

SE Business
HD **The long battle for Roy Hill funding**
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Exclusive IF the **mining** boom seems to have slowed to a crawl — the prevailing narrative in some quarters — there's a \$US7.2 **billion** hole in the argument.

That's the amount that the world's leading bankers and debt specialists signed off on to help Gina Rinehart realise a dream that started with her father, Lang Hancock, more than 60 years ago.

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When the financing finally closed at the end of March for the Roy Hill **iron ore** project in Western Australia's West Pilbara, a team of bankers, holed up in Perth on and off through three years, stopped work for an hour and had a quiet celebratory drink — then got back to work.

Thanks to the time zones and international flavour of the huge syndicate — five export credit agencies and 19 commercial banks — work was done around the clock.

The deal to realise the \$10bn Roy Hill project is the largest **mining** project financing in history. BNP Paribas's Bruce Spencer, one of the advisers on the financing deal, says sealing a deal with export credit agencies is a subtle process and that it wasn't until the official signing in March that the **company** could say it was there.

It is the largest funding deal Spencer has worked on.

Complexities and hurdles had to be overcome as the strategy evolved in changing markets. But Spencer says he was never in any doubt that Roy Hill would get its funding.

The number of financiers involved was so great that when the interested groups gathered for an "all parties" meeting, there would be more than 60 people in the room.

Spencer, who was engaged by Roy Hill three years ago to start the preliminary process, says that given the size of the financing package, the obvious source of funding was always going to be from export credit agencies.

"I was always confident it would come together; there was never a moment of thinking it will fail," he says.

"There was this willingness by the project sponsors to move the project forward without the certainty of funding.

Continued on Page 24 Continued from Page 23 "The sponsors' **equity** is a substantial number. The project was being constructed, money was being spent all the way through. The real concern for Roy Hill wasn't 'Will we get the financing?', it was 'Will we get it before we exhaust our **equity**?' " The development of Roy Hill is turning Rinehart's dream into reality — she pegged the project, drilled it, studied it, brought in **equity** partners and is firmly on track to export first **ore** by September next year.

Her **company**, Hancock Prospecting, owns 70 per cent of the project but she brought in three **equity** partners with varied interests to support its development: Japan's Marubeni (15 per cent), South Korea's Posco (12.5 per cent) and **China** Steel Corporation (2.5 per cent).

The entry of Posco and Marubeni meant attracting funding from ECAs from their countries was going to be easier but the lenders still did extensive due diligence to determine that the project was capable of repaying them.

"Once they (ECAs) got to that then there was reasonable confidence they would be there (in the financing package) because of the strong national story," Spencer told The Weekend Australian.

"Then it got down to 'could the commercial debt market fill the difference between the ECA and target debt amount?' The answer was yes, driven by the improvement in the bank debt market — banks were back and keen to lend. Having ECAs there with a reasonable portion of covered lending is an impetus to encourage commercial bank support." As Roy Hill chairman, Rinehart continued to push the project forward as the funding was being finalised, an unusual move but one that is now paying off. Last June, as the finer funding details were being finalised, Rinehart hosted representatives of the banks at the site.

"When the commercial banks came to visit, we were determined to give them an experience that they would never forget," she says.

"So we set up a beautiful sit-down luncheon at the side of the Fortescue River and I had the pleasure of being able to personally meet every participant and discuss the importance of their support for the Roy Hill project.

"I also hoped that they went away with the confidence that the team from Roy Hill had the capacity to do this major project." The project, which sits 270km south of Port Hedland and 110km north of Newman in Western Australia's rich **iron ore** province, aims to produce 55 **million** tonnes a year of the steelmaking ingredient.

Spencer, who is Sydney-based but spent most of the past two years working out of Perth with the advising team, which also included NAB, says various debt options were assessed for Roy Hill, including a debt capital market issuance.

But the advice from debt capital market teams was that while there was debt capital market appetite for the transaction, it wasn't the whole solution.

"We might have been able to coax \$US2bn from that market at that time, and then you had to sit a debt capital market solution alongside a more traditional bank project finance solution, and that brings with it all sorts of inter-creditor issues and complexities that were going to be difficult to solve," Spencer explains.

"That was assessed as an alternative to ECA financing but the ECA approach was always the logical way for a greenfield project of this nature." There was a preliminary "warming up" of the ECAs — from Japan, South Korea and the US — before an official launch with them in November 2012 in Singapore.

It was then six months of negotiating the term sheet and refining the terms and conditions.

"There are two sides to the table, a borrower and a lender, but there was an unspoken recognition that everybody was there to try and get the project built," Spencer says.

"The ECAs could see the importance and value of this project to their nations — the additional supply of good quality **iron ore**." The number of commercial banks, 19, is significant.

Spencer says it was decided to take the deal to the whole market to see who was interested. "Given the quality of the project, each bank who put their hand up and moved to the credit process got credit approval.

"Roy Hill could then trim the bank group back a bit or do the right thing by those that put the effort in and invite them to participate in the deal, and that's how we ended up with 19." While securing the finance was clearly a watershed moment for the project, the Roy Hill team is saving its celebrations for first export, which is targeted for September 30 next year. There is a countdown clock in the Perth office, a visual reminder to staff of what they are working towards.

"It has certainly been a remarkable journey so far, and we look forward to maintaining the current rate of construction," says Darryl Hockey, general manager external affairs. More reports P24

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