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Burrup IPO to test investor appetites

It's big, it has exposure to the soft commodities boom and, perhaps most importantly, it's the first significant initial public offering since the credit crunch kicked in.

UBS's pre-marketing began yesterday for "grow and blow" ammonia producer Burrup Holdings, which could have a market capitalisation of up to \$3 billion at the top end of the indicative pricing range.

Shares are being pitched at between \$2.30 and \$2.80, representing a price-earnings multiple of between 13.8 times and 16.9 times.

The closest listed company comparison to Burrup is market favourite Incitec Pivot, a fertiliser and chemicals group, which is trading at 17.6 times forecast 2007-08 earnings.

Investor interest in this offering will be a key test of the market's appetite: several floats were delayed late last year, including a handful of expected private equity exits, because of the volatile conditions.

Burrup is raising up to \$600 million, which is partly a sell-down from the Burrup Trust and Norwegian fertiliser giant Yara as well as a new issue.

Existing shareholders will keep about 80 per cent of their shares, which will be placed in escrow until the 2009 results.

Burrup owns the \$700 million liquid ammonia plant on the Burrup Peninsula near Karratha in Western Australia's north-west, one of the world's largest ammonia plants. The group also has a long-term gas supply agreement underpinned by Apache Corporation and a marketing agreement with Yara.

The activity in this sector is likely to focus attention on a possible sale of Wesfarmers' CSBP explosives and fertiliser business, which Dyno Nobel and Incitec Pivot have long coveted.

But the huge capital gains Wesfarmers would have to book on any deal would require a hefty sale price to offset the tax hit.