

B&B skittled as index hits a four-year low US bank calls in \$171 million debt

By **VANESSA O'SHAUGHNESSY**
INVESTMENT REPORTER
and **NATALIE CRAIG**
PROPERTY REPORTER

BABCOCK & Brown shares have dropped to a record low after another of its ventures fell into financial difficulties.

On a day when the S&P/ASX 200 Index fell to a more than four-year low of 3653 points — a loss of 95.1 points, or 2.5% — B&B shares dropped 14.6% to close at 41¢ after sales as low as 36¢.

The catalyst was an announcement that US bank Wachovia had called in a \$US112 million (\$A171 million) non-recourse debt facility that had been funding a portfolio of US loan assets.

The portfolio, held under the HTM Fund 1 Subsidiary A, was part of B&B's joint venture with listed property group GPT.

The joint venture contains a mixture of European and US real estate and other assets, with a book value that fell by 3.7% from the first half of 2008 to \$6.6 billion in August. At the time, B&B and GPT shared the \$251 million write-down equally.

This time, the companies expect to lose about \$41 million each, totalling the amount invested in the HTM Fund plus retained earnings.

WiseOwl.com senior equities analyst Simon Guzowski said Wachovia's announcement was not a major hurdle for B&B, but it reminded investors that

the company faced severe difficulties.

"People are still questioning whether it's a viable business," he said.

B&B shares have lost 98.5% of their value in the past year. They reached a high of \$34.78 after the float, and in the past year were valued at as much as \$28.47.

Similarly, GPT shares have lost 70.2% of their value, having climbed as high as \$3.705 in the past year.

But a GPT spokesman said the latest problems with its joint venture with B&B would have little effect on the company.

"The loan is non-recourse to GPT and therefore has no material impact," he said.

But GPT has made it clear, as has B&B, that it will not invest any more money in the ailing joint venture.

GPT has poured almost \$2 billion of equity into the scheme since 2005, and risks having to wind it up by itself if Babcock fails. That could mean selling assets in an extremely difficult market well below purchase price.

Analysts said the market had already taken account of the idea that GPT's share of the joint venture would be worth zero or worse.

But evidence yesterday that the joint venture was sinking pushed GPT's stock price down a further 10¢, or 8.9%, to \$1.02. That erased the gains of last week, which were spurred by Stockland buying a 12.7% strategic stake in GPT.

Stockland paid \$1.07, which, according to Deutsche Bank, reflects GPT's prediction of a sharply reduced rate of return on its assets and zero value in the joint venture.

Stockland said it had "no current intention" to make a bid for GPT, and was unlikely to do so until GPT had resolved its overseas investment issues.

The massive drop in B&B's share price came despite news that it had further reduced its debt levels through the €1.15 billion (\$A2.2 billion) sale of its Enersis wind energy business in Portugal to a consortium of investors led by Magnum Capital.

B&B will net \$285.82 million from the sale, which includes 515 megawatts of operating wind farms and a further 156 megawatts of wind farms under construction.

B&B bought the Enersis project for €490 million in December 2005 and sold half to its Babcock & Brown Wind Partners satellite.

Babcock & Brown Wind Partners said it would receive net cash proceeds of about \$274 million from the sale of its 50% stake but had made an estimated loss of \$11.7 million on the assets.

B&B said would look to sell its remaining wind assets at "an appropriate time."

With **MATHEW MURPHY**

LINK

► www.babcockbrown.com