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Oxus: No cover

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Oxus Mining has completed a small but significant financing for its Amantaytau gold property. The deal is the first instance of a project financing in Uzbekistan going ahead without cover from a multilateral, and a solid step forward for Oxus, a start-up listed on London's Alternative Investment Market (AIM). Nevertheless, the deal had to overcome a change in arranger, and still faces significant political risks.

Oxus is a company formed to explore opportunities in Central Asia, particularly Uzbekistan, which is estimated to hold the fourth largest gold reserves in the world. The fortunes of Oxus' AIM-listed shares have risen and fallen according to those of the Amantaytau project, its primary asset. The $36 million debt financing should end the first chapter of the reserves' development.

Gold mining in Uzbekistan goes back to 1958, and foreign investors piled in quickly after the collapse of the Soviet Union. The first operator to gain financing was Newmont, which in 1992 established a joint venture with the Uzbek government for the Muruntau processing plant. This processing venture benefited from substantial support from the European Bank for Reconstruction and Development, including a $30 million expansion facility, which closed in 2001.

Oxus began examining the deposit at founding in 1996, and formed a joint venture exploration company with the Uzbek government to exploit the Amantaytau reserve. The project site covers 2 of the 26 proven deposits within the reserve's 1,000km licence area. The financing covers the first phase of the project, the oxide deposits nearest the surface.

Securing a project finance facility has been a difficult task - the International Finance Corporation took a look at the reserve back in 1994, but is no longer involved in the project. At this point Amantaytau was a Lonrho property, but found the reserve non-core to its interests. Newmont was also closely involved in the development, and ended up taking a 19.5% stake in Oxus.

It is Oxus' struggle to raise equity that forms the backbone of the financing's story. Oxus, an independent, has found raising the necessary start-up funds tricky. It listed on 29 June 2001, at a price of 30p per share and a market capitalisation of £37 million ($60 million). Its stated intention at flotation was to raise the remainder of the mine's costs through a project finance facility, so as not to dilute equity. Nevertheless, the sares slid while Oxus struggled to raise debt.

And so, on 25 July 2002, Oxus signed a loan agreement with SG, supported by HVB and National Bank of Uzbekistan. On August 16 of that year it signed a $23 million subordinated loan, again with SG. But meeting the timeframe for conditions precedent to draw down the debt proved frustrating. Eventually the loan was withdrawn.

A second arranging group, this time led by Standard Bank and WestLB, took over the mandate for the deal, and was able to rely heavily on existing due diligence work and structuring. Indeed, because security had already been registered with SG, it retained the role of security agent. National Bank of Uzbekistan is still slated to come on board as a co-arranger, however.

Working within the Uzbek framework posed few problems given the willingness of the authorities to attract foreign capital. The idea of the government taking a 50% economic stake for no money upfront is one with which most arrangers and sponsors are comfortable. 50% of the equity in Amantaytau Goldfields is in the hands of Oxus, 40% with the Uzbekistan State Committee for Geology and Mineral Resources, and 10% is with the Navoi Mining and Metallurgical Combine.

Uzbekistan, currently hosting the European Bank for Reconstruction and Development meeting, has a good record in attracting foreign investment, although it has attracted criticism from some NGOs. The sponsor's chosen means of mitigating country risk was the use of offshore escrow accounts, while the lenders took out private political risk insurance. The lead arrangers did not identify the provider of this policy. The gold will be refined at the Navoi gold refinery, which lives up to London Billion Market Association standards.

The mine will have a cash cost of $106 per ounce, comfortably within the current gold price, as well as any expected downturns. The mine will initially produce 190,000 ounces of gold, and will use milling rather than heap-leaching technology, as was originally envisaged. The contractor for the mine is MAED, which has also bought out Newmont and other stakes and now effectively controls Oxus. It is MAED's entrance which market observers credit with moving along the project and bringing the facility to close.

The financing breaks down into a $30 million term loan facility and a $6 million cost overrun facility, which eliminates the need for any additional debt. Accordingly the SG sub-loan has also been cancelled. The debt has a tenor of construction (one year) plus two years. Even with PRI, this tenor is about as long as banks could get comfortable in Uzbekistan.

According to Oxus forecasts, the mine should pay the loan off and send $30 million up to the sponsor, providing gold prices hold around $320 per ounce. The facility will also pay off $1.6 million in development costs, sunk in the form of intercompany loans. Construction on the loan is already well advanced.

The next work on which Oxus will be focusing in phase two of the Amantaytau project, the exploitation of underground sulphide reserves. This would have a higher capital cost, but would benefit from on-site economies of scale. Oxus also holds development properties elsewhere in the region.

Amantaytau Goldfields
Status: Closed 16 April 2003
Location: Uzbekistan
Description: oxide gold mine financing
Sponsor: Oxus Mining
Debt: $36 million
Tenor: three years
Lead arrangers: Standard Bank London, WestLB
Financial advisor: Endeavour Financial
Contractor: MAED
Market consultant: SRK
Lawyers to the borrower: CMS Cameron McKenna
Lawyers to the lenders: Denton Wilde Sapte