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Bloomberg

# Athi River of Kenya Plans Bond Sale to Fund Plant (Update1)

March 19, 2010, 7:03 AM EDT

(Adds remarks by investor in fourth paragraph.)

By Sarah McGregor

March 19 (Bloomberg) -- Athi River Mining Ltd., a Kenyan cement manufacturer, plans to sell 1.6 billion shillings (\$21 million) of bonds in April or May to help fund the building of a new cement plant and a clinker unit in Tanzania.

Half of the \$100 million project will be financed with concessional loans from the Development Bank of Southern Africa, the East African Development Bank and PTA Bank Ltd. Surendra Bhatia, deputy managing director of Athi River, said in an interview yesterday from Nairobi, the capital. Nairobi-based PTA provides finance for development projects in Africa.

The planned sale of five-year bonds, which will have a coupon of 11 percent, will be combined with existing cash to provide the remainder of the funds, Bhatia said. It will be Athi's second bond issue, after the company sold 800 million shillings of debt in 2005 that is repayable this year, he said.

Demand for the bond issue should be strong because the construction industry represents a "huge potential" in East Africa, where plans for major infrastructure projects are backed up with funds, Funmi Akinluyi, investment director with Silk Invest Ltd. in London, said by phone today.

One percent of Silk Invest's 29 million-euro African Lion equity fund is trading in Athi River, she said.

"There is a drive by governments to increase infrastructure with budgets provided," said Akinluyi. "Athi River is small but efficient and it's one of the stocks that people desire."

Growing Demand

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Athi River's expansion comes as cement demand in Tanzania is expected to grow by 9.2 percent over the next four years, according to a December report by African Alliance, a Mauritius-based investment bank. Consumption is being driven by a "considerable infrastructure deficit and large housing shortfall," it said.

Only 11 percent of households in Tanzania have access to electricity and 28 percent of the rural population lives within 2 kilometers (1.2 miles) of an all-weather road, African Alliance said.

Athi River's planned cement plant will produce 1.5 million metric tons per year. It will be located on the outskirts of Dar es Salaam, Tanzania's commercial capital, is due for completion in the third quarter of 2011, Bhatia said. A new clinker unit near the Tanga port with the capacity to process 1.2 million tons a year will open about six months later, he said.

Clinkers are cinder lumps that are formed in the manufacturing process and which are later ground down to produce the fine powder that is mixed with liquid to form cement.

#### Mombasa Plant

The company is also spending \$25 million to add a second line to almost double annual capacity at its cement plant in Kenya's coastal city of Mombasa to 650,000 tons, Bhatia said. That facility is expected to open next month, he said.

In addition, a 500,000-ton clinker grinding factory is under construction, at a cost of \$15 million, at Athi River south of Nairobi. It is due to start operating in the last three months of this year, he said.

Athi River plans to cross-list on the stock exchanges in neighboring Tanzania and Uganda within three years to improve access to financial markets and widen the pool from which it can raise funds, Bhatia said.

"It would be a future step to give us a way into three markets," said Bhatia.

Last week, the company reported full-year profit of 646 million shillings, up 28 percent from a year earlier, as revenue grew. Sales of cement, lime, silicate, minerals and fertilizer increased to 5.15 billion shillings from 4.62 billion shillings. The company aims to boost revenue to 20 billion shillings and raise profit to 2.6 billion shillings by 2015.

Athi River sells its products in Africa, the Middle East and Italy.

--Editors: Paul Richardson, Heather Langan

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