

# Aveng gets R2bn from its bond placement

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The listed construction and engineering firm Aveng placed R2bn in convertible bonds, maturing in 2019, with institutional investors at a coupon rate of 7.25%.



Kobus Verster, Aveng's new Chief Executive Officer says the cash raised from its bond placement will be used to reduce debt and for corporate purposes. Image: Aveng

The group said it would use the proceeds of the bonds to repay some debt facilities, extend its debt maturity profile, and for general corporate purposes.

"The offering forms part of the company's strategy to manage its liquidity needs, diversify its funding sources, reduce its reliance on bank debt and position itself to take advantage of growth opportunities," it said.

ArcelorMittal's former Chief Financial Officer Kobus Verster has been serving as Aveng's Chief Executive and Chief Financial Officer since Roger Jardine resigned as in August last year.

Aveng announced last month that EY Auditing Partner Adrian Macartney would be its Group Chief Financial Officer from September.

## Selling non-core assets

Aveng said earlier this month that it intended disposing of non-core assets in the hope of raising at least R2.5bn, which would be used to reduce debt and take advantage of various opportunities. The group's deteriorating cash position over the past two years has resulted in two successive ratings downgrades by Fitch Ratings.

Aveng's South African gross debt rose to R1.6bn at the end of December last year, from R400m a year earlier. Its debts in Australia and elsewhere fell slightly from R1.1bn to R900m over the same period. It had net cash on of R2.6bn in Australia, versus net debt of R200m in South Africa.

Aveng said earlier this month group gross debt was expected to have risen to R2.9bn at the end of June. Net cash was expected to have fallen to R1.3bn in the six months to end-June from R2.4bn.

Aveng said that the bonds, which would be convertible into ordinary shares subject to shareholder approval, carried a conversion price of R28.76 a share.

This price equates to a 30.7% premium to Wednesday's (16 July) closing price. The bonds were offered via a private placement to Aveng's South African and international institutional investors, excepting those in the US, Canada, Australia and Japan.

## Good deal for Aveng

Aveng will have the option to call all of the bonds at the full principal amount plus accrued interest from August 2017, subject to conditions. An Aveng representative said that from a dilution perspective, issuing convertible bonds had been a better option than a rights issue.

"In addition, the coupon payment will be lower than the rates charged by the banks. Therefore, after taking into account



Adrian Macartney will join Aveng as its new Chief Financial Officer from September. Image: LinkedIn

both the ability to call the convertible early and the size of the offering, the convertible is the preferred option," he said.

Following a downgrade of Aveng's credit rating in December last year, Fitch Ratings in March downgraded Aveng's long-term credit rating to BBB from A, with a negative outlook.

This was attributed to continued deterioration in the group's financial performance and cash position because of its weaker South African operations.

The downgrade also reflected limitations to cash movements within the group, and the relative net financial position between the Australian operations and the rest of the group.

The South African trading environment has proved difficult for contractors, who have bemoaned the stalling of the government's infrastructure programme. Several contractors have reported loss-making contracts in an environment where margins have been squeezed.

Murray & Roberts replaced Aveng as the largest listed construction firm by market size in August last year.

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