Dalrymple Bay Coal Terminal

Simon Ellis and Vander Caceres

29/06/2006

The refinancing of Queensland's Dalrymple Bay coal terminal - which accounts for 6 per cent of the world's coal trade - comes at the confluence of the two major trends in Australian project financing

The first trend is Australia's new significance as an energy hub for Asia and beyond, with the nation's bursting mines and gas fields only constrained by historic export capacity.

The second is the emergence appearance of a new generation of Australian financial institutions able to secure the estimated Aus$34 billion (US$25.3bn) required to complete Australia's current raft of energy projects.

On the energy side, the nation's abundance of offshore gas has spurred a wave of LNG projects, and with international demand for nuclear peaking, mining companies are set to tap the country's rich uranium reserves.

But it is a boom in a much more traditional fuel - coal - that has really caught the eye. Australian black coal production has almost doubled since 1990 with production ramping up from 154 million tonnes to 284 million tonnes per year in 2005.

On the financing side, the wrapped bond refinancing marks the consolidation of a deal which became the platform for Babcock & Brown Infrastructure's (BBI) international expansion.

The project

Dalrymple Bay coal Terminal is one of Australia's big five coal ports and serves the major eight Queensland mines which are not owned by Australian mining giant BHP Billiton which operates a rival port at neighbouring Hay Point Services terminal.

In 2001, in response to pressure from Australian coal producers to expand capacity at the then 30 million tonnes per year terminal, the government of Queensland committed to privatising the facility through a 99-year lease.

Babcock & Brown made a bid of Aus$630m, nearly Aus$100m more than the price expected by government advisers, but which was itself dwarved by a Aus$700m offer from National Australia Bank.

However at the last minute National pulled out of the deal, leaving Babcock & Brown Investment - then bidding as Prime Infrastructure - an open door its first major infrastructure transaction.

But - as one of the first privatisations of its type - the deal faced disagreement between the lessor and consortium over the expansion schedule culminating in federal government intervention.

Charged with maintaining the common-user obligation to meet demand from the states' myriad of independent coal producers - the consortium introduced a new master plan to expand the port in demand-based increments - initially expanding to 54 million tonnes capacity in 2006.

However, in March 2005 Australia's federal treasurer Peter Costello accused the lessor and Queensland government of creating a major bottleneck to Australia's coal exports citing a large queue of ships waiting to load outside the terminal.

In June 2006, BBI was partially vindicated when the Queensland Competition Authority agreed to automatically approve any further expansion on Babcock's agreed master plan providing the majority of users approve it.

BBI is now seeking to expand the terminal again up to 84 million tonnes capacity

The Australian coal market

The expansion of the port was well timed coming against the background of a massive surge in the Australian coal industry.

In the last two years skyrocketing coal prices have seen total Australian exports increase by 10 per cent from 219 million tones in 2003/04 to 241 million tones in 2005/6.

Moreover, according to government research body ABARE, developers are funneling Aus$6.3bn (US$4.7bn) in investment into coal mining projects Queensland - 20 per cent of the entire investment slated for Australian energy extraction projects, including LNG.

According to Stuart Upson, group treasurer of Babcock & Brown, 'The Australian coal industry has been hyperactive since mid 2004 due to increased global demand for steel and power.'

He adds, 'The major markets for Australian thermal coal in 2005 in order of size have been Japan, Korea and Taiwan while markets for coking coal were Japan, EU, Korea, India, Brazil and China.'

Philip P. Henson, co-head of XLCA's Power & Utilities group which acted as monoline on the financing agrees, 'The Australian coal market has been very robust in 2005/2006, especially the market for hard coking coal, the primary product shipped through DBCT.'

The financing

‘The original funding was completed at a very different stage in DBCT’s development’ says Mark Langsworth Head of Capital Markets Origination at Royal bank of Scotland Australia ‘and therefore was significantly more expensive than the refinancing’.

BBI decided to go for bonds and employed XL Capital to wrap the deal. The issue was the first wrapped bond in some time in the Australian market.

‘XL provided much needed diversity in the market away from the likes of MBIA, Ambac and FSA who have been the dominant wrap providers’ says Langsworth.

Royal Bank of Scotland and Commonwealth Bank of Australia were the bookrunners of the four-tranche bond issue featuring three FRN series and one fixed rate.

All FRNs were sold at par, while the fixed was placed at 98.453.

Tranche one is a 10-year A$200 million bond that carries a coupon of BBSW + 25bp. The second tranche is a 15-year A$230 million note with a BBSW + 30bp coupon and the third one is for A$100 million with a coupon of BBSW + 37bp and a 10-year maturity period.

‘The pricing levels achieved by the issuer were the tightest ever levels achieved for these particular maturities for Aussie dollar wrapped bonds’ comments Langsworth.

The 10-year fixed rate bond is for A$150 million and pays an interest rate of 6.25 per cent.

All tranches are callable after five years, then the issuer can call the bonds at makewhole amount for each coupon date up to 12 months prior to maturity and then at par for the final 12 months.

