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HD **The top transactions in Australia**

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An impressive privatisation sale of state ports, a successful state divestment of railway shares, an airport's competitive euro-denominated bond debut, the country's second-largest corporate loan refinancing and its biggest project finance package; some spectacular transactions were executed in Australia in 2013. ASIAMONEY reveals its winners for the year. Ben Power and Richard Morrow report.

BEST M&A

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NSW Ports consortium's US$5.35 billion acquisition of Port Botany and Port Kembla

Advisers to acquirers: Lazard, UBS

Advisers to seller: Morgan Stanley

Mergers and acquisitions (M&A) endured another tough year in 2013. Australia witnessed relatively little corporate takeover activity, which is the traditional scene of action and innovation.

Three deals stood out in the quiet year: The New South Wales government's privatisation of Port Botany and Port Kembla; the Nine Entertainment Co Holdings restructuring of AUD3.4 billion (US$ billion) of outstanding debt; and, the Future Fund Board of Guardians' acquisition of Australian Securities Exchange-listed Australian Infrastructure Fund's (AIX) AUD2 billion of investment assets.

The Nine deal was important and a resolved a long-running saga surrounding one of Australia's most important media assets; but it is arguable the deal was always going to be worked out and was just a question of final terms.

The Future Fund's acquisition of AIX's assets is more interesting given its complexity. AIX had 13 airport assets held through five separate investment vehicles; so the transaction wasn't just one deal.

The deal also needed to be structured so AIX could offload all the assets without being left holding just one or two. The Future Fund also needed to bid for all of AIX's assets without triggering a takeover. Finally, it needed to be completed in one financial year for tax purposes. And once the transaction was completed the fund had to be liquidated.

But the third deal was arguably more important. In April the New South Wales government sold the 99-year leases over its Port Botany and Port Kembla assets to NSW Ports Consortium. The consortium, which was led by Industry Funds Management (IFM), a fund manager owned by 30 not-for-profit super funds. It boasts AUD48 billion of funds under management invested in infrastructure, debt, equities and private capital.

The state government reaped AUD5.07 billion from the sale: AUD4.31 billion for Port Botany and AUD760 million for Port Kembla. That was more than expected. It makes the deal the New South Wales government's largest ever transaction in terms of net proceeds. It was also the largest M&Atransaction in the past 12 months, and the largest infrastructure transaction in Australia since 2008.

But what makes the deal significant is that it signified a new trend: the recycling of government assets. Australia faces critical infrastructure shortages, but government balance sheets are constrained. Recycling sees governments selling existing assets to the likes of powerful superannuation funds, and then using the proceeds to roll out Greenfield infrastructure projects. The New South Wales government earmarked the proceeds of the Port Botany and Port Kembla for urban transport infrastructure, including

WestConnex, the US$11.5 billion, 33 kilometre motorway that is planned to link Sydney's Central Business District, west, south-west, airport and port areas, and is due to commence construction in 2015.

Some may argue the Port Botany and Port Kembla deal was a predictable auction process guaranteed to produce a winner, and the asset was not unduly complicated. But then as one rival M&A adviser said, "it was a great deal, great trade and produced a great price".

It was also the most important deal of the year.BEST IPO

OzForex Group's AUD439.4 million (US$4.12.7 million) initial public offering

Joint bookrunners: Goldman Sachs, Macquarie Capital

Australia's IPO market finally showed signs of revival in the second half of 2013 after several lean post-global financial crisis years.

There has been much debate over which IPO sparked renewed activity in the market. Some regard Virtus Health as the listing that re-opened the door for local IPOs. It was also the first major healthcare listing in more than a decade. The sale was priced at the top end of the indicative range and was oversubscribed many times. The float also allowed Quadrant Private Equity to exit its entire stake. When it hit the market, the shares surged more than 50%.

But there was another IPO that also helped restore market confidence and was arguably more complex and impressive: the market debut of OzForex.

OzForex provides online international payment services to consumers and businesses. Its IPO was part of a 'dual track' process in competition with a potential trade sale. Global trade buyers showed particular interest in the company, which created a major challenge. The joint lead managers needed to get the institutions comfortable with the deal, despite providing them with less due diligence than a trade buyer, and then make their committed support firm enough to challenge the trade buyers.

