Infigen has the wind up over its debt burden

PUBLISHED: 04 Mar 2013 00:05:26 | UPDATED: 05 Mar 2013 00:09:55PUBLISHED: 04 Mar 2013PRINT EDITION: 04 Mar 2013

Almost all cash generated by Infigen's wind farms, in Australia and the US, is consumed in a sweep facility under its debt arrangements, leaving insufficient funds to pay distributions to shareholders or fund growth. **Photo: Ken James**

Angela Macdonald-Smith

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Company Profile

Principle Activity	Infigen Energy is a developer, owner and manager of a portfolio of renewable energy generation assets.
Website	http://www.infigenenergy.com/
GICS	
ASIC	ASIC 105051616

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Debt-laden wind power producer Infigen Energy is mulling a radical shake-up of its Australian business, involving the potential sale of its $1.2 billion of wind farms while remaining as operator as part of an overhaul of its capital structure.'

Managing director Miles George said Infigen had already fielded inquiries from parties interested in its six producing wind ventures in Australia although it had no timetable in place for deciding on any sales.

Infigen is burdened with about $1 billion of debt thanks to its original incarnation as Babcock & Brown's wind power play.

Almost all cash generated by its wind farms, in Australia and the US, is consumed in a sweep facility under its debt arrangements, leaving insufficient funds to pay distributions to shareholders or fund growth.

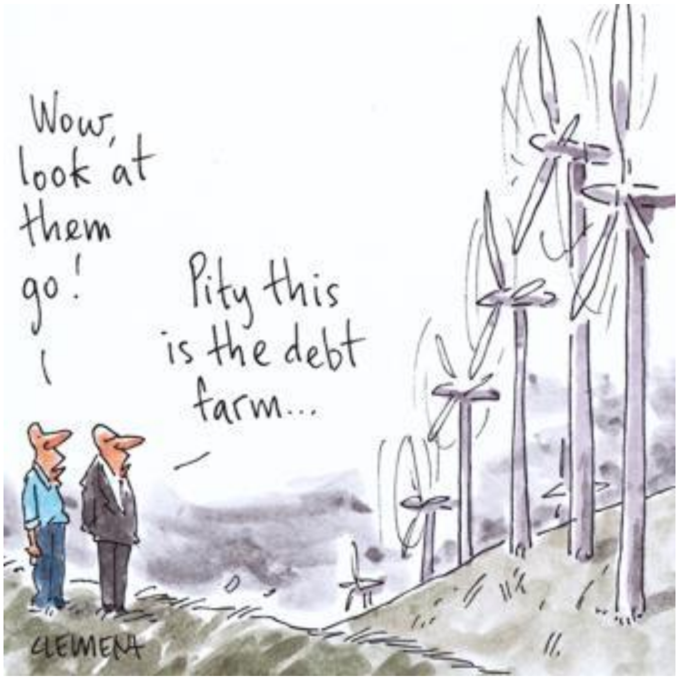
Mr George said the improved business climate in Australia for renewable energy, with the near-certain retention of the 2020 renewable energy target, offered Infigen the opportunity to consider asset divestments to cut debt and lift the appeal of the stock for institutional investors.

"We know that we need to do something other than just operate the assets efficiently in order to escape from the problems of having a high level of leverage," he told *The Australian Financial Review*.

He said that while Infigen had no firm timetable for a restructure, "it's really a matter of acknowledging that the market circumstances in Australia at the moment being attractive for something like that".

Mr George said Infigen wanted to reduce its leverage so that the ratio between debt and earnings before interest, tax, depreciation and amortisation fell to about four times, down from seven times.

That would see gearing – the ratio between debt and debt-plus-equity – fall from about 70 to about 50 per cent. It would involve a debt reduction of roughly $500 million.



The book value of Infigen's assets is currently more than double its stock price, at about 67¢ a share. Infigen shares, which traded north of $1 in April 2010, closed at 28.5¢ on Friday.

"For a long time we've looked at our share price and thought it really doesn't reflect at all the underlying value of the asset," Mr George said.

Infigen has previously sought to sell its US wind farm business but has put those plans on ice because of the weak electricity market due to the shale gas boom.

The model it is considering in Australia, where it has 558 megawatts of capacity, would reflect similar moves by AGL Energy and by Investec for its Collgar project in WA.

It would involve Infigen selling wind farms to a super fund or Japanese trading house that has a much lower cost of capital, while retaining the role as operator of the venture and in the energy market.

"The opportunity for us that we see in that model is that we could retain the operating role we think is one of our competitive strengths and advantages," Mr George said.

The Australian Financial Review

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