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Indika Energy attracts huge demand for new dollar bond



By Rupert Walker

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Indika relies on the dividend payment from its 46%-owned Kideco coal mine

strength throughout trading hours.

The deal size was limited by Indonesia's financial market regulator Bapepam, according to a person familiar with the transaction.

The issue pays a semi-annual 7% coupon and was reoffered at par with a final maturity date of May 7, 2018. The borrower can call the bonds on or after May 5, 2015 at 103.5, and on the same dates in 2016 and 2017 at 101.75 and 100, respectively.

The 7% yield was fixed on Monday, according to the source, although the initial coupon range at the beginning of the week was between 6.875% and 7.375%. The obvious comparable bond was Indika's own outstanding 2016 issue, which was trading at a yield of 6.8%. A 20bp premium for an extra two years' maturity was extraordinary value for the borrower, in the context of an approximately 70bp yield pick-up for that extension in the US Treasury market.

So, the issue priced well inside the extrapolated Indika curve, yet also managed to offer value to investors. [Even the Indika 2016 bonds](#) rallied, trading 1.75 percentage points higher.

The issue is rated B1 by Moody's, which had recently upgraded Indika, and the equivalent B+ by Fitch Ratings.

But investor perceptions of Indika are generally high and the company's previous bond issues have been well received. It has generated consistent cash flow and its corporate disclosure is reckoned better than some other Indonesian coal miners. The low credit rating largely reflects the relatively weak structure of the bonds, as Indika relies on the dividend payment from its 46%-owned Kideco coal mine, according to Annisa Lee, credit analyst on Nomura's sales-and-trading desk.

The notes are secured by the capital stock of Indo Energy and several Indika companies, on the proceeds of the 2012 notes and by a charge on Indo Energy's rights under an intercompany loan.

The issue was launched under the Rule 144a/3c-7 exemption — avoiding standard SEC registration requirements by being placed with "accredited investors". It was sold mainly to fund managers, which bought 80% of the deal, while 16% went to private banks and 1% to insurance companies. Geographically, the bonds were widely distributed: 49% was allocated to the US, 39% to Asia and 12% to Europe.

The global coordinator for the transaction was Citi, and it was joined as bookrunner by Goldman Sachs, Standard Chartered and UBS.

The proceeds will be used to pay the premiums and consent fees under the concurrent exchange offer and consent solicitation, the redemption of Indika's 2012 notes, capital expenditure, investment in coal exploration and — if there's anything left — on working capital and the usual "general corporate purposes".

Indika Energy, a leading Indonesian coal miner and power generator, yesterday executed the first part of its capital raising and bond exchange programme. On completion of the full transaction next month, it will have issued a new seven-year US-dollar bond with a total size of \$300 million.

The bonds issued for cash amounted to \$115 million and attracted an order book of \$1.7 billion. Clearly, that level of oversubscription indicated significant unfilled demand, which was confirmed by the price action in the secondary market. The bonds traded up to 102.5 at the break yesterday and maintained that



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The issuer of the bonds was a Dutch-incorporated subsidiary called Indo Energy Finance, which is guaranteed by Indika Energy. The main purpose of the exchange and consent solicitation parts of the transaction was to amend restrictive debt covenants to allow subsidiaries to borrow up to 10% of the value of the holding company's assets.

Holders of the \$230 million 9.75% 2016 bonds were invited to consent only to the proposed covenant changes, while owners of the \$250 million 8.5% 2012 issue can exchange their notes par-for-par for the new issue — which would mean automatic consent. An “early bird” date was set for April 27 and those investors who met that deadline will receive an additional cash payment of eight cents in the dollar.

The exchange was announced to the Singapore stock exchange on April 11 and the offer closes on May 11. It is expected to amount to \$185 million.

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