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Global Banking and Markets Case Study | Leighton Holdings

Scott

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Charlton, Chief Financial Officer, Leighton Holdings (Australia)

Leighton Holdings is Australia's largest listed construction and contracting company, but we operate across all of Asia Pacific and the Middle East. We actually have been in places like Hong Kong for 30 years, Indonesia for 30 years so we have a long history and very successful track record in Asia. One of our longest relationships is with HSBC, I think it's over a 20 year period.

Andrew Oliffe, Director, Global Banking, HSBC (Australia)

What we do in Australia is bring the Group, the HSBC Group, to the table. And that's a unique proposition for a firm like Leighton, that is developing beyond the very mature Australian market and into the international markets.

Scott Charlton

HSBC helps us particularly across the Asia region. They provide their services in such diverse places as India and Hong Kong, Macau, the Philippines, Indonesia so that is obviously very helpful. And then they have a product suite across those regions, so we're able to handle our business and work with just one bank rather than have to work with a whole series of banks. In fact, they're our largest relationship bank at this point in time

Andrew Oliffe

The Leighton relationship started, as many relationships start off, very transactional in nature - vanilla banking products, essentially. But we sought to develop that relationship and nurture that relationship.

Scott Charlton

As a big contracting company you do have your tough times and you find out who your real relationships are in those tough times, and HSBC has always stuck with and understood the long-term nature of the company, and the strength in management, and they've supported management There are a lot of entities out there that have financial strength, good credit ratings and some even have cash in the current environment, but it all comes down to people and relationships and how you manage that.

Andrew Oliffe

It's important for us to develop the strategic relationship with the customer to have not only day-to-day contacts at sort of the transaction level, but to have more strategic contacts at Leighton.

Scott Charlton

They relate not only to, say, myself at head office in Sydney, but they relate to all our CFOs and our various subsidiaries, operating entities across the whole Asia Pacific region.

Leighton has made a big investment in the Middle East into the Gulf region in the last couple of years. We've been operating here for about five years and we saw the huge wave of additional work coming. We wanted to increase our capacity. So, we approached Al Habtoor Engineering about working together.

They were looking for a joint venture with an international contractor. So, it really came together quite positively for both entities. We now have a 45 per cent interest in Al Habtoor.

HSBC played a very important role in that transaction. When we first started looking at it we were concerned about our overall exposure to the Gulf. So, we wanted to look at some non-recourse funding against an equity investment in the Middle East, not an easy call in today's environment.

Andrew Oliffe

The Middle East at least leaves you with the impression that it is a volatile part of the world. And Leighton were looking to insulate themselves from that volatility by creating this non-recourse borrowing structure.

Scott Charlton

We went to HSBC, because of our relationship with them and they were one of the key banks we approached. And clearly, their scope and depth here in the Middle East makes them one of the biggest players and a very important party to have involved in any transaction to give credibility to where you're headed.

Andrew Oliffe

We came together as one bank. We knew in Australia we weren’t going to be able to consummate this transaction with Leighton without bringing the vast resources of the HSBC Group to bear on this transaction. We initiated conversations with our colleagues in the Middle East.

We’re very fortunate in HSBC Group to have the benefit of a very strong leverage in acquisition finance franchise here in Hong Kong.

Another group we spoke to during the course of the transaction was our syndicate team, both in Hong Kong and London.

Scott Charlton

We were doing the transaction and there in the middle we hit the credit crisis and, yes, most of the other players backed away. And we called on a couple of our relationship banks and said, look, this is an important transaction to Leighton. It's important for our long-term growth and HSBC stepped up and supported the Group.

David Simons, MD, Leveraged and Acquisition Finance, HSBC (Hong Kong)

It was a very awkward time to take a deal to market particularly a deal of the ilk of this structured financing a minority stake and there are many structuring elements that sit around that, including the fact that we did not have direct asset security at the target. Our servicing would be through dividend flow. So in the spectrum of debt difficulty this was certainly at the far end of that. So it was a very pleasing result to take a deal despite sub-prime to market and have great success.

Scott Charlton

Having HSBC's knowledge of what was happening in the European and the US markets, because those markets were effectively shutting down while we still had an active Middle East market. We still had an Asian market and an Australian market that was supportive of the transaction, so without that global reach and being able to understand the differences between the markets and how best to access the individual market that would support the transaction would have been very difficult.

David Simons

One of the big questions that that raised was of course where would we distribute that paper because there are Australian relationship angles for Leighton, there are banks that would have insights into the opportunity in the Middle East. So what we did in the end was actually distribute in both markets.

Scott Charlton

HSBC not only played a large role in structuring, underwriting and syndicating the transaction, but long term as agent and facility agent trustee they do a lot of the day-to-day support roles for the Group, including the Group transactional banking throughout the whole Asia Pacific region.

Letitia Chau, SVP Corporate Trust & Loan Agency, Asia-Pacific, HSBC (Hong Kong)

The relationship between a client and agent is a long-term one, because not only do you need someone who is able to execute the transaction in a timely and professional manner, you require someone who is able to administer the transaction throughout the life. So you need someone who provides quality service throughout the life of the transaction as your trust partner.

Scott Charlton

While these transactions come along every few months and we see more of them down the track, just collecting the daily cash and moving the money around that's what keeps the business operating. And we trust HSBC and they've done a great job for us and we look forward to working with them in the future.

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