Digging in for cash

With the bubble in commodities prices having finally burst, cash and not debt is the name of the game, according to **Xstrata**, the world's leading acquisitive mining company.

Xstrata, the Swiss-headquartered, London-listed international miner said that it was raising £4.1bn from a two-for-one rights issue, priced at 210p a share, a 66% discount to its share price the day before.

Though most of the money is to be used to pay down debt, Xstrata said that it was also spending $2bn on acquiring the Prodeco coal mine in Colombia from its 35% shareholder Glencore, the international commodities concern.

Xstrata's chief executive Mick Davis said that the company had been through a cash optimisation and short-term debt repayment programme during the last 12 months and that with no significant debt refinancing requirements until 2011 he believed the business had comfortable interest cover and significant financial headroom.

"Nonetheless," he admitted, "it is clear that in the aftermath of an unprecedented financial crisis, Xstrata's absolute level of debt is now perceived as a potential constraint on the group given the uncertainty that exists over the near-term outlook for commodities."

Davis said that after the rights issue Xstrata's net debt would be reduced to $12.6bn.

The rights issue was complicated by the admission from Davis that the boards of Xstrata and Glencore had differed on the valuation of Prodeco, and that Xstrata had granted Glencore a call option on the mine, allowing it to buy Prodeco back at $2.25bn within one year.

"In my view these arrangements are fair to both parties and facilitate an orderly rights issue process," said Davis.

JPMorgan Cazenove and Deutsche Bank acted as joint sponsors, financial advisers and brokers to the rights issue, with JPMorgan and Deutsche acting as joint underwriters. NM Rothschild acted as financial adviser on the Prodeco acquisition.

If deleveraging of corporate balance sheets is to be one of the running themes of 2009, then **Smurfit Kappa** is in the industrial sector's vanguard of companies shedding debt through buybacks.

Europe's largest paper and packaging group said it was buying back €100m of senior debt.

Smurfit Kappa chief executive Gary McGann said: "The group is suspending dividend payments in 2009 and will re-evaluate its future dividend policy in light of prevailing market conditions and capital structure.

"The group believes there is greater scope to create value through continued net debt reduction in the current environment.

"Our focus will continue to be one of maximising net debt reduction in 2009 and indeed beyond."

Smurfit Kappa said that the repurchase of senior debt would be subject to there being sufficient sellers of the debt at acceptable prices.

The company brought in Deutsche Bank to manage a modified Dutch auction (an auction through a descending bid process) among its senior debt lenders.

The buyback comes against a backdrop of €3.1bn net debt at Smurfit Kappa at the year-end. Despite a 12% slide in full-year underlying profits to €941m, the company said there had been a 51% increase in free cashflow to €281m. The company said it had around €720m of cash on its balance sheet and no material debt maturities until 2012.

Proven strong cashflows are the key to successful bond issues at present, according to international pharmaceuticals giant **Novartis**.

The Swiss group raised $5bn in a two-tranche, dollar-denominated issue on very competitive terms. A $2bn five-year bond is paying a coupon of 4.125%. A $3bn 10-year bond is paying 5.125%.

"There is a high demand for investment-grade bonds and especially for strong cashflow-generating companies," said Novartis finance director Raymond Breu. "It will enhance the flexibility of Novartis and will be used for general corporate purposes."

JPMorgan, Bank of America, Citigroup and Goldman Sachs acted as joint bookrunners.

Robert Lea is City correspondent of the London Evening Standard.

INVESTMENT-GRADE BONDS

DEAL PRICING DATE	DEAL TYPE	ISSUER	DEAL NATIONALITY	TRANCHE VALUE	DEAL VALUE	COUPON	BOOKRUNNER
29/1/2009	Investment-grade corporate bond	BASF SE	Germany	$1,972m	$1,972m	5.125%	BNP Paribas, HSBC
03/02/2009	Investment-grade corporate bond	RWE AG	Germany	$2,544m	$3,824m	5%	Commerzbank Group, JPMorgan, SG Corporate & Investment Banking, WestLB
04/02/2009	Investment-grade corporate bond	Novartis AG	Switzerland	$2,995m	$2,995m	5.125%	JPMorgan, Bank of America Merrill Lynch, Citi, Goldman Sachs

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