by unlocking value from our property portfolio," said Shapland. Unlike the path taken by some other retailers, Shapland explained, this was not a sale and leaseback of the company's crown jewels.

"We are retaining ownership of these valuable assets and keeping them on our balance sheet," he said.

The cash cost of the redemption value of the outstanding bonds above their book value plus the accounting cost of unwinding hedging transactions come in at £37m.

However, that will be outweighed by a net £12m saving a year in interest costs on the redemption of £1.7bn of outstanding bonds, more than £800m of which were maturing in 2007/08, with the rest dated up to 2032 and carrying coupons of more than 6%.

The two commercial mortgaged-backed securities were offered by Morgan Stanley, with UBS acting as joint bookrunner. The credit agencies indicated that they would give the issues ratings of between four and nine notches higher than Sainsbury's previous debt offerings.

The issue consisted of £1.2bn of 12-year floating rate notes with a euro-denominated tranche equivalent to around £400m, secured on 75 mostly freehold supermarkets with a market value of around £2bn.

In addition an £870m 25-year fixed note is secured against 52 supermarkets, again mainly freehold, worth around £1.55bn.

A £1.8bn recapitalisation at the **Automobile Association** has seen its private equity owners take a £500m dividend from the motoring organisation as well reduce the company's pension scheme deficit by more than half with a £40m injection.

Venture capital firms CVC Capital Partners and Permira, which bought the AA out of British Gas group Centrica for £1.6bn in 2004, have redeemed special preference certificates to the value of half a billion pounds.

The transaction follows a £100m dividend taken out by CVC and Permira at the time of the acquisition.

The AA and the private equity houses declined to comment on the restructuring of the company's debt calling it "a private refinancing".

Led by bookrunner Barclays Capital, with Bank of Scotland and HVB as senior joint lead arrangers, the AA's senior debt now consists of a £373m six-year loan paying 225 basis points over Libor, a seven-year £400m loan yielding 250bp over, and a £395m eight-year loan at 300bp over Libor.

In addition to a £100m revolving facility, there is a further £130m in tranches and a £385m mezzanine facility yielding 9.5%.

Growing appetite in the Eurobond market was fuelled by a seven-year €750m issue from **National Grid** offering 48 basis points over mid-market swaps. The issue – handled by joint lead managers ABN Amro, Banco Bilbao Vizcaya Argentaria, Hypovereinsbank and Morgan Stanley – is part of a €6bn medium-term note programme. The company said it would go toward general corporate purposes.

The issue came as National Grid's Group Treasurer Malcolm Cooper confirmed the group's $7.3bn (£4.2bn) acquisition of KeySpan, one of the biggest energy suppliers in the US, which will be funded through bond markets this side of the Atlantic.

"The acquisition, which is likely to close in the summer of 2007, is likely to be funded in the sterling and euro markets – the markets we readily have access to," he said.

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

INTERNATIONAL EQUITIES

ISSUER NAME	PRICING DATE	DEAL TYPE	DEAL VALUE ($M)	TRANCHE SHARES OFFERED EXCL OVL	TRANCHE OFFER PRICE (US$)	EXCHANGE	BOOKRUNNER PARENT
QINETIQ GROUP PLC	9 Feb 06	IPO	1,258	308,756,269	2.00	London	Credit Suisse, JPMorgan, Merrill Lynch
RIGHTMOVE PLC	9 Mar 06	IPO	133	22,668,866	3.35	AIM (London Alternative Investment Market)	UBS

IPO = Initial Public Offering

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