African Mining & Metals Deal of the Year 2001 - Mozal

01/02/2002

The $1billion financing for the Mozal aluminium smelter's phase two expansion, which aims to double the plant's output by 250,000 tonnes per year, feeds into what has become the largest ever foreign investment in Mozambique. It was the country's ? indeed Africa's ? most substantial brownfield mining project financing last year. Putting together a deal of this size called for extraordinary cooperation between a diverse team of sponsors, multilaterals, export credit agencies and commercial banks ? all backing one of the lowest cost producers of aluminium in the world.

Loan agreements were signed with sponsor BHP Billiton (47.11%), co-sponsors IDC (24.04%), Mitsubishi Corporation (25%) and the Mozambican government (3.85%) on June 29, 2001.

The total cost of doubling the plant's output comes to $1 billion of which $600 million is senior debt. The balance is sponsor equity. Coordinating the deal is the IFC, which also led funding for the transaction backing Mozal's first phase in 1998. The multilateral is also investing $25 million of its own A-loan funds as part of the debt package ? it previously provided $120 million for phase one.

The bulk of the debt is in ECA tranches. Canada's EDC is providing $30 million; JBIC is contributing $75 million; Coface will provide $150 million and the newly established South African Export Credit Agency (SAECA) will supply $250 million. The remaining $75 million is being provided by senior lenders to the first financing: DBSA ($40 million), DEG and Proparco.

Coface is backed by lead arranger BNP Paribas, the latter taking partial commercial risk. The SAECA tranche is being arranged by IDC. Deutsche Bank acted as financial adviser.

The EDC tranche comprises the first support ever provided by EDC for Canadian exporters in Mozambique ? Canadian SNC-Lavalin, together with South Africa's EMS, has provided project management by acting as EPC contractor for both phases of the plant's expansion. The agency initially lent $25 million for Mozal I through Mozfund Pty Ltd, a special purpose vehicle.

Mozfund was established for the first transaction by IDC, together with ABSA, BoE, First Rand, Nedcor and Standard Bank and attracted a total of $400 million for that deal.

The phase one financing amounted to $1.34 billion ? the largest single project investment ever made in the country. The project was completed six months ahead of schedule and managed to shave off $120 million from the projected budget. At that time, funding was split between 38% equity ($520 million), 50% senior debt ($670 million) and 12% sub-debt ($150 million). The IFC, which coordinated the deal, provided a $55 million A-loan and $65 million subordinated debt. The bulk of senior debt was provided by ECA cover, most conspicuously a $400 million tranche from South Africa Credit Guarantee Insurance Corporation (CGIC).

The structure for the second phase largely replicates that of the first deal. The Mozfund SPV is being deployed again for the SAECA tranche. However, CDC and EIB (both of whom were participants on the first deal) are absent. JBIC and EDC have replaced them on Mozal II.

Given that this is an expansion project, as opposed to the Mozal I greenfield development, security rationalization and the extent of sponsor support were both issues that needed appropriate attention.

Building the second smelter on the site of the first shaved $300 million from the price tag. And the existing revenue stream from phase one also significantly helped matters for financing phase two. The lack of sub-debt in this second facility reflects the first plant's success as much as a more general calibration of the global aluminium market.

World aluminium prices have been slipping but the cyclical nature of product pricing is an assumption built into the project's economics. Mozal is among the lowest-cost producers of aluminium in the world and the longer supply/demand picture is said to be very strong.

Other beneficial aspects include the plant's location. Situated on the Maputo Industrial Free Zone (21km outside the capital) the plant reaps substantial tax benefits. These include exemption from income tax for foreign workers, a reduction in 40% income tax for domestic workers (the vast majority) and ? most importantly ? exemption from corporate tax on Mozal's profits.

The IFC's involvement also provides reassurance to investors not only in Mozal but, more generally, in other large-scale private sector projects in Mozambique. Aside from coordinating agency lenders, IFC is also participating in creating opportunities for small- to medium-sized enterprises (SMEs), through helping implement Mozal's policy of outsourcing all non-core activities to local companies.

The first output from the plant should appear towards the end of 2003 and the project is expected to earn Mozambique an extra $100 million per year from exports while boosting GDP by up to 7%. Mozal accounts for about 2% of the aluminium output worldwide.