African Industrial Deal of the Year 2006

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Unicem: Going local

The $205 million multi-tranche project financing for United Cement Company of Nigeria Limited (Unicem) set a new benchmark for Naira denominated project debt – the longest tenor Naira syndicated facility to date and a structure that enables Unicem to access US dollars from the local market with which to pay its primary contractors whilst using its local currency facility as a natural hedge for Unicem's Naira revenues.

Sponsored by Egyptian Cement Company (70%) – itself jointly controlled by Holcim Group of Switzerland and Orascom Construction Industries (OCI) of Egypt – and Flour Mills of Nigeria (30%), the deal finances construction of a green-field cement plant and 47MW captive power plant 30km north-east of Calabar in Cross River State, Nigeria. Estimated project cost is $428 million and the plant will have a clinker capacity of 6,250 tons per day and cement production capacity of 2.5 million tons per year.

The financing started life in 2004 when Unicem appointed Citigroup as financial adviser and lead arranger. When the project was first muted to banks the plan was to raise around $250 million with approximately 45% of the financing in Naira from Nigerian banks at a tenor of around six years, and 55% in US dollars from export credit agencies (ECAs), development finance institutions (DFIs) and from the international bank market at a tenor of around 10 years.

But that initial plan faced a number of market hurdles – notably weak international lender appetite for Nigerian risk, a highly liquid local bank market (on the back of oil revenues) but one that had no history of long-tenor lending, and another cement deal – the 2005 multi-sourced $479 million Obajana financing – had tapped out portfolio limits at development lenders.

At the financial engineering level, any deal also had to overcome Unicem's foreign exchange exposure – the mismatch between foreign currency construction costs and local currency project income – with no long-tenor foreign exchange hedging availability and local currency interest rates of around 14%.

With ECAs and development institutions near their portfolio limits funding would have to come in small sums form a wide range of sources and the list of preferred lenders/guarantors became extensive – EKF, NIGA, OPIC, DEG, EAIF, Proparco, Finnfund and FMO – as did the number of parties overall with which the borrower had to negotiate.

In effect the deal became unwieldy and Unicem tested the local market for lending appetite for the whole facility. Bolstered by high oil prices, and hence high liquidity, the Nigerian banks responded favourably and a revised financing that pushed local tenor out to nine years was agreed. The US dollar proportion of the debt was also increased but total debt volume had to be reduced to $205 million to be consistent with the lower weighed-average tenor of the debt, and equity increased to $223 million.

The final project finance facility comprise a $20million 4-year tranche, a $37million 7-year tranche, a N12billion 7-year tranche ($94 million), and a N6.85billion 9-year facility – all priced over Libor and Nibor respectively.

All four tranches of debt rank pari passu and share a common security package comprising Unicem's shares, assignment of key contracts and insurance policies.

Mandated lead arranger on the deal is Nigeria International Bank (NIB) Limited (a subsidiary of Citigroup) with a 14.6% take of the debt. Lead arrangers and their percentages takes of the debt are lead local provider Zenith Bank (28%), Guaranty Trust Bank (19.3%), Afribank Nigeria (9.3%), First Bank of Nigeria (8.3%). Participants are Ecobank Nigeria (4.9%), Diamond Bank (5.9%) Union Bank of Nigeria (4.9%) and IBTC Chartered Bank (4.9%).

The success of the deal reflects the solid project economics behind Unicem. Nigeria is the second largest importer of cement worldwide and current domestic cement production only meets around 30% of demand. With demand forecast to grow, the Nigerian government had made domestic cement production a priority and planned to ban the import of cement by any company that did not also have a local production facility in place.

Despite the bullish cement market (prices were running at round $150/tonne) and because Unicem has no offtake agreements in place, the ability of the Unicem financing to service its debt was based on a very conservative long-term cement pricing to give lenders comfort.

Unicem also had no long-term fuel supply agreements. All cement plants in Nigeria are fuelled by HFO or natural gas and HFO pricing is controlled by the Nigerian government and is linked to the natural gas price. With the Nigerian government politically backing cement production, lenders could feel comfortable with the fuel price risk, and with demand for cement growing any increase in fuel costs would easily be absorbed by higher prices for cement.

Unicem
Status: Financial close 21 September 2006
Sponsors: Egyptian Cement Company; Flour Mills of Nigeria
Description: Locally sourced long-term cement project financing
Total project cost: $428 million
Total debt: $205 million
Financial adviser: Citigroup
Mandated lead arranger: Citigroup/ Nigeria International Bank
Lead arrangers: Zenith Bank; Guaranty Trust Bank; Afribank Nigeria; First Bank of Nigeria
Participants: Ecobank Nigeria; Diamond Bank; Union Bank of Nigeria; IBTC Chartered Bank (4.9%)
Legal counsel to borrowers: White & Case; Aluko & Oyebode
Legal counsel to lenders: Milbank Tweed; Udo Udoma & Belo Osagie
Environmental consultant: ENVIRON
Insurance consulatant: Miller Insurance Services
Model auditor: PKF
Security trustee: First Trustees Limited
EPC contractors: FL Smidth (cement plant); Wartsila (power plant)
Civil works contractor: Orascom Construction Industries