Ma'aden Aluminium: Integrated and mitigated

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The Maaden Aluminium deal stands out against peers such as Emirates Steel and Emal because of the scope and scale of the underlying project. The Maaden-Alcoa $10.8 billion joint venture in Saudi Arabia will develop the regions first fully vertically-integrated mining complex, from mine mouth to milled end-product.

Phase 1-a and 1-b of the complex involves the construction of an alumina smelter and rolling mill, the financing of which closed concurrently on 30 November 2010. The project companies, Maaden Aluminium Company and Maaden Rolling Company, are both owned 74.9% by Maaden and 25.1% by Alcoa. The sponsors say the financing has been heavily oversubscribed, with banks allocated an average of just 40% of their commitments.

Sixteen financial institutions, together providing over $1.9 billion, participated in the signing. The Saudi Public Investment Fund (PIF) and the Saudi Industrial Development Fund (SIDF) will also provide $2.6 billion in financing to the projects.

The $5 billion smelter is financed with a debt/equity split of 65/35 higher leverage than the market benchmark of around 55/45. There is $1.7 billion in equity and $3.3 billion indebt. The debt consists of a $1.3 billion loan from PIF, two facilities worth a combined $320 million from SIDF and a $1.636 billion conventional debt tranche. All non-SIDF facilities have a 16-year tenor, with a 25% balloon and a 30% cash sweep starting at year 8. The average life of the loan is around 12 years.

The $1.636 billion commercial debt breaks down into five tranches: a $140 million dollar conventional tranche, a $143 million dollar Islamic procurement, a $50 million dollar Islamic wakala, a $943 million riyal Islamic procurement, and a $160 million riyal Islamic wakala

The smelter will process alumina bought at market prices from Alcoa, initially, and then the vertically-integrated bauxite mine owned by the JV. Bauxite feedstock for the planned alumina refinery will be transported by rail from the new mine at Al Baitha, near Quiba, in the north. Lenders are taking price and margin risk on both alumina and the aluminium produced, which the sponsors will buy under a long-term agreement at the spot London Metal Exchange (LME) price. Both the feedstock and offtake contracts were negotiated on an arms-length basis.

The financing is the first smelter to run on externally-sourced power, which will be provided by the Saline Water Conversion Company (SWCC). The complex will use power from what was going to be the 2,400MW Ras al Zour independent power and water project, but which the Saudi government, through SWCC, decided to procure directly, in April 2009 after rejecting the winners bid.

Lenders were comfortable with the SWCC power plant because its owner is an arm of the state and because the plant has an extremely high level of redundancy. That is, there is sufficient power for the projects if three generating units are off line the normal level of redundancy is one or two units. The projects could draw power from the grid in the event of an outright power plant failure, although most banks did not seriously entertain this in their base case.

The deal compares favourably with previous smelter financings as the completion support is time-limited and there is no debt buy-down guarantee, as seen in earlier deals, which significantly reduces the sponsors contingent liabilities.

The $2.5 billion rolling mill is financed on a debt/equity split of 50/50. It is the first ever beverage-can-stock-focused rolling mill financed on a limited recourse basis. The debt financing of the mill consists of a $278 million riyal Islamic procurement tranche, $821 million loan from PIF and a $160 million equivalent loan from SIDF. The debt is based on a sculpted 16-year repayment profile with an average life of around 12-years. Unlike the smelter deal, there is no balloon or cash sweep. Cost overrun support from the sponsors will remain in place until the earlier of technical completion and a technical completion longstop date.

Project financing for beverage-can grade rolling mills is challenging because of the long proving period in which consumer products must be tested before mass production. This means that while the plant may be technically complete there may be a long ramp-up period with depleted revenues. An extended grace period before full production is not feasible. To overcome the repayment concerns during ramp-up, the financing introduces the concept of opex support whereby sponsors support operating cash flows of the borrower until the prove period has passed, allowing for limited recourse financing despite the protracted ramp-up period.

The mill uses aluminium from the smelter bought at market prices and the output is also fully merchant. The economics are compelling given the scale, the proximity to feedstock, other low input costs and the fact that it is the only beverage-can grade rolling mill in the region and has a strong import-substitution cost advantage.

Maaden formed a joint venture with Alcoa in December 2009 to develop the first phase of the integrated aluminium project (smelter and rolling mill). Project development had to be advanced enough to allow for financing commitments to be in place by end June 2010, as required under the projects gas allocation from the Ministry of Petroleum.

Pricing is undisclosed, although the riyal-denominated debt is priced more cheaply than the dollar tranches, and the rolling mill debt is slightly more expensive than the smelter debt. The sponsors looked carefully at the trade-off between riyal and dollar debt, between cheaper debt and the natural hedge of dollar-price LME aluminium prices. PIF was a large and crucial provider of dollar debt for both projects.

Maaden Aluminium smelter and rolling mill
Status: Financial close 30 November 2010
Description: Limited recourse financing of aluminium smelter and beverage can stock rolling mill
Sponsors: Saudi Arabian Mining Company (Maaden) and Alcoa
Mandated lead arrangers for the smelter: Standard Chartered, Riyad Bank, BNP Paribas, Alinma, Aljazira, Al Rajhi, Apicorp, Arab National Bank, EDC, Emirates Bank, Fransi, Hollandi, NCB, Samba and SABB
Mandated lead arrangers for the rolling mill: as above plus Saudi Investment Bank
Public lending institutions: Saudi Public Investment Fund and the Saudi Industrial Development Fund
Financial advisers: Standard Chartered and Riyad Bank (project advisers), BNP Paribas (Alcoa)
Sponsors legal counsel: Baker & McKenzie
Lenders legal counsel: Clifford Chance
Market consultant: CRU
Technical consultant: Hatch
Insurance consultant: JLT