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Carib Cement signs MOU to end operating lease with TCL

BY KARENA BENNETT
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bennettk@jamaicaobserver.com
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Caribbean Cement Company Limited (CCCL) has signed a MOU to terminate the operating lease agreement with Trinidad Cement Limited for use of assets at the Rockfort plant in Kingston, after years of complaints by shareholders that the arrangement was inefficient and robbed them of returns.

Yesterday the cement company disclosed to shareholders that on March 16, it signed a memorandum of understanding with holding company Trinidad Cement Limited (TCL) to terminate the lease agreement signed between both parties on July 2, 2010; along with the corresponding US$118 million payable to TCL for purchase of assets of the lease agreement.

CCCL has also sought to redeem 52 million preference shares issued by the company to TCL in 2010 and 2013, for approximately US$40.5 million to be paid over a nine-year period starting in 2018 sourced from at least one third of CCCL's profits available for distribution from the previous year.

Lastly, CCCL hopes to broaden its financing options to fund the acquisition of assets and the redemption of shares.

"The closing of the above transactions is subject to the satisfaction of certain conditions, including approval from TCL and CCCL's corporate bodies, securing financing options by CCCL, the absence of occurrence or potential occurrence of any material tax and/or accounting effects if the above transactions are executed, among others," CCCL said in the notice on the Jamaica Stock Exchange.

It added that decisions related to any transactions previously conducted by the companies are expected to be executed by TCL and CCCL within 90 days from the date of signing the MOU.

CCCL was projected to pay out roughly $2.8 billion to TCL in operating lease last year. In 2016 the company was billed a total of $3.3 billion much to the anger of shareholders who complained that the last time CCCL paid a dividend was in 2005, amounting to a total distribution of around $60 million at seven cents per share.

During the company's annual general meeting last year, general manager of CCCL Peter Donkersloot Ponce noted that the structure of the lease agreement with TCL was not the most efficient and might have made sense five years ago when Caribbean Cement had no possibility to finance its assets.

He added that with the company being in a better position, it would seek better financial options to carry out operations.

TCL owns 74 per cent of Caribbean Cement, while Cemex owns 69 per cent of TCL. Cemex's indirect acquisition of controlling interest in Caribbean Cement last year has already allowed the Kingston-based producer to commit to investing US$24.7 million to complete a coal mill and kiln and implement green energy programmes, pushing cement production from 910,000 tonnes to 1.2 million tonnes annually by 2019.

Reports are that CCCL has two operating lease agreements with TCL, one covering Clinker Kiln 5 and the other, Cement Mill 5. The structures were part of an expansion programme financed by TCL with a US-dollar loan from external sources. CCCL will negotiate new rates with TCL for the period January 2019 to December 2028.

The company, which has traded on the Jamaica Stock Exchange for 49 years, reported net profit of $1.15 billion on revenues of $16.5 billion last year.

CCCL is now awaiting approval from the National Enviromental and Planning Agency for the extention of its Halberstadt Gypsum Quarry from 2.0 kilometres to 6.7 kilometres.

The cement company also wants to establish a limestone quarry at Harbour Head spanning 50 acres. Both quarries would be within proximity to its plant at Rockfort in Kingston.