African Mining Deal of the Year 2013: Endeavour Mining

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The last year has not been pleasant for gold miners and their shareholders. The price of gold now lurks around $1,200 per ounce, off from a high of around $1,800 in late 2012. Markets have not been kind to any listed gold producer, though they have been especially brutal to those with high cost structures.

Given the trouble that even the largest gold producers have faced, one producer stood out by raising funding for a new mine and improving the terms on its exiting corporate debt. Endeavour Minings share price has not been immune to the sectors malaise, but its bank following has expanded impressively.

Endeavour Mining grew out of Endeavour Financial, a mining advisory firm whose management decided to shift from offering merchant banking services to being an investor and operator. In 2009 it raised C$115 million ($105 million at todays rates) from an equity offering, combining the proceeds with retained earnings.

It then went shopping for gold mine operators in straightened financial circumstances. The aftermath of the 2008 crisis was a promising period, because financial instability boosted the price of gold, and undermined the financial health of overleveraged producers.

Endeavours completed its first full acquisition in June 2010, when it took its stake in Etruscan Resources, which operates the Youga mine in Burkina Faso, from 55% to 100%. In 2011 it merged with Adamus Resources, which owns the Nzema gold mine in Ghana.

Finally, in October 2012, Endeavour bought Avion Gold, which operated the Takaboto mine in Mail. The Avion acquisition was particularly well-timed. Avions construction contractor had stopped work on an expansion to the mill because of the violence that engulfed north-eastern Mali.

Endeavour Mining Corp

Status

Closed 24 July 2013

Size

$350 million

Description

Refinancing of three gold mines Mali, Ghana and Burkina Faso, and construction financing for fourth in Côte dIvoire

Sponsor

Endeavour Mining

Debt

$350 million

Lead arrangers

UniCredit, SG, BNP Paribas, ING, Deutsche

Sponsor financial adviser

Endeavour Financial

Lender legal counsel

Mayer Brown

Sponsor legal counsel

Stikeman Elliott

Endeavour paid C$389 million to buy the 110,000 ounce-per-year producer, and stepped in to finish the job. The contractor was acting on the advice of the Canadian government, though the mine was located barely 20km from Malis border with Senegal, and far from any fighting between government and Islamists.

At the same time as closing on the Avion agreement, Endeavour started construction on the Agbaou mine in Cote DIvoire, with Lycopodium Minerals as engineering, procurement and construction management contractor. Agbaou costs around $160 million, and is Endeavours first fully in-house mine development.

To fund the completion of Agbaou, Endeavour was looking to increase the size of an existing $200 million facility solely provided by UniCredit. The earlier corporate four-year loan closed at the end of September 2011, and was fully drawn at the time that the expansion closed.

The chief features of the new loan were its larger size, at $350 million, its longer maturity, at five years, and the relaxation of some of the debts covenants to remove forward-looking maintenance requirements. The covenants now include a net debt/Ebitda ratio that must be below 3.5x, a minimum tangible net worth of $600 million, and an interest coverage ratio of 3x.

Pricing on the new debt is between 350bp and 550bp over Libor, depending on Endeavours net debt/Ebitda ratio. Endeavour expanded its banking group from one UniCredit to five UniCredit, SG, BNP Paribas, ING and Deutsche. The bank group would have been one larger if Endeavour had acceded to one unnamed banks request that it take out hedging.

Endeavour tried when taking over its first three mines to reduce the size of their hedging books, which in some instances had contributed to their financial weakness. But there is some outstanding hedging on the three mines. The corporate facility, however, does not feature hedging.

Agbaou poured first gold before the end of November 2013, ahead of its target first pour date of the first quarter of 2014. The start of operations made a final $50 million of the debt facility available for drawing. With Agbaou, Endeavour should increase its total production from 310,000 ounces per year to around 440,000 ounces.

The debt benefits from diversification four mines in four countries, though the four countries form one contiguous area. Endeavour is now looking to develop the Houndé mine in western Burkina Faso, which has a 1.55 million-ounce proved and probable resource and projected production of 180,000 ounces per year. It also has a capital cost of $315 million.