

# New debt funding model a first in agricultural finance

Standard Bank has partnered with agribusiness TWK and Land Bank to create a new debt funding model for the agricultural sector through a R1.8bn restructure, paving a way for the corporatisation of agribusinesses to accelerate their growth.



Image Source: [TWK](#)

## A first in agricultural finance

The transaction is a first in agricultural finance in terms of the collaboration in a syndicated loan to TWK between Standard Bank as a commercial financial services provider and Land Bank as a parastatal financier.

It is also a first in terms of Standard Bank and TWK working together to restructure TWK's balance sheet in a way that enables the bank to apply its financial insight from the corporate business world to agriculture's unique operating environment.

## TWK Investments

The 77-year old business, TWK, which recently listed on ZAR X, South Africa's second stock exchange in 58 years, provides a broad range of products and services to its stakeholders. Its divisions include timber, grain, trade and mechanisation, financial services, and vehicles and tyres.

The potential rewards from investing in TWK Investments Ltd seem to be high. With a turnover in excess of R7bn and net asset value of more than R1bn, the shares of TWK Investments trades at a substantial discount to net asset value. It is forecast to grow its bottom line for the 2017 financial year considerably from the high base of the previous year and the shares trade on a low price-to-earnings ratio.

The company's physical assets include fertiliser blending plants, trade outlets, maize and animal feed mills, two grain silo complexes, plantation farms, a wood chipping plant, a treated timber plant, lumber and mining timber sawmills, charcoal production facilities, a forestry seedling nursery, fuel service stations, and vehicle dealerships.

## **An optimal debt funding structure**

"All credit must go to the visionary approach TWK's board has taken in initially realising that they needed to structure the business differently in order to capitalise on the growth the company has already experienced and then in approaching us for our input as to how best to achieve that," says Standard Bank Head of Agribusiness, Nico Groenewald.

"TWK was prepared to change its financial model which made it possible for a Commercial Bank like Standard Bank to work together with the Land Bank and in combination create an optimal debt funding structure. The funding model is ideally structured and can be scaled as the TWK business grows".

Groenewald believes that the new debt structure is aligned with TWK's growth strategies, enhanced the balance sheet of the company and is a perfect balance between the optimal financing mechanism and financing products. This reduces risk and creates an ideal opportunity to invest in TWK's equity as listed on ZAR X.

## **Geared for growth**

The TWK transaction is expected to be a watershed in investment in agriculture.

Until now, because of its unique operating environment and the way it has been managed, agriculture has not provided many opportunities for individual, institutional, or broad-based investors. "If other agribusinesses take a similar approach to TWK in gearing themselves for growth, agriculture could become an extremely attractive passive investment option," Groenewald says.

"We have also been delighted to work with Land Bank in proactively looking for different, more effective ways of funding agriculture. In this particular transaction, as a non-commercial entity, Land Bank's willingness to innovate is a clear indication that the industry as a whole is moving in an extremely positive direction."

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