

Ambatovy nickel mine - Madagascar

Angus Leslie Melville

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Sub-Saharan Africa's largest project financing to date has signed, setting a landmark in not only the mining sector and debt markets, but acting as a pathfinder deal for mega projects in the region

Madagascar's US\$3.3 billion Ambatovy Nickel Project is of one of the biggest project financings in the region as well as being one of the largest project financings in the global mining sector.

The deal - which is expected to reach financial close in the final quarter - will be a major revenue earner for the island state which lies 500km off the east coast of southern Africa and creates a stable supply of metals for Japan and Korea [\[Transactions Database\]](#).

This deal also stands out as nickel development involves huge costs and this project reached the signing stage without involvement from any of the global metals majors.

The mine is expected to start production mid-2010 and reach full production capacity by early 2013. It will have an estimated annual production capacity of:

- 60,000 tonnes of nickel
- 5,600 tonnes of cobalt
- 190,000 tonnes of ammonium sulphate

Sumitomo and state-owned Korea Resources Corp (Kores) have each guaranteed to take up to 30,000 tonnes of nickel, with the former responsible for marketing in Japan and the latter selling to the South Korean market.

Sumitomo, Kores and Sherritt [previously Dynatec Corporation of Canada] will jointly market nickel to China, Taiwan and other Asian countries.

Nickel production is expected to reach about 10,000 tonnes in 2010, and output is seen to rise to more than 30,000 tonnes by the end of 2011. Output could reach 60,000 tonnes by the end of 2012.

Ambatovy is located in the central highlands of Madagascar near Moramanga, around 130km from the capital Antananarivo. The mine has a projected 27-year life.

Demand

Nickel is used to make stainless steel, battery and electronic industry materials, while cobalt is used in aircraft parts and batteries. Unlike nickel, cobalt is not traded on an exchange.

Demand for both nickel and cobalt has been rising sharply in recent years and industry experts predict that demand will continue to rise over the coming years.

Sumitomo forecasts annual consumption of nickel at about 2.17 million tonnes in 2015, while supply is seen at 2.02 million tonnes.

Sherritt is involved in the production of nickel, cobalt, thermal coal, oil and power, and has been operating a nickel mine and processing plants in Cuba since 1995. It has also been operating nickel and cobalt refinery plant in Canada for decades.

Kores - a state-owned South Korean corporation that provides financing and investment for South Korean JVs - was founded in 1967. Its mandate is to pursue resource development opportunities to ensure supply of materials.

This project is the first joint investment between Japan and South Korea - not only as sponsors but also as international syndicate loan providers - in the mineral resources sector.

Financing

The US\$3.3 billion Ambatovy transaction was signed in the middle of August, with five agency lenders, eight commercial banks and four sponsors. It should reach financial close before the end of the year.

There sponsors are:

- Sherritt International Corp - 45 per cent
- Sumitomo - 27.5 per cent
- Korea Resources Corp - 27.5 per cent

On financial close, Canadian engineering firm SNC-Lavalin will take 5 per cent of Sherritt's holding.

The lending agencies have agreed to contribute a total of US\$1.1 billion and guarantee the rest of the financing which will be syndicated to commercial banks.

This includes:

- Japan Bank for International Cooperation (JBIC) - US\$700 million
- Export-Import Bank of Korea (KEXIM) - US\$650 million
- European Investment Bank (EIB) - US\$300 million
- Export Development Canada (EDC) - US\$300 million
- African Development Bank (AfDB) - US\$150 million

JBIC and KEXIM are acting both as direct lenders as well as providing political risk to commercial banks lending under the two agencies.

The KEXIM package includes a direct loan of US\$455 million and US\$195 million guarantee designed to bring in Korean banks while JBIC is providing US\$490 million, the rest presumably to come from Japanese banks.

SMBC is acting as facility agent for the JBIC and KEXIM tranches and Bank of Tokyo-Mitsubishi UFJ (BTMU) is acting as administrative agent for all of the lenders.

Sumitomo's full exposure will be around US\$1.4 billion:

- around US\$550 million on equity and subordinated debts
- around US\$850 million for completion guarantees

On the equity side, political risk is guaranteed 100 per cent by Nippon Export and Investment Insurance (NEXI) with overseas investment insurance tailored for mineral resources and the energy industry.

