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Stanwell Magnesium

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Asia-Pacific Mining and Metals

Deal of the Year 2002

Stanwell Magnesium

AMC Corporation's Stanwell Magnesium project is set to become a world leader in a very limited field ? but this presented significant challenges to both banks and sponsors. Getting comfortable with a plant using relatively unproven technology and selling into as illiquid a market as that for magnesium was a major task for banks. Moreover this is one of the largest public offerings of equity for a project, and the first of its type for a magnesium project.

The Australian Magnesium Corporation has been developing the Kunwarara magnesium ore deposit, near Rockhampton, in Central Queensland. This resource is the largest in the world, but is largely processed onsite and smelted elsewhere ? there is a small demonstration metal plant, Gladstone, nearby, but little else to add value. Stanwell's purpose is to create metal in large volumes, whilst at the same time developing a market for the lightweight material.

The chief probable market for this is in the automotive industry, which is constantly searching for lightweight, durable materials that increase fuel efficiency. At present, magnesium accounts for about 3kg of the weight of a typical car, but it is not inconceivable, say sources close to the project, to increase this portion to 9kg by 2010. Aluminium has increased its presence in vehicles at a similar rate.

The genesis behind the plant is Ford, the BBB+/Baa1-rated (Standard and Poor's/ Moody's) car producer. Ford is looking to increase its use of magnesium and find a secure low-cost source. It is a desirable counterparty because of its long lead-time requirements and size, although it has suffered from a declining credit recently. Ford put A$30 million ($18 million) into the Gladstone demonstration plant, with support from state and federal government.

Stanwell uses a chemical process that is designed to cut down on effluent waste and excess energy, but still be cost competitive. Nevertheless, the fact that there is only one small-scale example of the technology is not likely to impress lenders. What was required to gain debt financing is a substantial equity cushion.

AMC's original main shareholder is Normandy Metals, which originally planned to put in $600 million in equity. Normandy became caught up as a target between Newmont and AngloGold, with Newmont eventually winning. Newmont did not seem inclined to put in this much cash, so AMC looked at raising equity on the public market.

Australian mining ventures have a long history of raising equity for single-asset ventures, but the size and risk of the deal made the deal a tricky sell. Newmont holds 22.8% of AMC's equity, with an option to take 4% more. But AMC mandated ABN Amro Morgans (a domestic retail broker), ABN Amro Rothschild (the institutional arm) and JB Were to place $525 million in equity. Of this, $440 million has gone towards development of the Stanwell project.

This used an innovative structure to overcome the market's requirements for yield during construction and ramp-up. The idea of a growth stock that will eventually pay a dividend is not in favour at present. These instruments are called distribution entitlement securities, and consist of a share attached to a loan note. Subscribers agreed to take up a proportion (50c) of the total 80c per share price, and paid up a further 30c earlier this year.

To service these shares while the plant is up and running, the Commonwealth of Australia is providing a A$50 million facility to service dividend requirements. In fact, government support goes much further, since the Queensland state government is putting up $50 million, with a further A$70 million coming from the government-owned Stanwell Corporation, and another A$50 million coming from the research body the CSRIO. The Australian government has played a large part in developing the new technology, and receives a licence fee, shared with AMC for it. The Federal government has also put up a $100 million guarantee, which covers a subordinated loan provided by ANZ.

All of these loans and facilities are subordinated to the senior lenders, which also do not fund until the engineering on the plant is substantially complete and A$710 million is spent on the plant. This is augmented by a solid 15-year (with an option for a further 15 years) power purchase agreement with a government-owned power plant nearby. And, to ensure regular and uninterrupted supplies of magnesium, AMC has signed over a sufficient proportion of the magnesium deposit to Stanwell.

The mandated lead arrangers are ABN Amro, ANZ Investment Bank, JP Morgan and WestLB. All four have been working on the project for several years, and have been able to keep alive skills that might have been lost in the privatisation-fixated Australian market. The debt breaks down into several tranches: a construction loan of A$730 million, a debt service reserve of A$50 million (priced at 325bp), a cost overrun facility of A$60 million (priced at 300bp), a commissioning facility of A$50 million (priced at 325bp), a letter of credit of A$12 million (provided by the leads and not syndicated) and a working capital facility of A$30 million (not syndicated). Pricing on the construction and term loan is 275bp pre-completion, 225bp years 6-10 and 275bp thereafter.

Nevertheless, the deal has not been an easy sell. Despite such a substantial security package, proven technology and an opportunity at diversification (away, for instance, from troubled power loans) the deal has attracted a limited haul of participants. Interest is likely to become stronger as the plant nears or reached completion, at which point the leads can decide whether to refinance in the bond markets or slash pricing on the loan. Given their confidence in the project, it is probable that they can make out well. And AMC looks set to be a world leader in this growing market.

Australian Magnesium Operations Pty Ltd

Status: closed September 2002

Size: A$2 billion

Location: Queensland, Australia

Description: 97,000 ton capacity magnesium metal and alloy plant

Sponsor: Australian Magnesium Corporation, a listed company with Newmont Mining as main shareholder

Debt: A$902 million

Lead arrangers: ABN Amro, ANZ, JP Morgan, WestLB

Lawyers to the borrower: Allens Arthur Robinson

Lawyers to the lenders: Mallesons Stephen Jaques

Contractors: Fluor, Leighton

Independent engineer: Behre Dolbear

Market consultant: CRU International

Costs consultant: Clark & Marron

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