Maple Energy: Upside in ethanol

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Maple Energy signed a $148.5 million debt financing for a $254 million ethanol project on the remote northern coast of Peru in March 2010. The deal is notable for surmounting the food-versus-fuel concerns attached to the biofuel industry to satisfy development lenders stringent environmental and social impact assessments. The deal is also significant for the number of hurdles the sponsor, Maple Energy, had to overcome, not least the challenge of growing sugar cane in a near-desert, and it also illustrates the entrepreneurial streak of some development lenders.

The financing consists of $140 million in 12.5-year construction and term debt and an $8.5 million VAT facility. The senior debt breaks down into a $65 million loan from the Corporacion Andina de Fomento (CAF), a $25 million loan from FMO, a $25 million loan from the Inter-American Development Bank and a $25 million loan from Peruvian commercial lender Interbank.

The financing is unusual for its inclusion of upside interest payments on the multilateral senior debt. These upside payments are used as a device to overcome the multilaterals preference not to go below the market rate offered by commercial banks. At the time the project was in the market the all-in cost of commercial bank debt was at mezzanine and equity-like levels of around 13%. In return for a low initial margin the CAF, FMO and IDB loans are priced starting at 600bp over Libor the margins ratchet with the projects profitability. The commercial bank loan provided by Interbank is priced at a fixed 10.75%. Interbank was willing to invest at almost equal terms to the multilaterals because of its knowledge of Peru and the agriculture sector.

The lenders will first sweep 30% of the borrowers cash flow after debt service towards debt repayment, and then receive another 6.5% in upside interest. The IDB has dedicated its upside interest proceeds towards nearby community development projects.

Maple will guarantee the loan until project completion. Its guarantee will fall away once the project reaches completion, is within defined covenants, and reaches development milestones. The sponsor is also putting up a $12.5 million letter of credit to cover cost overruns, which would be cancelled at completion.

Maple had to deal with a near-paradox: to raise financing for an ethanol project from multilateral and bilateral lenders it had to grow its fuel in such an inhospitable environment that it could not be accused of taking land out of food production. To grow fuel in such an environment it had to put together a technically complex irrigation system. To build this system cheaply it had to dispense with a fixed-price turnkey engineering, procurement and construction contract.

The banks had to make sure that the project did not breach the International Finance Corporations performance standards or the IDBs biofuels guidelines. The site of Maples project is barren, with little biodiversity one lender describes the location as a moonscape. Importantly, no local inhabitants were displaced. The technical challenges are ameliorated by the presence of one the most experienced sugar cane agricultural managers in the world, Booker Tate.

The project involves cultivating up to 7,800 hectares of sugarcane in this dry, yet sunny, part of northern Peru, irrigating it using a drip-feed system, processing the sugarcane and distilling it into ethanol, and using a 37MW bagasse-fired power plant to run the distillation unit and pump water from a nearby river for use in the irrigation system. Roughly 20MW of the generation plants capacity will be required for this parasitic load, and the remainder will be dispatched into the grid.

Maple will sell to Mitsui 80% of the production from the project for the first five years of operation, and may sell up to 20% of production domestically in Peru. The ethanol will be sold to Mitsui FOB at a delivery point at the ethanol loading terminal at Paita.

Mitsui will be responsible for the transportation of the ethanol to international markets, and the initial shipments are expected to be delivered to the European Union through port facilities in Rotterdam. The price to be paid by Mitsui will be a net-back price based on Mitsuis resale agreements to customers and the costs to deliver the ethanol product to the final customers, less a marketing fee paid by Maple to Mitsui.

Maple is contributing $105 million in equity to the project. In August 2010 Maple Energy signed an agreement with one of its large shareholders for a $12.5 million convertible preferred equity investment. An AC Capitales SAFI-managed fund, Perus Fondo de Inversion en Infraestructura, Servicios Publicos Y Recursos Naturales, bought 456,871 non-voting convertible preferred shares in a subsidiary the Maple Companies. The preferred shares will each be convertible into 30 common shares of Maple Energy until the project reaches an internal rate of return of 20%, when the ratio changes to 20.7 common shares. The IRR also governs the amount of distributable cash the preferred holder receives: 27% until the IRR hits 15%, 11% till the rate hits 20%, and 7.6% after that threshold.

Maple also closed a $12.5 million construction cost overrun letter of credit with Interbank; though it says it does not expect to draw on it, and an $8.5 million VAT facility, which comes from FMO. The VAT commitment is funded through a bilateral agreement between FMO and the Belgian Investment Company for Developing Countries, or BIO.

The $254 million project cost breaks down into $93.6 million in agricultural expenditures, $88.5 million in processing, distillation, power generation and transmission equipment costs, $28.9 million in administrative expenses, mostly fees, a contingency of $12 million, a debt service reserve of $14.6 million, $8.4 million in capitalised interest, and $8 million in VAT.

Maple hopes to be one of the lowest-cost producers globally by benefiting from a year-round growing season, a dry climate that does not impede harvesting, and a limited need for hydrocarbons in the distillation process.

Maple Ethanol and Maple Biocombustibles
Status: Signed March 2010
Size: $254 million
Location: Piura Region, north-west coast of Peru
Description: 7,800-hectare sugarcane plantation, 35 million gallons-per-year ethanol plant, and 37MW biomass-fired power plant
Sponsor: Maple Energy
Equity: $105 million
Debt: $148.5 million
Arrangers: FMO, CAF, IDB, Interbank
Tenor: 12.5 years
Sponsor legal advisers: Vinson & Elkins (international) Rodrigo, Elias & Medrano (local)
Lenders legal adviser: Chadbourne & Parke
Environmental and social impact consultant: JGP
Technical consultant: SGS
Agriculture manager: Booker Tate