

# Asia-Pacific Infrastructure Deal of the Year 2011: Wiggins Island Coal

---

02/04/2012

The sponsors for Wiggins Island Coal Export Terminal (WICET) Aquila Resources, Bandanna Energy, Caldeon Resources, Cockatoo Coal, Northern Energy Corporation, Xstrata Coal, Westfarmers Curragh and Yancoal Australia closed a roughly \$4 billion financing for the construction of the first phase of a 27 million tonnes-per-year coal export terminal on 30 September 2011.

The deal was the largest infrastructure project financing to close in Australia in 2011. The sponsors closed the deal, which included 19 participants in the senior facility providing debt across five tranches in different denominations, against the backdrop of bank market volatility. Furthermore, sponsors had to successfully assuage banks concerns about completion and cost overrun risk to bring the deal to close.

The existing loading capacity at the port is already in use, so the expansion will assist in the development of new and expanded coal mines in the Bowen, Moura and possibly Surat basins of central Queensland. The project benefits from take-or-pay shipping agreements with the sponsors, aligning equity and offtake interests.

State-owned Gladstone Ports Corporation was originally set to take responsibility for the expansion, with some funding from potential users in the coal industry. It became apparent in the early part of 2008, though, that the states balance sheet would probably not be available to support the project. In May 2008, the sponsors put forward proposals for an ownership structure to government, and the state accepted it.

After a period spent refining the commercial structure and negotiating with the government, the sponsors formally launched the financing in November 2010 with the issuance of an information memorandum. The deal closed the following year with a \$2.4 million construction facility, a \$350 million cost overrun facility, a \$100 million liquidity facility, a A\$100 million (A\$105.95 million) letter of credit facility and a A\$50 million working capital facility.

There was already something of a precedent for the deal, in the shape of the Newcastle Coal Infrastructure group project. But the sponsors and their financial adviser, ANZ, knew from the start that finding the debt required for the project might prove difficult. Limited capital, tight tenors, high margins and the general state of the global economy meant the package had to be developed long before the banks were approached.

The final financing package attracted lenders despite competitive pricing: the senior debt came in at roughly market level 300bp over Libor dropping to 275bp. The sponsors opted for a mostly dollar-denominated financing because of the better funding conditions in dollar markets at the time of close, a decision that helped attract international lenders.

This was important because the big four Australian banks have maintained a cautious posture since the global financial crisis and would not be able to underwrite a deal as large as Wiggins Island on their own. Joining ANZ and CBA were Bank of China, BOS International, China Development Bank, DBS, ING, Korea Development Bank, NAB, Santander and SMBC as mandated lead arrangers. BTMU, BNP Paribas, EFIC, Export Development Canada, Industrial and Commercial Bank of China, KfW IPEX, Mizuho and Westpac were also senior lenders.

The sponsors, though, were unable to shake off the reluctance of lenders to provide long-term funding. The longest tenor was on the seven-year letter of credit. The overrun and working capital facilities were four-year, the liquidity facility was one-year and the construction facility runs for three years. At least symbolically, the most important presence in the group was Australian export credit agency EFIC, which provided its first-ever guarantee for a domestic project, and could perhaps be involved in future project financings if market conditions persist.

A quarter of the funding is being sourced from ECAs and policy banks, says John Snelling, executive director at ANZ. I think that's representative of what's happening in the market, particularly for construction projects, and other projects are showing similar, if not greater, levels of ECA and policy bank support.

For the equity, the sponsors contributed A\$550 million in preference shares, for which the coal exporters subscribed at financial close, roughly in proportion to their respective contracted tonnages. The proceeds of the holding company issuance of the preference shares are advanced to the project company as an intercompany loan.

The financing is then rounded off with A\$450 million and \$50 million in mezzanine debt, which takes the form of subordinated nine-year term notes. The group of subscribers to the mezzanine debt includes banks, funds and associates of the shareholders: Cbus, Cockatoo Coal, IFM, IFM Alternative Fixed Income Fund, ICRA Rolleston Pty, Korea Development Bank, QIC, Sumisho Coal Australia Pty, Sumitomo Mitsui Finance and Leasing Company, United Income Fund, Xstrata Finance, and Yancoal Australia.

### **Wiggins Island Coal Export Terminal Expansion**

STATUS: Financial close 30 September

SIZE: \$4 billion

DESCRIPTION: Project financing for the first phase of a 27 million tonnes per year coal export terminal, located at the Port of Gladstone in Queensland. The project is expected to be operational in 2014.

GRANTOR: State of Queensland

SPONSORS: Aquila Resources, Bandanna Energy, Caldeon Resources, Cockatoo Coal, Northern Energy Corporation, Xstrata Coal, Westfarmers Curragh, Yancoal Australia.

MANDATED LEAD ARRANGERS: ANZ, Bank of China, BOS International, CBA, China Development Bank, DBS, ING, Korea Development Bank, NAB, Santander, SMBC

OTHER LENDERS: BTMU, BNP Paribas, EFIC, Export Development Canada, Industrial and Commercial Bank of China, KfW IPEX, Mizuho, Westpac

SPONSORS FINANCIAL ADVISER: ANZ

SPONSORS LEGAL ADVISER: Blake Dawson (now Ashurst Australia)

LENDERS LEGAL ADVISER: Allens Arthur Robinson

PCM CONTRACTOR: Worley Parsons

DESIGN ENGINEER: Aurecon Hatch

TAX ADVISER: Ernst & Young

INSURANCE ADVISER: Marsh

TECHNICAL ADVISER: Sinclair Knight Merz

*Thank you for printing this article from IJGlobal.*

*As the leading online publication serving the infrastructure investment market, IJGlobal is read daily by decision-makers within investment banks, international law firms, advisory firms, institutional investors and governments.*

*If you have been given this article by a subscriber, you can contact us through [www.ijglobal.com/sign-in](http://www.ijglobal.com/sign-in), or call our London office on +44 (0)20 7779 8870 to discuss our subscription options.*