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## **Iowa Fertilizer Bonds Drop as Junk Deal Needs Extra \$100 Million.**

Speculative-grade bonds issued for a fertilizer plant in Iowa sank after the company building the facility said it needs an additional \$100 million to finish the project.

The Iowa Finance Authority sold \$1.2 billion of debt in April 2013 to fund the building of a 320-acre nitrogen fertilizer plant in southeastern Iowa by Cairo-based Orascom Construction Industries. At the time, it was a record amount for a junk muni offering. The company said in a filing posted Dec. 8 that it may issue more equity or debt because costs are exceeding projections.

Iowa fertilizer bonds maturing in December 2025 traded yesterday with the highest volume since July, data compiled by Bloomberg show. They changed hands at an average yield of 4.19 percent, the highest since Nov. 17. That's 2.17 percentage points above benchmark munis, the widest spread since the same date.

Orascom has used all but \$100,000 of the project's \$68 million construction reserve fund, initially funded by bond proceeds, and has spent \$13.5 million of the equity-funded reserves, according to a Dec. 8 call on which attorneys for the trustee and the company briefed investors. The draws on the reserves didn't require bondholder consent.

### **Junk Risk**

The cost overruns show the risk in investing in high-yield munis for stand-alone projects. Standard & Poor's rates the bonds BB-, three steps below investment grade. The credit rater said last month the higher costs wouldn't immediately lower the rank because the facility is set to begin operating in November 2015, as planned. Construction is about 55 percent complete.

Orascom could sell \$58.7 million of tax-exempt debt that has the same protections as outstanding obligations, according to bond documents, which stipulate a debt-to-equity funding ratio. Any additional securities would have to be subordinate.

Junk-rated Puerto Rico's \$3.5 billion general obligation deal in March eclipsed the Iowa deal. While some of the largest municipal-bond managers have trimmed holdings of commonwealth debt, they're among the biggest holders of the fertilizer securities. They include Legg Mason Inc. (LM:US), Nuveen Asset Management, Vanguard Group, Invesco Ltd. and BlackRock Inc. (BLK:US), Bloomberg data show.

Sarah Rackoff, a New York-based attorney representing Orascom at Orrick, Herrington & Sutcliffe; and Shawn Rana, a representative for Iowa Fertilizer, didn't respond to e-mails seeking comment on the filing. Laura Roberson of UMB Bank Corporate Trust in St. Louis, the bond trustee, didn't return a call seeking comment.

Bloomberg

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