

Balfour Beatty plc

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Balfour Beatty aims to reassure on debt situation, says completed repayment of £252.7m convertible bond

Balfour Beatty PLC (LON:BBY) revealed on Tuesday that it has completed the repayment of its £252.7m convertible bond from available cash resources, aiming to reassure investors in the wake of fears over a debt crunch for infrastructure lenders.

Last Friday, Balfour's FTSE 250-listed peer Kier Group PLC (LON:KIE) announced plans to raise around £264m via a rights issue to accelerate its net debt reduction plans and strengthen its balance sheet.

READ: Kier Group shares plunge as FTSE 250-listed firm taps shareholders for around £264m via a rights issue

Kier said it was raising the cash because it believes that the risks associated with its net debt position have recently increased, adding that the cash call will better position the group in light of tighter credit markets and more stringent tender pre-qualification requirements.

Haydn Mursell, Kier's chief executive had commented: "There has been a recent change in sentiment from the credit markets towards the UK construction sector, with various lenders indicating that they will be reducing their exposure to the sector.

"This has led to lower confidence among other stakeholders and an increased focus on balance sheet strength. The Rights Issue is intended to address these issues, better position Kier to continue to win new business and further strengthen our market leading positions."

Balfour says 45% of net debt paid down

To help allay fears over its own position, in its brief statement on Tuesday, Balfour Beatty said that as a result of the convertible bond repayment, it has now paid down 45% of its gross debt in the last 12 months.

In a note to clients following Balfour's statement, analysts at Liberum Capital noted that this repayment was planned and said it should generate £12m to £13m in annualised pre-tax savings, which are already in their estimates.

After this, the Liberum analysts added, Balfour will have around £340m of gross debt, but they expect the firm to make no repayments in 2019, given they have only made whole payments.

However, they pointed out that in full-year 2020, it will be possible to redeem US\$45m of US loans in March and £112m of preference shares in July, with the next maturity for US\$200m of US Loans being in 2023.

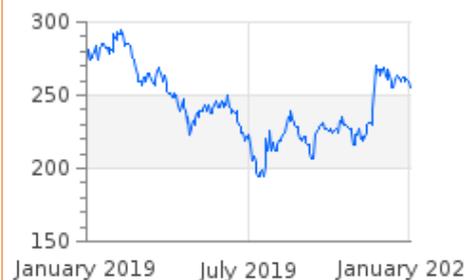
Bank credit harder over last two years

The analysts noted that Balfour believes that bank credit has become harder in the last two years, not necessarily the last two months.

Price: 255.4

Market Cap: £1.76 billion

1 Year Share Price Graph



Share Information

Code: BBY

Listing: LSE

52 week High Low
295.8 192.3

Sector: Builders and building materials

Website: www.balfourbeatty.com

Company Synopsis:

Balfour Beatty is a diversified engineering, construction and services company with operations in the UK, Europe, the US, South-East Asia, Australia and the Middle East. Balfour Beatty is traded in the ISDX Exchange [HERE](#).

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However, they added, the mid-cap has observed that Network Rail requires its suppliers to pay their suppliers within 28 days, indicating that there is a clear industry trend towards faster payment of supply chains.

The Liberum analysts said they continue to believe that Balfour's balance sheet strength - including its £1.2bn PPP (public-private partnership) portfolio - is a source of competitive advantage.

They expect Balfour's trading statement, due on 14 December to indicate that the group is on track for industry standard margins in the second-half.

The analysts concluded that Balfour's current year P/E (price earnings of 11.2x is attractive given the PPP portfolio and recovery potential.

Liberum reiterated a 'buy' rating and 350p target price on Balfour's shares, which in late morning trading on Wednesday were 0.6% lower at 243.20p.

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