

Roy Hill, Australia

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The financing for the Roy Hill iron ore project in Australia is the largest project to close so far this year, and was a rare limited-recourse deal in a sector which has been dominated traditionally by corporate transactions.

Gina Rinehart's Hancock Prospecting, the majority shareholder in the project, did not provide a completion guarantee for the deal, which is usually required by lenders. Despite this it raised roughly \$7.2 billion in debt from a mixture of export credit agencies (ECAs) and commercial banks.

The project

Roy Hill, located in the Chichester Range in the Pilbara region of Western Australia, has indicated and inferred reserves of more than 2.4 billion tonnes, it is expected to produce 55 million tonnes per year. Hancock Prospecting holds a 70% shareholding in project company, while the other shareholders comprise Marubeni (15%), Posco (12.5%) and China Steel (2.5%).

Marubeni, Posco and China Steel Corp are also the offtakers for the project along with several Asian steelmakers including Yaxin Steel and Shougang Steel. South Korean conglomerate STX previously held a 2.5% shareholding in the project but sold its stake to Marubeni last year.

Construction work on the project started back in 2011. Major dredging work of the harbor at South West Creek has been completed, along with construction of the Ginbata airport at the mine site. The new 344km railway line has also been cleared. Samsung is the engineering, procurement and construction (EPC) contractor for the project, which is scheduled to start shipping iron ore by 2015.

The financing

On 20 March 2014 the sponsors signed the long-term financing for the project and reached financial close once the final conditions precedent were fulfilled on 22 April.

BNP Paribas and NAB, the financial adviser for the project, approached the bank market in 2013, but financial close was delayed until terms were negotiated with the participating ECAs - Export-Import Bank of the United States (US Ex-Im), Export-Import Bank of Korea (Kexim), Korea Trade Insurance Corporation (K-Sure), Japan Bank for International Cooperation (JBIC), and Nippon Export and Investment Insurance (NEXI).

The financing carries a tenor of roughly 10.5 years and features several tranches:

- A \$2.565 billion uncovered term loan
- A \$635 million direct loan from US Ex-Im
- A \$900 million direct loan from JBIC
- A \$700 million term loan guaranteed by NEXI
- A \$450 million term loan guaranteed by Kexim
- A \$1.2 billion term loan guaranteed by K-Sure
- A \$550 million direct loan from Kexim
- A \$200 million foreign exchange facility

There are also understood to be several ancillary facilities including a \$300 million working capital facility, a \$100 million performance bond facility, and a \$200 million letter of credit facility, which also carry a legal maturity of 10.5 years.

The pricing on the long-term uncovered debt is rumoured to be around 300bp, although not confirmed by the borrower.

19 commercial banks participated in the deal, which were tiered based on their ticket allocations. The mandated lead arrangers were ANZ, BNP Paribas, Bank of China, BTMU, CBA, HSBC, ICBC, Korea Finance Corp, Mizuho, NAB, OCBC, SMBC, Societe Generale and Westpac. The lead

arrangers were Caterpillar Financial, China Construction Bank, Natixis and Sumitomo Mitsui Trust.

The sponsors are also providing \$2.8 billion in equity and used this to fund the early stages of construction including some of the more risky aspects, such as dredging work.

The future

By funding a large portion of the construction with equity, the project's sponsors were able to avoid providing a completion guarantee. The strength of the sponsor consortium, especially Gina Rinehart's Hancock Prospecting, and also the fact that Samsung provided a fully wrapped EPC contract, another rarity for a mining deal, also gave lenders extra comfort.

The sponsors are understood to have faced obstacles from several ECAs in the negotiations about the absence of a completion guarantee however, and it remains to be seen whether the deal will spark any imitators.

The next major mining deal, the roughly \$6.2 billion Oyu Tolgoi mining project in Mongolia, will include a completion guarantee, and the Australian market still remembers the effect the slump in iron ore prices in mid-2012 had on Fortescue's assets in the Pilbara region.

Prices are again trending in a similar direction and marginal producers with resources that are lower quality than Roy Hill will struggle to close financings on similar terms.

Advisers

SMBC was ECA coordinator for the deal, while BNP Paribas and NAB were financial advisers to the consortium. Latham & Watkins was the international legal adviser to the borrower, while Herbert Smith Freehills was the local legal adviser. Allen & Overy advised the lenders. Samsung was the EPC contractor, while Forge and Duro Felguera were subcontracts for the processing plant, although Forge's subsequent collapse meant that Samsung stepped in to fulfill its obligations.

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