

Latin American Mining & Metals Deal of the Year 2009

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The big developments in big-ticket Latin American mining tend to happen independently of the credit cycle. The deals come along infrequently, sponsors can afford to take a long enough view, and multilateral and export credit agencies change their practices slowly.

But no deal can operate in isolation from market conditions. Those looking for Latin America to produce an outsize mining project with commercial bank participation alone will have to wait a little longer.

Commercial bank interest in the Esperanza copper-gold project in Chile was reassuringly solid. Banks have abandoned second-tier Latin American markets to multilaterals, but even as many reassessed their Latin operations, they stuck with the project. But Esperanza's financing structure looks similar to many of its forbears over the last ten years. This familiarity comes from having a cast of lenders and advisers in common with earlier deals and strong and attractive project sponsors.

Esperanza, with 583 million proven and probable tonnes of copper reserves, is destined to account for up to 9% of Japan's imports of copper. That kind of proportion ensures strong interest from Japanese sponsors, banks, and Japan's all-powerful export credit agency, the Japan Bank for International Cooperation (JBIC).

The financing for the \$2.35 billion project, which signed on 19 May 2009, included \$1.3 billion of equity and \$1.05 billion in project debt. The project debt, which matures in December 2020, consisted of a \$400 million commercial bank tranche, a \$400 million JBIC loan, a \$200 million EDC loan and a \$50 million KfW-IPEX loan.

The JBIC debt is priced at 137.5bp over Libor pre-completion and 250bp during the rest of the life of the debt. For the commercial, EDC and KfW debt, the pricing is 275bp pre-completion, then 300bp years 1-3, 350bp years 4-9, and 375bp until maturity. Commitment fees are 50bp. The commercial lenders are Mizuho Corporate Bank, Bank of Tokyo-Mitsubishi UFJ, Sumitomo Mitsui Banking Corporation, ING Capital, and Credit Agricole CIB (then Calyon), as mandated lead arrangers, and Santander and Natixis as arrangers. The sponsors' financial adviser was NM Rothschild.

The developer of the mine is Chile-based but London-listed copper producer Antofagasta. It was able to achieve the low leverage figure by raising equity from Japanese trading company Marubeni. In an acquisition dated 24 April 2008, Marubeni bought 30% of the equity in the project, as well as 30% of past award-winner El Tesoro from Antofagasta for \$1.31 billion as well as sharing in the project's equity contribution.

It funded this equity contribution with a \$650 million loan, which signed on 31 August 2009 from JBIC, SMBC, Mizuho and BTMU, with Mizuho and Royal Bank of Scotland advising. The commercial bank portion of this equity facility carries a guarantee from Japan Oil, Gas and Metals National Corporation, a government body that assists Japanese industry in obtaining raw materials supplies. Japanese buyers will account for 40% of the project's output.

Documentation on the project started in October, amid the rubble of Lehman Brother's collapse, and during a period in which copper prices went from roughly \$4 per pound to something nearer \$1.40. Despite market pressure for banks to form unwieldy clubs, the sponsors put together a detailed term sheet for circulation to interested lenders.

Coming together on documentation was not an obstacle, though Antofagasta had become used to getting underwritten commitments from smaller groups. Banks signed up to a common terms agreement, and shared administrative and collateral agents, no doubt helped by the presence of three most commercial of the export credit agencies. They have become much more comfortable with such arrangements over the last decade.

The most important product of the ECA involvement was a stricter set of environmental covenants, while the commercial lenders were satisfied with generous pricing, given the leverage and sponsors, and a cash-sharing mechanism that gave banks pro rate prepayments if the sponsors take distributions. Lenders were also granted security over two adjoining deposits, both called Telegrafo, and both of which may be larger than Esperanza. Banks' calls for some sort of price-hedging were politely rebuffed. Market corrections will only go so far.

The pricing, leverage and cash sweep features were most obvious signs of crunch-related tweaking, though small compared to what an emerging markets transport borrower has experienced over the last two years. Miners that have chafed in recent years at banks' hedging requirements realise that there are worse alternatives, often involving giving up equity or price upside to their richer customers.

Esperanza is a 3.2 million-tonne copper reserve, which also contains 4.1 million ounces of gold and significant silver deposits. It will have an annual production of Mine with annual production of 191,000 tonnes of copper, 215,000 ounces of gold and 1,132,000 ounces of silver over its 19-year life. The project involves building both a mine and an ore processing plant, and buying power from the GDF Suez project Los Hornitos, a nearby 150MW plant. Concentrate will be piped 144km to the coast, using seawater to create slurry.

Esperanza is Antofagasta's largest project financing ever, but it stands in a long line of Andean copper projects, many of which have won awards, and share sponsors, lenders and advisers. But in a year when many worthwhile projects demonstrate a back to basics approach, few will have the lineage to call themselves tried and true.

Minera Esperanza

Status: Signed 19 May 2009

Size: \$2.35 billion

Location: Sierra Gorda district, Chile

Description: Mine with annual production of 191,000 tonnes copper, 215,000 ounces of gold and 1,132,000 ounces of silver

Sponsors: Antofagasta plc (70%), Marubeni (30%)

Debt: \$1.05 billion

Export credit agencies: EDC, JBIC, KfW-IPEX

Mandated lead arrangers: Mizuho Corporate Bank, Bank of Tokyo-Mitsubishi UFJ, Sumitomo Mitsui Banking Corporation, ING Capital, Credit Agricole CIB

Arrangers: Santander, Natixis

Marubeni equity facility arrangers: JBIC, SMBC, Mizuho and BTMU

Project financial adviser: NM Rothschild

Equity facility advisers: RBS, Mizuho

EPC: Aker

Technical consultant: Scott Wilson Roscoe Postle

Insurance consultant: Moore-McNeil

Copper market consultants: Brook Hunt; CRU Strategies

Model auditor: KPMG

Sponsor legal counsel: Sullivan & Cromwell (international) Jara, Del Favero Abogados (local)

Lender legal counsel: Milbank (international) Philippi Yrarrazaval Pulido & Brunner (local)

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