

**HD** Lang Hancock's dream realised

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IT'S been 62 years since Lang Hancock started dreaming about an **iron ore** mine while flying through the rain above the Pilbara.

On a balmy Singapore night on Thursday, Gina Rinehart at long-last fulfilled the Hancock vision when the final lender's signature was added to a complex \$US7.2 **billion** (\$7.92bn) debt package that confirms her Roy Hill **iron ore** project will be built not far from her father's original discovery.

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It's the biggest project financing ever completed for a **mining** project worldwide and it has been sealed at the denouement of the **China**-fuelled commodities boom, proving that high-quality, low-cost projects can still go ahead, even in this jittery market.

Although she won't talk about it publicly, Rinehart's achievement elevates her to a new league in the annals of Australian business.

The **billionaire** discovered the Roy Hill tenements in her own right in 1992 and will now become the majority owner of one of biggest **mining operations** in Australia -- a \$10bn venture that is scheduled to begin shipping **iron ore** within 18 months.

Over the past two years, Rinehart and her management team at Roy Hill have convinced a consortium of 19 commercial banks -- from Australia, **China**, Japan, Korea and the US -- of the merits of the project, often in the face of naysayers who have claimed the **iron ore** market is headed for drastic oversupply.

Along with its joint financial advisers BNP Paribas and NAB, Roy Hill also had to sell the dream to five of the world's major export credit agencies -- two each from Japan and Korea, and one from the US.

This was a tricky exercise that meant self-imposed schedules were repeatedly missed -- rarely with an explanation from the publicity-shy Rinehart or her team.

Government-backed ECAs are notoriously difficult to get over the line when it comes to project financings on this scale.

The agencies stump up the funds in return for jobs and investment for their own companies, but they often drive a hard bargain.

"They have to have a very strong national interest case to commit," says one insider on the deal. "They're not driven by the same profit motivations as the commercial banks are."

"They are very thorough in their due diligence. Their business model is different so they are very focused on not taking a loss on a loan."

"That's not a bad thing -- it's good for the project because it means third parties have given it a really good going-over and made sure there are no problems."

Bankers on the Roy Hill deal say they had to approach the ECAs for funding because they were unable to tap debt markets for such a large-scale greenfields project. "It might have been possible to get \$1bn in the bond market but not \$7bn," says one.

Two years ago, even traditional bank debt looked an unlikely source of funds for Roy Hill.

But that market gradually became more liquid and the project ended up being over-supported by commercial banks.

Those close to the deal say the most important piece of the puzzle fell into place a year ago when Samsung C&T was appointed as the **lead** construction contractor.

This fuelled confidence among the financiers, allowing them to complete their due diligence.

Another adviser to the deal insists that the financing was never in doubt.

The reason for the behind-the-scenes certainty, he says, is simple: Roy Hill is a world-class project with a talented management team and it will generate serious profits.

For example, if the price of **iron ore** remains at its current level of about \$US110 a tonne, Roy Hill will operate on a profit margin of more than 100 per cent before debt service.

And even if the price slips to \$US80, as some analysts are predicting, the mine will still be very profitable.

Even during the long slog to secure the debt, Rinehart and her **equity** partners -- Japan's Marubeni, Korea's POSCO and Taiwan's **China** Steel Corp -- continued to pour their own money into the project.

That means it is already 30 per cent built, with about 2500 workers onsite in the Pilbara.

It also means that the delays in securing the debt package are less likely to postpone the first shipment, which Roy Hill says will be by September next year.

Another unusual feature of the deal, say insiders, is that the sponsors are not providing the financiers with a full completion guarantee. This speaks volumes about the confidence expressed by the lenders in the project.

And since efforts began in earnest two years ago to sign up lenders, the Australian labour market has freed up to the point where Roy Hill is now being inundated with unsolicited applications for jobs.

Two years ago, the **company** was pleading with the federal government to be able to bring in thousands of foreign workers to enable Roy Hill to go ahead.

It's another sign, if one were needed, that the times appear to suit Gina Rinehart.

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