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MOVE SHORT ON TRANSPARENCY

Primary Health Care comes to the retail debt market facing a different audience

ED Bateman's pioneering move into the retail debt market has run into a wall of negative reviews that its promoters argue is not reflected by demand for the \$125 million retail bond issue.

It issued a revised prospectus this week with more clarity but still short on total transparency.

Primary Health Care comes to the retail debt market with its own baggage from the stockmarket but faces a different audience given credit analysts know they get no upside so try to minimise the downside.

This means they tend to look more closely at risks and the overwhelming market view is that by trying to raise the money at 400 basis points above bank bill swap rates, Bateman is not compensating punters enough for the risk.

This was the assessment provided by the folk at FIIG, Lonsec

and Aquasia's Mark Bayley which made it all the more surprising Primary didn't get Chris Dalton and his crew at Australia Ratings to place a rating on the issue.

Assuming the rating was OK, this would have provided more certainty and maybe allowed Bateman to raise his money more cheaply. There is genuine goodwill and support for retail debt issues but according to Bayley, ASIC should have insisted on more certainty over debt raising from the company.

The retail bonds on offer are unsecured and it just so happens the lead arranger to the issue, NAB, is a key lender of senior secured debt to Primary.

The new debt holders could wake up tomorrow to find Dr Ed has added a few more billion dollars in debt that would rank higher than theirs in a collapse.

This much isn't made clear enough to the punters.

The balance sheet has \$3.7 billion in assets, of which \$3.1bn is made up of goodwill and intangibles and \$368m is plant, property and equipment.

If the company went down the

drain you may get some return on the \$368m, but the rest is thin air. By contrast, Ramsay Health has plant, property and equipment of \$1.7bn out of \$3.8bn in assets.

Bayley also questions the gearing ratios used, which make no account of the fact some of the assets are leased. This means you have to add in the rental expense reducing cashflow and in this case interest cover from 5.02 times to 4.2 times.

Tabcorp, the retail bond pioneers last year paid its lawyers \$600,000, but Bateman has been smarter paying \$456,000 for lawyers, \$50,000 for accountants and \$52,000 for the trust company before debt arrangers get their slices.

All in all this issue would probably fall into the less than investment grade, or junk class, which is acceptable but not when you are only getting 400 basis points over bank bill rates.

The issue opens late this month, at which time NAB, Evans and Partners and the other arrangers will by all accounts have to work for their money, which is tacitly admitted by the company.

It has already stated just how a partial payment would be applied.