They created a consortium 'club' of interested institutional investors, which then made a firm, underwritten bid at the same time as final trade bids were due. It allowed the vendor to assess the IPO against a trade sale with certainty and confidence. The club won the day over trade buyers and the vendors, which included The Carlyle Group and Macquarie, chose to IPO instead of selling the company. They, along with the fund, sold 100% of their holdings in the ensuing IPO.

The price was an impressive 22 times 12-month forward earnings, one of the highest IPO multiples achieved in the Australian market, which valued the company at AUD480 million. Despite the strong pricing, the shares surged 28% on the first day.

Overall, the innovative and bespoke club structure, which provided a hard equity underwrite to OzForex, along with the listing's contribution to a boost in market confidence, makes this the IPO of 2013.BEST EQUITY OFFERING

Aurizon Holdings' AUD806 million follow-on offering

Sole bookrunner: UBS

In 2012 the best equity offering was the sell-down of AUD500 million of the Queensland government's AUD1.5 billion stake in rail operator QR National (now Aurizon Holdings), which had been privatised and listed in 2010.

UBS, which won the mandate as sole financial adviser to QRN and sole placement agent to the Queensland government, managed to successfully sell the shares at a premium to the prevailing price. It completed the AUD500 million block trade and AUD1 billion buy-back in October 2012 at a 1.1% premium to the stock's five-day VWAP (volume-weighted average price).

In March 2013 UBS did it again. However the Swiss bank managed to execute the share sale even more impressively. It convinced investors to pay a price higher than where Aurizon's stocks were trading at the time, which demonstrated the bank's distribution strength. The Queensland government sold down half its stake in Aurizon for AUD806 million. The sell down was again at a premium: this time a 0.4% to five-day VWAP.

UBS also managed another notable deal: the Australian Securities Exchange's (ASX) renounceable entitlement in June, which raised AUD553 million. The raising was a surprise and was required to allow ASX Clear (Futures) to meet new capital adequacy standards for central clearing counterparties. It was the first-ever capital raising the ASX has brought to market in Australia.

Additionally, UBS also successfully handled the sale of the Lowy family's investment vehicle's 7% stake in the Westfield Retail Trust.

But in terms of both its size and pricing outcome, the AUD806 million Aurizon block trade is the equity offering of the year.

BEST INTERNATIONAL BOND

Australia Pacific Airports €550 million (US$752.46 million) 3.125% bonds due 2023

Bookrunners: BNP Paribas, Citi, J.P. Morgan

Australia is not a country deeply in love with euro-denominated bond issuance. The financial institutions that dominate its international bond volumes are far more frequent US dollar borrowers, as part of their annual need to raise money to fund their regular wholesale lending needs.

But 2013 proved something of an exception to this standard. The gradual weakening of the Australian dollar against the US dollar as compared to the euro meant that the latter suddenly became a far more appealing currency to raise funds in, before swapping them back into Aussie dollars.

Local companies and banks were swift to take advantage of the arbitrage opportunity. One of them was Melbourne Airports in September.

It was not the first, nor did it raise the most money in euros. However it did conduct the best deal of the year in the currency.

The airport was careful to cover its bases before issuing, analysing its funding options in both the US and Europe, and running a dual track process of US dollar and euro medium-term note documentation to give it maximum funding flexibility.

The timing of the issue in September was fortuitous; following months of concern about the eurozone's strength the currency was strengthening on the back of renewed hopes. This was only underpinned by dovish comments from US Federal Reserve chairman Ben Bernanke about not immediately tapering its quantitative easing programme.

The day after Bernanke made his feel-good announcement, Melbourne Airports launched its debut deal in euros, after deciding the currency offered it the best after-swap funding rate. It originally offered the bonds at spread guidance of 115 basis points (bp) over mid swaps, and within an hour gained €2.7 billion of demand. That allowed it to tighten pricing to 105bp-110bp over, while raising the deal size to €550 million. It closed the order less than 90 minutes after opening it, having gained €3.9 billion or orders.

The issue ended up pricing at 105bp over mid swaps, offering very competitive funding, while giving the airport exposure to 145 new investors. Even rival bankers state that it was excellently handled execution that netted Melbourne Airports a handsome euro debut.

