

DEAL ANALYSIS: Cochrane

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AES Gener and Mitsubishi Corporation closed a \$1.05 billion financing for their \$1.3 billion Cochrane coal-fired project in Chile on 27 March 2013. Mitsubishi, a Japanese trading house, arrived as a sponsor midway through the financing process. JBIC provided a \$500 million direct loan to the project company, Empresa Eléctrica Cochrane, marking its first project financing for a power plant in Latin America outside Mexico.

Sumitomo Mitsui Banking Corporation (SMBC), Bank of Tokyo-Mitsubishi UFJ (BTMU) and Mizuho joined a commercial bank tranche, and Nippon Export and Investment Insurance (NEXI) covered \$250 million of the debt (97.5% political risk, 90% commercial risks). Cochrane, named after a colourful admiral who served in Chile's war of independence, closed the largest debt financing ever for a Chilean power project.

AES would probably have been able to close the financing on its own and without the benefit of a cheap direct export credit agency (ECA) loan. In October 2008, at the height of the 2008 financial crisis, AES closed a \$988 million debt financing for its Angamos coal-fired power project, which is located next to Cochrane. That deal, however, lent heavily on the Korea Export Insurance Corporation (KEIC, now Korea Trade Insurance Corporation, or K-sure), which covered \$675 million of that \$988 million debt package.

But AES, as one of the oldest names in independent power development, and the largest remaining global IPP based in the US, has a healthy international bank following, and Gener has a strong local bank following. The financing for 518MW Angamos showed that commercial banks would stretch to provide \$1 billion to Latin American power project, but the market is shallow, and direct ECA financing would be the best way to put pressure on pricing and tenors.

AES could have asked a Korean ECA to provide a direct loan to Cochrane, following on from K-Sures role on Angamos. Kexim, which provides direct loans, has become much more active and sophisticated since 2008, and Cochranes engineering, procurement and construction contractor is POSCO. AES considered that option, market observers say, even as it courted Asian multinationals as potential co-sponsors. Competition for Latin American power projects is almost as intense as it is for the continent's natural resources, but Asian sponsors can reduce the cost of capital for developers, even if they already enjoy domestic name recognition and access to cheap local debt, by allowing them access to cheap direct financing.

Mitsubishi has a strong pull with Japanese lenders among the few banks willing to lend long-term in Latin America. It made the participation of BTMU and SMBC, both of which have strong Latin franchises, a near-certainty. BTMU and SMBC have already joined forces on a handful of Chilean power deals, including a \$265 million financing for AEI, Antofagasta Minerals and Pattern Energys El Árrayan wind project in 2012, and hold the mandate on a \$150 million financing for Transelec's transmission line to the Caserones mine. Mizuho, the third of the big three Japanese lenders, also has a strong Latin American franchise.

In addition to the \$500 million direct JBIC loan, the three Japanese banks participated in the 17-year NEXI-covered tranche, with rumoured pricing of 200bp over Libor, while HSBC, Mizuho, Korea Finance Corporation and SMBC participated in a \$250 million 17-year tranche that benefited from cover from K-Sure, priced at a rumoured 210bp. Banco del Estado de Chile provided a \$55 million letter of credit facility. HSBC was financial adviser to AES Gener on the

deal.

AES used Mitsubishi's presence to bring in a cheap debt package, though it is more expensive than the covered component on its 2008 Angamos, and over double the starting pricing on its Ventanas financing in 2007. But Mitsubishi, which bought a 40% stake in Cochrane in November 2012, was able to add to its Latin American power portfolio in the regions most stable jurisdiction. Mitsubishi, since it launched a Chilean subsidiary in 1960, has previously invested in mining and water desalination in the country, and enjoys a presence in Mexico, but Cochrane, given the health of the Chilean power sector, is a trophy asset.

Chile is the world's biggest copper producer, with plans to develop additional copper mines, which will necessitate new power sources. Cochrane will have a capacity of 472MW, consisting of two 236MW coal-fired units, and is located near Mejillones, Antofagasta. Construction of Cochrane was expected to begin last quarter and be complete by early 2016, when AES expects it to start operations.

The plant will sell power to the neighbouring Sierra Gorda copper mining project, as well as other local mining companies. SMBC, the documentation agent on Cochrane, was financial adviser on the \$1 billion project financing of the Sierra Gorda mine, which closed in early 2012 and includes Sumitomo Metal Mining and Sumitomo Corporation as two of its three sponsors. JBIC, BTMU and Mizuho were also among the participating lenders in that deal.

Cochrane will share some facilities with neighbouring Angamos, which required the approval of lenders on the Angamos financing. ABN Amro and BNP Paribas were lead arrangers on the Angamos financing.

Empresa Eléctrica Cochrane

STATUS

Closed 27 March 2013

SPONSOR

AES Gener (60%),
Mitsubishi Corporation (40%)

SIZE

\$1.3 billion

LOCATION

Mejillones, Antofagasta, Chile

DESCRIPTION

472MW coal-fired power plant

LENDERS

JBIC, HSBC (financial adviser), SMBC (documentation agent), BTMU, Mizuho, KFC and Banco del Estado de Chile

INSURANCE PROVIDERS

NEXI and K-sure

SPONSOR LEGAL ADVISER

Vinson & Elkins

LENDER LEGAL ADVISER

Shearman & Sterling

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