Panning for gold

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A few years ago banks were quick to grab a piece of the action in mining projects in Latin America. But the situation has changed and the confidence found in deals such as Alumbrera and Collahuasi, which defined non-recourse finance transactions two years ago, could take some time to return.

According to Jeffrey Stufsky, a director and head of mining project finance for the Americas at Deutsche Bank Securities in New York, there is less depth of participation in syndicated loans. For many lenders now, the structure of the deal is paramount. Says Stufsky: ?There are tighter rather than looser structured deals.

Pricing is less flexible and depending on the deal compared to two-and-a-half-years ago rates are higher. On a straight non-recourse project finance loan, rates are a minimum of 200 basis points higher.? He notes that it is only possible to look forward three to six months in a market that is decidedly less liquid.

Apex Silver Mines has appointed Barclays Capital and Deutsche as joint lead arrangers of a debt financing package for its $400 million San Cristobal project in southern Bolivia. A bankable feasibility study on the 509 million ounce silver deposit is in progress and expected to be completed in the next few months.

While financing details are still to be confirmed, San Cristobal has a debt-to-equity ratio of around 60:40. Export credit agencies or private political risk insurance may be required. Says Stufsky: ?From a lead manager's perspective it looks very promising.? A variety of institutions have expressed conditional interest.

Speaking at a conference in London in 1998, Ernesto Fernandez-Lang of the commodities division of Barclays Capital spoke of the San Cristobal project and the issues it faces. Fernandez-Lang believes that the ?do it right? attitude that Apex has adopted in making sure that all risks are addressed adequately, together with the support being received from the Bolivian government, serves as a good indication that this will be financed upon completion of their feasibility study next year.

Deutsche is also one of the lead arrangers for the $2.5 billion Antamina copper-zinc project in Peru sponsored by Canada's Rio Algom, Noranda and Teck. This deposit is the world's largest combined copper-zinc resource and has the potential to produce 600 million pounds of copper and 360 million pounds of zinc a year over a 20-year mine life. The project finance portion of the development could be as high as $1.7 billion. Stufsky says that all funding sources will be taken into account including the export credit agencies.

A $600 million non-recourse credit facility to back the Antamina project, the largest in Peru's history was launched in May 1999. The loan is being arranged by Citibank, Barclays Capital, Bank of Montréal, ABN Amro, Bank of Nova Scotia, CIBC and Deutsche.

Caren Chang, analyst in the global project finance group at Duff & Phelps Credit Rating in Chicago says that when the company looked at the Antamina project it was considered a low cost producer with net cash costs of less than 50 cents a pound. Says Chang: ?Antamina is a good transaction but has bad timing.?

Hugo Dryland, managing director at NM Rothschild in Washington says that financing for Antamina and another mining project, El Tesoro, will close in the next couple of months. They are both ?underwritten and in documentation? but he declined to comment on pricing.

El Tesoro ? one of the few deals in the market

Financing for the $285 million El Tesoro copper project consists of $205 million in debt and the rest in equity. The sponsors are Antofagasta Holdings and Equatorial, a subsidiary of the Australian Mutual Provident Society. Leading the debt financing are: Dresdner, Royal Bank of Scotland, Santander, KfW and Rothschilds.

Top Latin American projects in the pipeline		
Amount ($)	**project name**	**status**
3,100	Companhia Vale do Rio Doce Privatization	Pre-Approval
2,500	Tehuantepec Iron Mine	Pre-Approval
2,260	Antamina Copper and Zinc Mine	In Finance
2,000	Salobo Metais Copper-Gold Mine	In Tender
1,330	Cerro Cascale Gold/Copper Mine	Pre-Approval
1,140	Cerro Petaquilla Gold, Silver & Copper	In Tender
1,100	La Granja	In Tender
1,000	Agua Rica Copper Mine	Pre-Approval
900	El Pachon Copper Mine	In Tender
600	Sonami/Hyundai Copper Mine	In Tender
570	Los Bronces Mine Expansion Project.	Pre-Approval
500	San Cristobal Project	Pre-Approval
450	Radomiro Tomic Expansion	In Finance
414	Bayovar Mine Privatisation	In Tender
353	Cerro Matoso Nickel Mine Expansion	In Finance
300	Cupey Nickel Mine Project	In Tender
Source: Capital DATA's ProjectWare		

Says Dryland: ?The main difficulty is the limited number of projects coming to the market. The bank markets show increased interest. Pricing levels have moderated a little but there are no huge deals. The timing of San Cristobal and Pirquitas is uncertain. There is very little out in the market. It will probably remain fairly quiet until a recovery in prices and sponsors commit capital.?

Pirquitas silver mine ? is it feasible?

Sponsors Sunshine Mining and Refining Company have engaged Barclays Capital and Warrior, a division of Standard Bank London, as advisers to provide financial advisory services in relation to the financing and development of the Pirquitas silver mine in Argentina.

Under the terms of the engagement the advisers will review the project's feasibility study, develop a financing structure and arrange the necessary bank financing for the $124 million project.

According to a spokesman for Warrior there is no term sheet or loan yet but the advisers will determine how much project finance can be garnered from the financial markets to maximize the debt, export credit agency, political risk cover and support from the multilateral development agencies. Sunshine Mining is issuing up to $75 million of 8% preferred shares.

