Babcock Implosion Gathers Pace

The bad news at Babcock & Brown is mounting. Since my last post on Babcock and Brown less than three weeks ago, the anticipated writedowns have finally begun, CEO Phil Green is about to resign and the share price has almost halved. The company is now, ominously, in a trading halt, with the interim results due on Thursday.

So far, it's the managed funds causing all the trouble, although the funds and the mothership are inextricably linked. The fire sale of B&B Power's assets continued this week with the sale of its Tamar Valley Power Station for less than half the $223m construction costs to date.

The proceeds of $100m won't put much of a dent in the $3.7bn of outstanding debt and neither will the expected $330m in earnings before interest, tax, depreciation, amortisation, set up costs, transition costs, impairment expenses and 'other non cash charges' (that's really what it says in the announcement - it really means 'earnings before expenses'). Things are looking shaky.

Not only has Babcock been sacked as advisor to the fund – the board has appointed UBS to undertake a belated 'strategic review' – but it had $173m invested in B&B Power securities as at 31 December 07, and $380m of the fund's debt is a loan from Babcock, the majority of which probably ranks behind the rest of B&B Power's towering burden.

This is only one asset, but it's a substantial one and if things are this bad with one of the few investments with a public profile, what does it mean for the rest of Babcock's assets? As I said in the last part of my 10-part Babcock and Brown review, Babcock's equity investors don't need much to go wrong before they're wiped out. And things are certainly going wrong.