

Chapter 7 Mini Case 4:

Financing S&S Air's Expansion Plans with a Bond Issue

Mark Sexwale and Thandi Shilowa, the owners of S&S Air have decided to expand their operations. They instructed their newly hired financial analyst, Chris Gumede to enlist an underwriter to help sell R20 million in new 10-year bonds to finance construction. Chris has entered into discussions with Danielle Ralston, an underwriter from the firm of Raines and Warren, about which bond features S&S Air should consider and what coupon rate the issue will likely have.

Although Chris is aware of the bond features, he is uncertain as to the costs and benefits of some features, so he isn't clear on how each feature would affect the coupon rate of the bond issue. You are Danielle's assistant, and she has asked you to prepare a memo to Chris describing the effect of each of the following bond features on the coupon rate of the bond. She would also like you to list any advantages or disadvantages of each feature.

1. The security of the bond, that is, whether the bond has collateral.
2. The seniority of the bond.
3. The presence of a sinking fund.
4. A call provision with specified call dates and call prices.
5. A deferred call accompanying the above call provision.
6. A make-whole call provision.
7. Any positive covenants. Also, discuss several possible positive covenants S&S Air might consider.
8. Any negative covenants. Also, discuss several possible negative covenants S&S Air might consider.
9. A conversion feature (note that S&S Air is not a publicly traded company).
10. A floating rate coupon.