

Hyundai Steel: Negotiation on a grand scale

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The largest multi-ECA financing in Korea for the past decade, the \$972 million ECA tranche backing Hyundai Steel's \$5.5 billion Dangjin steel project was also part of one of the biggest corporate/project hybrid deals in Asia last year.

The total deal comprises \$2.6 billion of equity and \$2.9 billion of debt. The debt is split between \$972 million in ECA facilities, a W1.5 trillion eight-year (including three-year grace period) corporate financing raised from five local banks including Kookmin and KDB, a corporate bond which stood at W750 billion at the end of 2008, and L/C debt via a standing corporate revolver.

The Dangjin project is a key part of growth plans at both Hyundai Steel and Hyundai Automotive. The car manufacturing affiliate has struggled in the past with steel supply because the products currently made by Hyundai Steel are low-end steels created in electric arc furnaces, rather than blast furnaces, and are unsuitable for car production: POSCO has been the only domestic source of high-end steel and according to Hyundai, has charged accordingly.

Although Hyundai Steel is the largest electric arc steel producer in Korea and the second largest in the world by production capacity, producing 9.9 million tonnes per year, the Dangjin project will give it much needed diversification into high-end steel manufacturing.

The project involves construction of an 8 mtpa blast furnace/ integrated steel mill in Dangjin, on the west coast of South Korea. Lead EPC contractor is AMCO with equipment supply from 20 different exporters located in five countries.

Although the smallest part of the debt-raising, the multi-ECA facility was challenging given it involved six ECAs and backed up to 85% of the imported goods and services for the project, and a tied commercial loan for the remaining 15% down payment on the imports.

Lead arranged by Calyon, HSBC, ING, Standard Chartered and Societe Generale, the package consists of five-tied ECA tranches totalling \$704 million, a tied five-year commercial bullet loan of \$121 million, and an untied \$147 million facility from Sace – its first untied facility in Asia.

Euler Hermes covered a Eu261 million (\$344 million) tranche, Finnvera Eu23 million, Luxembourg's ODL Eu54 million, Austria's OeKB Eu44 million, and Sinosure \$107 million. Each of the five MLAs committed 20% for each of the ECA facilities and the commercial loan.

The deal was originally mandated at the beginning of 2007, but as market conditions worsened the arrangers were forced to renegotiate the pricing, which caused delays. Three of the arrangers – Calyon, ING and Standard Chartered – took advantage of the delay to secure stable funding via an OeKB refinancing.

Hyundai Steel

Status: Financial close 30 May 2008

Description: Multi-ECA steel mill financing

Sponsor: Hyundai Steel Company

Lead arrangers: Standard Chartered Bank, Societe Generale, Calyon, HSBC, ING

ECAs: Euler Hermes, Finnvera, ODL, OeKB, Sinosure, Sace

Lender legal counsel: Allen & Overy, Lee & Ko, Run Ming

Sponsor legal counsel: In-house

Technical consultant: ThyssenKrupp Steel,

Market consultant: WS Atkins, Samil PricewaterhouseCoopers

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