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Obajana Cement: Clause and effect

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Obajana Cement (a subsidiary of Dangote Industries Limited of Nigeria) has closed $479 million of multi-source project debt for a new cement complex in Nigeria – the largest of its kind in Africa.

The project comprises three distinct assets – a power plant, a cement plant and pipeline infrastructure. Structured in a two-year lead time, the deal has closed remarkably quickly given the location, the complex and multiple negotiations of multi-sourcing and that US-Exim withdrew from participating in the financing of the power plant at an advanced stage.

The $479 million financing splits into $320 million of external debt and $160 million of local bank debt. Both Dangote Industries and its adviser African Merchant Bank spent time persuading local banks to take project debt onto their books at a reasonable margin. Across the board, the debt pays 4.1% over Libor (or its equivalent in interest plus monetised upfront fees).

First Bank of Nigeria came in as lead arranger for the local tranche and was joined by United Bank for Africa, First City Monument Bank, Guaranty Trust Bank, Zenith Bank, Oceanic Bank International, Diamond Bank, Equatorial Trust Bank, Access Bank, Afribank Nigeria, Prudent Bank, Fidelity Bank and Intercontinental Bank. The local facility has a tenor of five years with a two-year grace period and an even amortisation.

The $320 million external debt has a tenor of seven years with a one-year grace period and is split into a $150 million EIB facility, a $75 million IFC facility, and a $95 million facility lead arranged by the African Merchant Bank (subsidiary of Banque Belgolaise) and the Netherlands' Overseas Development Finance Company (FMO). At sub-lending level the deal features Swedfund International AB, Finnish Fund for Industrial Cooperation LTD, Deutsche Investitions- und Entwicklungsgesellschaft MBH (DEG), Industrial Development Corporation (IDC) from South Africa and Emerging Africa Infrastructure Fund Limited.

The EIB tranche is funded under the Cotonou agreement with a $40 million direct loan and a $110 million covered loan. The guarantee is for commercial risks only and is provided by Eksport Kredit Fondsen (EKF) of Denmark for $70 million, and by Fortis Bank and Barclays, for the remaining $40 million.

The project comprises a greenfield cement plant at Obajana, Kogi State, 220km south-west of Abuja, the Nigerian capital. The project will have a combined production capacity of 4.4 million mtpa and includes a 135MW captive gas power plant; a 94km gas pipeline; a limestone quarry with a 7.5km conveyor belt; a 13m high dam and reservoir with a total storage capacity of 5.1 million m3 and a 328 unit housing complex for non-local staff.

The estimated project cost is $798 million, to be financed with sponsor equity of $319 million (40% of the project's capitalisation) and $479 million of project debt. The sponsor has already spent $510 million, so about $90 million of the costs raised as local corporate debt will be taken out by the project financing.

The principal lender risks are two-pronged. Unlike most single-asset project financings there are three engineering and procurement contractors (EPCs) that creates greater construction and documentation risks for the lenders: FC Smith for the cement plant, GE Capital for the power plant, and Julius Berger for other infrastructure. The construction risks are scheduled to dissipate when train one of the cement plant comes on line in January 2006 and is tested for three months by FC Smith, upon which, if successfully completed FC Smith is released from its guarantee. A second train will come on line six months after commissioning line one.

The cement produced will be entirely dedicated to the domestic market. Once operational the project will substitute about 60% of current cement imports and save Nigeria over $500 million a year in imports.

The second major risk is market risk. Given that the project company's parent Dangote Industries has about a 70% share of the Nigerian cement market it is not market risk in the conventional sense of increased competition or falling supply. Instead there is the possibility that Dangote could use its dominant position to destabilise the project.

To this end the financing is underpinned by a floor that is triggered if the project is in default and it can be shown that Dangote has manipulated the market, say, by placing a greater emphasis on imports or substituting supply from another project. If market manipulation can be shown, the lenders have recourse to Dangote's balance sheet. In all other instances, such as the unlikely event of withering demand or other natural market events, the financing remains non-recourse.

This 'recourse if the market is manipulated' clause was critical to the participation of EIB and IFC, both of which have to meet stringent conditions regarding the market power of entities they are able to support. The multilaterals' environmental concerns were more easily assuaged due to the use of natural gas in combination with modern cement production technology and is fully consistent with the Climate Change policy of the EU and the EIB to encourage climate-change friendly investments.

Obajana Cement
Status: Closed 12 August, first draw down
at the beginning of September
Size: $479 million project financing
Description: a 4.4mtpa cement plant, a 135MW gas power plant and a 94km gas pipeline with associated infrastructure
Location: Obajana, Kogi State, 220km southwest of Abuja, the Nigerian capital
Sponsor: Obajana Cement (Dangote Industries)
Lead arrangers: EIB; IFC; African Merchant Bank; FMO; First Bank of Nigeria
EIB Guarantors: Barclays; Fortis
Financial adviser: African Merchant Bank/Banque Belgolaise
EPC: FC Smith; GE Capital; Julius Berger
Legal counsel to borrower: Allen & Overy (Paris)
Legal counsel to lenders: Clifford Chance (Paris)
Technical consultants: Austroplan
Environmental consultants: Commission Mer