The other main international bond in contention for this award was BHP Billiton's US$5 billion multi-tranche bond issue. It was an impressive deal, not least for its size, but it was issued by the Australian-UK miner's US operations and was far from its first in the currency. We felt Melbourne Airports' euro transaction marked a more notable achievement.

BEST LOCAL CURRENCY BOND

Commonwealth of Australia's AUD5.9 billion 4.5% bonds due 2033

Bookrunners: ANZ, Citi, UBS

The new government of Australia has made few bones about its desire to expand the country's sovereign bond market, as part of a practical attempt to give itself a broader-based funding base.

Rob Nicholl, head of the Australian Office of Financial Management, is the man tasked with overseeing this. And on November 15 he decided to bring something new to the sovereign's local bond market platform: a debut 20-year benchmark.

Announced on Friday November 15, the deal was launched on Monday November 18 with price guidance of 70.5bp-75.5bp over EFP, and a suggested potential size of AUD3 billion, based on previous benchmark deals.

The transaction caught the imagination of local and international borrowers. All-told, the three bookrunners raised AUD4 billion in local investor orders during the first day, and overnight they garnered a huge array of interest from the UK and Europe, sufficient to report an overall order book of AUD9 billion.

That allowed AOFM to raise the size to AUD5.9 billion, the biggest local bond ever conducted, while pricing the debt at 70.5bp, the tight end of guidance.

The deal's main impact is likely to be on Australia's state government borrowers, popularly known as semi-government bond issuers. The states are all frequent debt issuers, and the introduction of a long benchmark offers them a new funding opportunity to help support long-term funding schemes, particular in the infrastructure project sector. Corporates are less likely to fund to such long durations in the near future, but hopefully the establishment of government benchmarks will eventually help add longer bond tenors to the private sector too.

At any rate, the AOFM's deal will long stand as an example of how respected governments can expand their own bond markets in measured steps.

BEST SECURITISATION

BPI No 1's AUD270.89 million (US$242.13 million) floating rate asset-backed securities

Bookrunners: Goldman Sachs, CIMB Capital Markets, Westpac

Wesfarmers is possibly Australia's best-known retailer, and is certainly the country's most extensive, boasting over 200,000 employees and hundreds of stores. It is also a savvy market borrower, well versed with taking advantage of its extensive presence to raise funds.

The company underlined this capability when its wholly-owned subsidiary Bunnings sold 15 of its properties to special purpose vehicle (SPV) BPI No1 for AUD304 million, and then leased them back. The SPV in turn paid for the properties by issuing senior secured bonds and residual value notes, both of which were backed by the quarterly leases for the properties being paid by Bunnings, which are guaranteed by Wesfarmers.

It was the first deal of its kind in Australia, which essentially allowed Bunnings to keep using the properties, while raising new capital at an attractive implied yield of 6.57%. The floating rate bonds were issued at a spread of 215bp over three-month BBSW, and were bought by 19 investors, who overall offered AUD400 million in demand.

The bonds possess a legal maturity of 12 years, which technically makes the deal the longest dated corporate deal of 2013 in Australia. However, the lease payments will partially amortise the senior secured bonds over their 12-year legal maturity, and as a result the bonds are set to have an weighted average life of 10.3 years. That's still a long time in Australia's generally short duration corporate bond market.

It's a structure that other companies in need of funding and possessing a large property portfolio can seek to replicate relatively easy, particularly if they want longer term funding at a manageable cost. Don't be surprised if Wesfarmers itself returns with a similar deal in the future.

BEST SYNDICATED LOAN

Origin Energy AUD7.4 billion (US$6.68 billion) syndicated loan facility

Bookrunners: ANZ, Bank of America Merrill Lynch, Goldman Sachs, J.P. Morgan, UBS

Origin Energy is an integral part of Australia's utility network. Its operations span distributing electricity and natural gas, along with exploration and production. It's also a big user of capital.

The company needed to refinance some maturing loans. Origin is also developing Australia's largest coal to liquid natural gas project for export, which is set to cost AUD27.4 billion. The company needed fresh debt to fund its capital expenditure in this project.

