Middle Eastern Mining & Metals Deal of the Year 2013: Emal 2

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The $4.5 billion second stage to the Emirates Aluminium (Emal) project in Abu Dhabi, which reached financial close on 17 May 2013, featured $4 billion in debt, and no new sponsor equity. The financing consisted of bank and export credit agency (ECA) debt, and a $500 million equity contribution from retained earnings.

The Emal development is part of Abu Dhabis plan to invest heavily in industries outside oil & gas, though access to cheap energy is one factor in its success. Emal is a 700,000 tonnes per year (tpy) aluminium smelter and 1,950MW captive power plant development spread over 6km2 at the Khalifa Port Industrial Zone Abu Dhabi.

The Emal 2 project is an expansion to the site that will double the smelter production capacity and increase the associated power plant to 3,000MW. Work is expected to be complete on the expansion by the end of 2014.

RBS formally won the mandate to be financial adviser on phase two in June 2010, a month before the final piece of the first phase debt signed. The joint sponsors of the development, Dubai Aluminium (Dubal) and Mubadala, had pulled a planned bond issue for the original financing because of adverse market conditions when the $4.67 billion main bank facility closed in 2007. The sponsors then had to plug the funding gap with ECA commitments, which took three years to close.

Dubal and Mubadala, both government-controlled, were determined not to repeat the protracted timeline of the original financing, and started financing discussions for the expansion project by approaching ECAs first. This tactic paid off, and $600 million in debt from four ECAs US Exim ($239.5 million), Kexim ($172.5 million), Hermes ($99 million) and Coface ($89 million) signed by May 2012.

The $3.4 billion in bank debt comes from 22 lenders, both local and international, and is split between commercial and Islamic facilities. The participating banks were: Abu Dhabi Islamic Bank, Abu Dhabi Commercial Bank, Al Hilal, Al Khaliji, Apicorp, RBS, BNP Paribas, BTMU, Citi, Crédit Agricole, EDC, Emirates NBD, First Gulf Bank, HSBC, Islamic Development Bank, KfW-IPEX, NBAD, Samba, SMBC, Societe Generale, Standard Chartered and Union National Bank.

The $2.34 billion commercial bank tranche and the $500 million Islamic facility both had 15-year tenors, with pricing beginning at 250bp over Libor pre-completion, before stepping up to 275bp until year eight and then climbing to 300bp until year 12, and peaking at 325bp until maturity. Each ECA facility has slightly different pricing, with the average pricing across the ECA facilities below that of the bank debt, reportedly starting at around 200bp and ending at around 275bp at maturity.

Emirates Aluminium

STATUS
Financial close 17 May 2013
SIZE
$4.5 billion
DESCRIPTION
Expansion of the Emirates Aluminium plant in the UAE to double its production.
SPONSORS
Mubadala, Dubal
DEBT
$3.4 billion commercial and Islamic facilities and $600 million of export credit agency facilities
COMMERCIAL LENDERS
ADCB, Al Khaliji, Apicorp, BNP Paribas, BTMU, Citibank, Crédit Agricole, EDC, Emirate NBD, First Gulf Bank, HSBC, KfW IPEX, NBAD, RBS, Samba, SMBC, Societe Generale, Standard Chartered and Union National Bank
ISLAMIC LENDERS
Abu Dhabi Islamic Bank, Al Hilal and Islamic Development Bank
ECAs
US Ex-Im, Kexim, Euler Hermes and Coface
FINANCIAL ADVISER
RBS
BORROWERS LEGAL COUNSEL
Sullivan & Cromwell
LENDERS LEGAL COUNSEL
White & Case
EPC CONTRACTOR
SNC Lavalin

Of the total development cost of $4.5 billion, about 90% is scheduled to be funded by debt, and the balance was met by pre-completion cash flows without the need for fresh equity investment. Another unique feature was that more than 40% of the total funding for Emal 2 was sourced from outside the GCC region, primarily through international commercial banks, said Samer Jumean, general manager, investment and project finance, Dubal.

Emal 2 benefits from being a brownfield development and strong existing cashflows, and the debt also featured completion guarantees. The state-backed sponsors were able to scale back the original bank commitments from around $4.3 billion. A bond issue was written into the deal, much like with the original financing, but due to strong lender appetite they were able to shelve it.

The phase two financing required all 36 lenders (banks and ECAs) on the phase one financing to agree to amendments, without any changes to pricing on the original debt.

The deal is also very significant from an Abu Dhabi economy perspective. Upon reaching full production capacity, Emal 1 and 2 are expected to account for around 1% of Abu Dhabis GDP equivalent to 18% of its manufacturing sector or 2.2% of the emirates non-oil and gas related GDP, said Markus Von Haniel, adviser, structured finance and capital markets, Mubadala.