The securities were received enthusiastically by investors particularly financial institutions who bought 53 per cent of the issue, followed by insurance companies 30 per cent and fund managers/pensions funds 17 per cent.

Since the appetite for infrastructure-backed securities is limited in the domestic market, the issuer relied on the strong offshore bid from RBS's international investor clients.

Only 32 per cent of the bonds were placed among Australian institutional investors, while 28 per cent was sold in Europe and 40 per cent went to Asia.

'Offshore accounts showed a lot of interest in the 15 and 20-year tranches' says Langsworth '89 per cent of those two tranches were actually taken up by them,' he concludes.

Conclusion

The Dalrymple Coal terminal was crucial for establishing the reputation in infrastructure investment of Babcock & Brown, while National Bank of Australia are reportedly still kicking themselves for pulling out of the deal in 2001 - not least for establishing a new rival.

As for the expansion dispute, BBI to some degree became an easy target for a federal government attempting to distance itself from historic underinvestment in Australia's coal infrastructure.

A report by ABARE this month put the problems down to a combination of rapidly increased coal demand, the collapse of a coal reclaimer at the port and delays in the approval process for Prime Infrastructure's expansion plans and lauded the new agreement as having,' a good deal of inbuilt commercial flexibility.'

In terms of further expansion, the firm will have its work cut out as a swarth of new mines attempt to capitalise on the buoyant export market.

In Queensland the Anglo Coal Australia/Mitsui JV is investing Aus$1.67 billion in expanding its production by 16 million tones by 2007 while Rio Tinto is building another 12 million tonne facility at Clermont.

According to ABARE, twelve other advanced coal mine developments in Queensland are expected to raise coal production capacity by around 30 million tonnes a year by 2008, most of which will have to go through Dalrymple.

From humble beginnings the port is set to become a worth flagship of the BBI portfolio.

The project at a glance

Project Name	Dalrymple Bay Coal Terminal refinancing
Location	Hay Point, Queensland, Australia
Description	54.5 million tonne-per-year coal export shipping terminal, which exports approximately six percent of the world's seaborne coal trade. Dalrymple Bay is Queensland's largest export coal terminal and one of the largest terminals of its kind in the world.
Sponsors	Babcock & Brown Infrastructure (BBI)
Operator	DBCT
Project Duration (Including construction)	50 years with an option to extend for a further 49 years
Construction Stage	Ongoing
Total Project Value	Aus$1bn
Total equity	Aus$420m

Total senior debt	Aus$680m (including Aus$90m for expansion)
Senior debt breakdown	Aus$680m wrapped by XLCA divided into four tranches: • Aus$200m 9/6/16 FRN. Coupon BBSW +25bp (ISIN: AU300BBIF026) • Aus$230m 9/6/21 FRN. Coupon BBSW +30bp (ISIN: AU300BBIF024) • Aus$100m 9/6/26 FRN. Coupon BBSW +37bp (ISIN: AU300BBIF042) • Aus$150m 9/6/16 6.25% FX. issue price 98.453 - equivalent to swap +25bp (ISIN: AU300BBIF018)
Debt:equity ratio	58:42
Mandated lead arrangers	Royal Bank of Scotland/ Commonwealth Bank of Australia
Monoline provider	XLCA
Legal Adviser to sponsor	Freehills
Date of financial close	9 June 2006

Australian project finance deals first six months 2006

Project Name	Proj Value US$m	Sponsor	Debt Value US$m	Lead Arrangers	Close
Australian Gas Light Co Refinancing	1,800.00	Australian Gas Light Co	1,800.00	BNP Paribas, CBA, Goldman Sachs	05/02/06
Loy Yang B Power Station Refinancing	442.73	International Power, Mitsui	442.73	ANZ, BOTM, BNP Paribas, CBA, NAB	23/03/06
Dampier to Bunbury Natural Gas Pipeline Refinancing	1,857.48	Duet, Alinta, Alcoa	448.99	ANZ, Barclays, BNP Paribas, Citigroup, CBA, NAB, SG, BOTM, WestLB, Westpac	11/05/06
Millmerran Power Plant Refinancing	780.00	IntergGen	780.00	ANZ, Mizuho Financial Group, Banca Intesa, Calyon, RBS, SMBC, United Overseas Bank, WestLB, Fortis Bank, HSBC, KBC Bank	15/05/06

Alinta Energy Refinancing	872.20	Alinta Infrastructure Holdings	872.20	SG, Westpac, Citigroup, BNP Paribas, Barclays, OCBC, Mizuho, CBA, RBS, SMBC, ANZ	18/05/06
Compression & Transportation Infrastructure for the Braemar Power Project	24.00	Queensland Gas Co, Sentient Gas Australia	24.00	Investec	19/06/06
Hope Downs Iron Ore Project	540.00	Queensland Gas Co, Sentient Gas Australia	265.00	BNP Paribas, NAB, RBS	Syndication in progress