It opted to raise some of this by bulking them together into one major loan. The loan ended up being the largest bank refinancing for an Australian corporate in five years, and was the second-biggest ever. This was, by any stretch, a big deal.

The deal also helped to simplify Origin's outstanding liabilities with banks, reducing the number of lenders to whom it owed money.

All-told, the syndicated loan was broken into five different tranches, including two AUD2.25 billion term loan facilities, a AUD400 million working capital facility, a AUD500 million bank guarantee facility and a AUD2 billion capital markets facility.

Following this transaction Origin raised a €800 million 3.5% eight-year deal and a US$800 million 3.5% five-year deal, which were used to refinance the loan's capital markets facility. Both of those were decent bond deals, but their success relied on the certainty that Origin gained with this syndicate facility in place.

The company is now well-placed to progress on its hefty capex plans, with a simplified lending structure in place.

BEST PROJECT FINANCING

Ichthys LNG US$16 billion project financing due 2028

Bookrunners: ANZ, CBA, Mitsubishi UFJ Financial Group, Mizuho, Sumitomo Mitsui Financial Group

The ability of a consortium led by Inpex Corp. of Japan and Total of France to raise US$16 billion to fund a liquid natural gas (LNG) project in the Ichthys basin of Australia places it in a category all of its own. This was by far the largest financing package ever raised for a new project.

The deal, which is helping to fund a project with an overall estimated capital cost of US$34 billion, will be an exercise in complexity to get done. It requires the construction of the biggest semi-submersible platform ever built and the largest offshore pipeline in the southern hemisphere and one of the longest in the world, stretching 890 kilometres under the sea.

A project of such scale and vision required similarly mammoth financing to go ahead. Total and Inpex began working on the financing in 2009, and approached export credit agencies (ECAs) in 2011 with a 400 page document detailing their financing terms. It took a year of negotiations before the ECAs backed the financing, and another six months for commercial banks for final financing documentation to be signed by all ECAs and banks on December 18, 2012. The deal's first drawdown took place on February 15, 2013. The financing itself was conducted by a special purpose vehicle that owns all the onshore, downstream parts of the project.

The reason that the ECAs and banks were willing to participate in such scale was the projects assured off-take agreements for 80% of the 8.4 million tonnes per annum of LNG set to be produced with buyers in Japan and China. But it still took enormous levels of patience and coordination to pull a project funding of this scale and ambition off. It marks a rare deal, but also what can be achieved in Australia's project financing market if the right objectives are in place and ECA support can be gained.

BEST LEVERAGED FINANCING

Nine Entertainment Co Holdings' US$840 million dual tranche leveraged financing

Bookrunner: Deutsche Bank, Morgan Stanley, Nomura, UBS

Several leveraged financing transactions were conducted through 2013 as private equity-owned companies sought to issue new debt to refinance themselves or offer their owners a dividend. A number of these deals were executed in the US term loan B market.

Long a staple of private equity financing in the US, this source of covenant-light funding was first accessed by Fortescue Metals in October 2012 for a US$5 billion loan. Other Australian companies quickly followed from other financial sponsor-owned corporate in Australia in late 2012 and 2013. Nine Entertainment was among the first.

The troubled media company's owner CVC had been forced to hand the company over to creditors in October 2012, and they conducted a debt-for-equity restructuring in December 2012. Its financing options were limited while this was going on, but UBS proved willing to assist.

It offered a fully-underwritten term loan B for the company which it held from November 16, 2012 until January 2013, while the debt-for-equity swap was discussed and arranged. UBS credits its support to its belief that Nine's facility would be rated 'BB' after its restructuring, which ended up being the case.

Demand for the deal in syndication was so strong – the loan was three times covered – that UBS renegotiated the pricing terms twice, dropping the spread it from 325bp over Libor to 275bp over, and adding a step-down to 250bp if Nine reached 2.5 times gearing. The company also had a soft-call at a cash price of 101 at six months.

 

Even rival bankers commend UBS for its willingness to take the balance sheet risk at a time of uncertainty for Nine. The financing helped to tide the **company** over until it could conduct an IPO on December 4, which raised AUD637.5 **million**.

Asiamoney did not include a Best **Equity**-Linked Offering deal for this set of awards, due to a lack of impressive deal candidates.

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