The line-up of commercial banks at this stage includes:

- SMBC
- Bank of Tokyo-Mitsubishi UFJ
- Mizuho Corporate Bank
- Calyon Corporate and Investment Bank - Tokyo branch
- ING Bank - Tokyo branch
- Société Générale - Tokyo branch
- BNP Paribas - Tokyo branch

NM Rothschild & Sons is acting as financial adviser to the sponsors

Legal

Madagascar - the world's fourth largest island, 500km off the east coast of southern Africa - is steadily developing its economy harmonised with environmental protection under World Bank supervision.

The Ambatovy project obtained environmental assessment approval in December 2006 as a model case which executes close environment protection measures. It also received a notification of the certification from the Madagascar government under Madagascar's Loi sur les Grands Investissements Miniers - Large Mining Investment Act (LGIM) - in March 2007.

The LGIM establishes the legal framework for developing and operating large-scale resource projects in the country and this certification provides whole-life stability of tax and legal position of the project.

Milbank Tweed Hadley & McCloy advised the lenders on the deal with Sullivan & Cromwell acting for the sponsors, led by Stewart Robertson and Christine Spillane.

Robertson, who co-heads S&C's EMEA projects group in London, says: "Ambatovy is a landmark African project and the largest ever greenfield mining project financing. We expect it to serve as a model for other large-scale natural resource projects in the region."

The Milbank team was led by London-based partner and project finance heavyweight Phill Fletcher together with Cathy Marsh. The Milbank also required support from Tokyo-based partner Gary Wigmore and Hong Kong-based partner Young Joon Kim.

Fletcher says: "Two of the key points about this deal are its size and it also does not have a mining major on it. You are combining insurance development along with Sumitomo and Kores which is a good sponsor group. And debt at US\$2.1 billion is about as big as you can get in the mining sector.

"Trying to pull together a transaction that is first in country as well as being one of the largest ever done is no mean feat."

Herbert Smith partner Rebecca Major acted for the main sponsor - Sumitomo.

Local legal advice on the transaction was provided to the lenders by Madagascar Conseil International.

Conclusion

To work on a deal that is first in country is always impressive, but when that deal has one of the largest debt facilities in its sector - that puts it in a category of its own and clearly a contender for IJ Deal of the Year.

Ambatovy will have the significant impact on worldwide market in terms of stable supply of rare metals and will contribute to Japan's policy of securing a stable source of supply.

Opportunities to participate into the nickel/cobalt industry are increasingly rare as resources exist unevenly and the industry is under oligopoly by majors as the large scale of investment is normally required to develop the resources.

With commodity prices remaining high tough natural resources deals are continuing to make it through the system.

The project at a glance

Project Name	Ambatovey Nickel Project
Location	Madagascar
Description	It is a nickel, cobalt and ammonium sulphate project. The first large-scale project in Madagascar, one of the largest project financings ever undertaken in sub-Saharan Africa and one of the largest project financings undertaken in the mining sector globally
Sponsors	Sherritt International Corp - 45 per cent Korea Resources Corp - 27.5 per cent Sumitomo Corporation - 27.5 per cent
Operator	SNC Lavalin - 5 per cent from Sherritt after FC reached Sherritt
EPC Contractor	SNC Lavalin
Project lifetime	Estimated at 27 years
Total Project Value	US\$3.3 billion
Total equity	US\$1.2 billion
Total senior debt	US\$2.1 billion
Senior debt breakdown	Agency support - US\$1.1 billion Commercial banks - US\$1 billion
Debt:equity ratio	63:37
Agency support	JBIC - US\$700m KEXIM - US\$650m EIB - US\$300m EDC - US\$300m AfDB - US\$150m
Facility agent	SMBC for JBIC and KEXIM tranches
Administrative agent	Bank of Tokyo-Mitsubishi UFJ
Political risk guarantee	Nippon Export and Investment Insurance
Legal Adviser to sponsor	Sullivan & Cromwell
Financial Adviser to sponsor	NM Rothschild & Sons
Legal adviser to banks	Milbank Tweed
Legal adviser to Sumitomo	Herbert Smith
Local legal advice	Madagascar Conseil International
Date of financial close	Q4 2007

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