Lakatabu: Future cement flows

09/02/2010

The biggest commercial bank project syndication in Nigeria last year and the first deal to be priced over lenders' average weighted cost of funds rather than the inter-bank rate, the Eu225 million ($303 million) three-tranche multi-currency corporate loan backing Lafarge Cement WAPCO Nigeria's Lakatabu expansion project was significantly oversubscribed on both US dollar- and naira-denominated tranches.

The deal is a quasi corporate/project hybrid facility with lending based on future cashflow expectations – in effect an on-balance sheet reserves-based financing for the cement industry – and a departure from the norm for Lafarge, which has a reputation for funding internally.

WAPCO's balance sheet could not support this level of debt without taking into account future receivables, which are expected to exceed the conservative estimates used in the base case, given the high price and demand for cement in Nigeria.

The project will enable Lafarge WAPCO to increase its cement production capacity by around 2.2 million tonnes per year (tpy): WAPCO currently has two production sites, the Ewekoro and Sagamu plants, with a combined capacity of 2 million tpy.

Nigerian demand for cement is 18-20 million tpy and is expected to continue rise annually by around 10% because of progress in the nascent Nigerian infrastructure PPP market and a property boom spawned by the collapse of the stock market. Total cement production is around 8 million tpy, with the shortfall made up by imports. The government is predicting self-sufficiency in cement production by 2013 – a target that is unlikely to be met.

The Lakatabu expansion involves construction of a new 5,000 metric tonnes-per-day dry production kiln line at the Ewekoro plant in Ogun State. Additional storage facilities for raw materials, a long conveyor belt between the quarry and the new kiln line, coal storage and grinding stations to improve the reliability of the kiln, and a 100MW captive power plant will also be built.

The multi-fuel power plant – six Wartsila 18V50DF engines that can operate on either heavy fuel oil, light fuel oil or gas – is particularly important to the sponsor which has suffered significant loss of production because of gas supply outages.

Mandated in 2008 and lead arranged by Stanbic IBTC (also global co-ordinator and de facto financial adviser), Guaranty Trust Bank and Standard Chartered, the deal comprises three tranches, each with an average life of three years (a 2.5-year grace period and 15-month repayment period). WAPCO's balance sheet could have stood a slightly longer tenor, but the debt was deliberately kept short to appeal to ultra-conservative credit committees.

The debt comes with tax benefits – capital allowances on all qualifying expenditures, together with a 10% investment allowance, Tranche A is a $114.47 million loan – fully underwritten by the mandated lead arrangers (MLAs) – to refinance an equivalent bridging facility provided by the same MLAs in December 2008. The debt priced at 400bp over cost of funds. Bank takes on the tranche are Stanbic IBTC $38 million, Standard Chartered Nigeria $26 million, Citibank Nigeria $15 million, Guaranty Trust $13 million, Standard Bank $12.25 million and China Construction Bank Corporation $10 million.

The combination of reasonable pricing, short tenor, pricing over cost of funds and a quality asset in a relatively shallow pool of quality Nigerian projects, pulled significant interest from international lenders and the tranche was oversubscribed by 106%.
Tranches B and C are locally denominated and priced over the Nigerian inter-bank rate (Nibor). Tranche B is a N27.937 billion ($140 million) syndicated medium-term note priced at 125bp over Nibor. The facility was oversubscribed by 230.56%, with First Bank and Guaranty Trust taking N5 billion each; Stanbic IBTC N4.6 billion; Union Bank of Nigeria N3.39 billion; Standard Chartered Nigeria N1.947 billion; and Access Bank, Bank PHB, Ecobank Nigeria, First City Monument and First Securities Discount House taking N1.6 billion each.

The C tranche is a standby facility, in the form of a $114.47 million naira-equivalent syndicated medium-term discounted note. The debt can be drawn to refinance part or all of the amount outstanding under the A tranche in the event that exchange rate movements make it preferable to the sponsor to have locally-denominated rather than dollar debt. The aggregated drawn amount under facility A and facility C cannot exceed $114.47 million at any time.

Bank takes on the C tranche, which was oversubscribed by 111%, are Stanbic IBTC $36 million equivalent, Standard Chartered Nigeria $25.97 million, First Bank of Nigeria $20 million, Guaranty Trust $12.5 million, and Bank PHB and Ecobank $10 million each.

The deal has not been deliberately structured for a refinancing after construction. However the short tenor and floating rate debt means there is scope for a refinancing if the lending climate improves. In addition, a feasibility study is already underway for a further major expansion, which will include another captive power plant.

Lakatabu Expansion Project
Status: Signed 26 May 2009
Description:
2.2MMTPA cement production expansion project in Nigeria
Sponsor: Lafarge Cement WAPCO
Lead arrangers:
Stanbic IBTC, Standard Chartered, Guaranty Trust Bank
Participants: Citibank, Standard Bank, China Construction Bank, First Bank, Union Bank of Nigeria, Access Bank, Bank PHB, Ecobank Nigeria, First City Monument, First Securities Discount House
Lender legal counsel:
Denton Wilde Sapte (international), Aluko & Oyebode (local)
Sponsor legal counsel: Olaniwun Ajay LP
Environmental consultant:
Environmental Resources Management Southern Africa
EPC contractors: Wartsila, CBMI Construction