Cementing M'Sila

01/06/2003

It is hard for a deal not to be described as original when it marks the first project financing in a country since the 1970s. Egypt's Orascom Construction Industries' first foray into Algeria ? through its $260 million project to build the first private sector cement plant in the country (Algerian Cement Company) ? is being financed in part by the first ever limited-recourse facility structured in the country. It is also the first time the European Investment Bank (EIB) has taken on commercial risk cover from an export credit agency.

Equally importantly, this is the first time domestic Algerian banks have tried hacking through project finance documentation with international lenders.

With so much novelty, it is perhaps of little surprise that the deal was not as swift, smooth and painless as its diverse parties would have hoped. Dating from early 2000, OCI's proposal was set to be signed and funded by November 2002. But the deal faltered after three key local banks (Banque National d'Algerie, Credit Populaire d'Algerie and Banque de Developpment Local) failed to sign auxiliary documents, despite having inked the loan agreement. According to one source, the banks in question failed to even show up at the signing ceremony: ?They didn't know how to express that they didn't quite agree with things.?

The deal was subsequently reworked by lead arranger Citigroup to include a debt package, reduced slightly from $185 million to $156 million. It was finally signed on April 15, 2003.

The final deal includes a $35 million IFC loan for ten years, and two EIB facilities ? a 12-year, $45 million portion and a $10 million, 10-year loan.

This represents the first private sector lending by the EIB in Algeria. It is assuming full political risk, although its commercial risk is being soaked up by its guarantors: EKF on the, $45 million, 12-year tranche, and Citigroup for 5 years of the $10 million, 10-year tranche, renewable at the option of the guarantor. EKF's role will also support Danish EPC contractor, F L Smidth (FLS). The EIB finance also comprises an indirect Eu6 million equity participation from risk capital in the company.

Previously Citigroup, acting as financial adviser to OCI, had considered taking the deal to the international commercial bank market: ?We approached the market, but at that time it wasn't enthusiastically received,? says Antero Ranta, director in Citigroup's project and structured trade finance department. ?It would have been a struggle to get that kind of tenor in the bank market.?

The third tranche is the controversial local portion, denominated in Algerian dinars as a hedge against foreign exchange risk. Only Citigroup Algeria and Caisse Centrale des Caisses d'Epargne et de Provyance (CCCEP) are left of the original group of five local lenders. The debt on this portion has been reduced to $40 million, from $66 million.

The sudden retraction of the three local players, however, is not symptomatic of any flaws in the deal itself, according to one source close to the deal. ?The banks were just worried about local public opinion following some outrageous and negative articles written about ACC in the local press,? says the source. ?They didn't want to be involved with any project that might, rightly or wrongly, be considered negative.?

The effect of this backtracking was to force a heftier sponsor contribution.

The project's main sponsor, OCI (Egypt's largest private sector construction conglomerate, part of the Orascom group controlled by the Sawiris family, one of Egypt's most prominent business families), provided a $26 million, 10-year loan, to plug the deal, and get the urgent funds necessary to kickstart the lingering project, and to pay their operating costs. Discussions are currently under way to sign the other lenders into the deal.

But the problems were slightly more endemic. The domestic parties had little or no experience with this type of transaction. Consequently, working through the legal documentation was one of the most challenging aspects of the deal.

One of the most pressing concerns was over security structures. ?Algerian security law is fairly underdeveloped and not very tried and tested,? says Tim Scales, partner at Allen & Overy in Paris, ?It took some time for the parties to get comfortable.?

OCI will initially own 100% of ACC, though there are plans for the company to bring strategic partners into the project at a later stage. ?They see it very much as their backdoor, coming from Egypt as they are,? says Scales. ?It's a dated cement industry that will benefit from their know-how,? he adds.

The cement technology being used is a state-of-the-art low energy dry process with precalciners and fired by natural gas, which is readily available from local distribution networks. The use of natural gas combined with precalciners and dry technology will make the plant one of the most energy efficient in the world. ?We expect Algerian Cement Company to contribute to our bottom line beginning [this] summer and create significant value for out shareholders,? says OCI, in a statement.

In the absence of a direct offtake agreement, ACC will sell directly to the Algerian market, using its own distribution and marketing arm, with the possibility of export to the wider Mediterranean market, with Spain the most likely destination. The project's economics stack up favourably: ?From a commercial perspective it's a strong deal,? says Ranta. ?They will fill the gap between supply and demand.? The 12 existing state-run production facilities only produce a total of 8.3 million tonnes of cement per year, whereas demand is closer to 11.5 million tonnes.

M'Sila Cement (Algerian

Cement Company)

Status: Signed, April 15, 2003

Size: $260 million

Location: M'Sila, Algeria

Description: $260 million deal to fund the construction and operation of Algeria's first private cement plant

Sponsor: Orascom Construction Industries

Debt: $156 million comprising: $35 million IFC tranche, $55 million EIB tranches, $40 million local debt, $26 million sponsor loan

Debt/Equity ratio: 60/40

Joint Lead Arrangers: Citigroup, IFC, EIB

Lawyers to Sponsor: Allen & Overy

Lawyers to Lenders:

Clifford Chance, Linklaters