Says John Simko the company's chief executive officer in Boisey: ?Our goal is to arrange the financing in the next few months so the mine development can begin before year-end. We expect to be in production by mid-2001.?

The independent feasibility study for Pirquitas has estimated proven and probable reserves totalling 116 million ounces of silver, 156 million pounds of tin, and 272 million pounds of zinc. It is estimated that pre-production capital expenditures required to develop the property are about $124 million. Over the 10-year life of proven and probable reserves, production will average 9.2 million ounces of silver a year with a cash cost of less than $1.50 per ounce. The unleveraged, after-tax rate of return on the investment is over 20%. This assumes silver prices of $5.50 an ounce, tin of $2.54 a pound and zinc of $0.47 a pound.

Cerro Vanguardia ? requires careful structuring

Financing mining projects in Argentina is a complex business and this is underscored by the experiences of the sponsors of the $270 million Cerro Vanguardia gold mine, Anglo American, Perez Companc and Fomicruz.

Financing for the $270 million is split 70:30, debt-to-equity. The financing is arranged so that there is recourse to shareholders during construction. Thereafter, the deal reverts to a non-recourse financing.

Expanding options ? moving away from the greenfield project

The trend in Latin American project finance globally in 1999 is weighted towards expansion rather than greenfield projects because of the lack of bank liquidity. Metal prices both base and precious metals in general are low and companies have less cash flow.

This point was amplified in a speech by Dr James Campbell, executive director of Anglo American to the Institute of Mining and Metallurgy in London in May 1999. Says Campbell: ?The outcome of this complex circle of forces is, firstly the certainty that the market may not be willing to compensate for new expensive infrastructure costs for greenfields projects when brownfields expansion at competitive prices are available.?

Campbell stresses that ?unless mineral resources located in infrastructure naked regions of the world are so extensive in quantity and of such high grade in quality, the likelihood of commercial exploitation by global players is remote. It will remain, therefore, for the ?patriotic? companies in the host countries to assume the high risks of exploitation, if at all.?

The flow of mining projects being financed is less, particularly at the longer end, and those companies with a strong balance sheet such as Canada's Placer Dome are self-financing.

Placer Dome's $575 million Las Cristinas gold project in Venezuela was due to be project financed but the company changed its mind. Says a spokesperson for the company ?we could do it more inexpensively than externally?.

However, DCR's Chang explains that their most recent detailed analysis on Las Cristinas was undertaken in November/December 1998 and the project financing was based on a debt-to-equity of 40:60. Placer Dome may refinance the project using some debt when the markets improve.

DCR advised the sponsor on additional credit enhancements but Placer Dome felt it was not beneficial for them to pursue non-recourse financing in a period of uncertain gold prices. It was thought too onerous to sell the transaction in the market with the political uncertainty of a new president and the appetite for emerging market debt low. Chang points out that there is a backlog of deals in Latin America generally.

But not all commodity projects are the same. Campbell points out that gold and diamond projects do not require railways and ports in the same way as base metals and minerals projects. These commodities do not incur massive electricity costs for pyro-metallurgical processing.

For base metals projects where a smelter may be required, electricity costs may amount to as much as 15% to 20% of working costs. The access to an adequate supply of electricity at globally competitive prices is a critical ingredient in determining a project's feasibility.

In practice this means such projects will be largely confined to Latin American countries where electricity prices are less than 4 cents/kWh.

Base metals projects in countries with high power costs will be confined consequently to the production of concentrates unless some other structures can be devised to offset high national electricity costs.

Antamina
Borrower: Compañia Minera Antamina (CMA)

Sponsors: Noranda (37.5%), Rio Algom (37.5%) and Teck (25%)

Financing:
?$600 million loan

Arrangers: Citibank (global agent), Barclays Capital (European agent), ANZ (Middle East/Australasia agent), Bank of Montréal (Americas agent), ABN Amro, Bank of Nova Scotia, CIBC and Deutsche.

The non-recourse credit facility is split between a $400 million, 12-year tranche priced at 125 basis point over Libor and a $200 million, 10-year tranche priced at 300bp. The longer tranche has political risk insurance. The shorter does not.

Post-completion and out to year-end 2004, pricing on both tranches will rise by 100bp. From January 2005 to December 2008, pricing will escalate 25bp on both tranches from 2009 to maturity. The political risk covered tranche will increase again to 300bp over Libor. The uncovered tranche will remain at 425bp over Libor.

The non-recourse loan is offering three tiers in general syndication: co-arrangers for $40 million; co-agents for $20 million and managers for $10 million. The co-arrangers fee is 125bp for the covered tranche and 150bp for the uncovered. The co-agents' fee is 75bp for the covered portion and 100bp for the uncovered. Managers will earn 50bp for covered and 62.5bp for uncovered. Responses are due by June 14.

?$105 million Jexim-backed loan

Arrangers: BoT-Mitsubishi and Fuji. This tranche has a maturity of 12 years, will not be syndicated further.

?Up to $700 million of direct or syndicated financing from other export credit agencies.

?Mitsubishi is also finalizing a 10% equity interest in CMA. This will result in a pro-rata reduction of the equity interests of the three Canadian companies.

The sponsors are expected to invest $2.5 billion. If they do not, the penalties are said to be severe.