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Burrup reduces float target after trimming gas sale

Michael Sainsbury | *May 19, 2008*

THE planned float of West Australian fertiliser group Burrup will be launched today, but has been scaled back to between $375 million and $500 million after the company decided not to on-sell excess gas from a long-term contract.

Burrup was previously hoping for as much as $608 million from the share sale by big-spending Indian-born entrepreneur Pankaj Oswal, who flew into Sydney last night to promote the offer and wants to sell down 20 per cent of his stake in the Perth-based group.

It is expected that offer documents for the biggest listing on the Australian Securities Exchange since the RAMS float last July, valuing Burrup at $2 billion-$2.5 billion, will be lodged this morning.

Burrup is no longer including revenues from selling spare gas in its forecast of $300 million in earnings, before interest, tax depreciation and amortisation for the 2009 financial year.

But the company's recent move to sell its spare gas at 20 times market rates to the West Australia Government and an attempt to have receivers appointed to it by its shareholders in 2006 may cast a shadow over the offer.

It's the second tilt at an initial public offering by Mr Oswal. The float's promoter, UBS, stepped up marketing for the deal in February at a price of $2.30-$2.80 per share, valuing the company at an enterprise value, including debt, of $3 billion at the top end of the range. Burrup is understood to have about $400 million in debt.

Plans for the float were put on ice because of turbulent market conditions. But in recent weeks equity markets have sprung to life with a $2.4 billion rights issue from Wesfarmers and Westpac's $19 billion bid for St George. Shares are now expected to be marketed at between $1.75 and $2.25 each.

Yet not much more than a year ago, Mr Oswal was embroiled in an ugly court battle with Burrup's former managing director and 15 per cent owner, Vikas Rambal.

While the case was settled in early 2007, Mr Rambal had accused Mr Oswal's family trust of a range of improprieties, including $20 million in payments made from Burrup to a contractor named Paramount.

Mr Rambal worked with Mr Oswal to build an ammonia plant near Karratha, in WA's north-west, but was locked out of the business after a trip to India, according to a January 2007 court document.

Mr Oswal, who lives in the expensive Perth riverside suburb of Dalkeith, has become one of Perth's most prominent business people, with plans to build a new house worth as much as $70 million in Peppermint Grove. He plans to sell 20 per cent of his company on the public market, reducing his 70 per cent stake to 53 per cent.

Norwegian fertiliser group Yara, which has a 25-year deal to take 100 per cent of the ammonia produced by Burrup, an ingredient in nitrogen-based fertilisers, has a 30 per cent stake in Burrup, which will fall to 27 per cent.

Yara and Burrup recently signed a memorandum of understanding to jointly build a $500 million ammonium nitrate plant adjoining the existing plant.

Mr Rambal also alleged that a 2006 ammonia spill at Burrup, a toxic event that can lay waste to wildlife and make humans sick or even die, was due to poor management of the plant.

Mr Oswal has also become embroiled in a political scandal in Western Australia, where taxpayers were charged excessive rates for gas during a supply shortage.

Last month The Australian reported that West Australian Resources Minister Fran Logan went outside normal procedures to secure the gas from Burrup Fertilisers.

Burrup charged the government-owned electricity generation utility Verve Energy $35 a gigajoule for gas that Burrup is understood to have bought under a long-term contract with Apache for about $1.50 a gigajoule.