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TAYLOR-DEJONGH

News'n Views

INSIDE...

GLOBAL FINANCIAL STRUCTURING

Afonso Reis e Sousa Joins Taylor-DeJongh London as Vice President

Taylor-DeJongh (TDJ) announced that **Afonso Reis e Sousa** has joined the company as a Vice President in the London office. Mr. Reis e Sousa's role with Taylor-DeJongh will be to create commercial and financial solutions for clients in their complex infrastructure projects, focusing in the oil and gas and transportation sectors.

Mr. Reis e Sousa has over 10 years of experience as an international investment banker with experience in advising sponsors on the financing of major capital projects, as well as the evaluation of bids on behalf of concession authorities. Mr. Reis e Sousa's core skills cover project analysis, financial structuring, negotiation of financing terms, transaction agreements, valuations, and financial modelling. He has worked on power, oil & gas and infrastructure projects in Russia, Angola, Southern Africa, Kuwait, Saudi Arabia, Portugal, Pakistan and the UK.

Prior to joining Taylor-DeJongh, Mr. Reis e Sousa was a consultant (Vice President equivalent) at Dresdner Kleinwort Wasserstein (London) in the Natural Resources, Corporate Finance & Origination Group. Previously, he was part of the Project Finance and Advisory Group at Deutsche Morgan Grenfell (London), where he worked on various UK transportation projects and South Asia power projects.

Mr. Reis e Sousa holds an MSc in Economics and Finance from the University of Warwick and a BSc in Economics from the London School of Economics. He is fluent in Portuguese, French and Spanish and also speaks some German. ■

NEW ADVISORY FOR SAUDI TELECOM

Taylor-DeJongh has been selected to be a financial adviser to the U.S. Export-Import Bank on a telecommunications project in the Kingdom of Saudi Arabia (KSA). The project aims to enhance wireless communication facilities in the KSA through the implementation of a nation-wide iDEN system. Taylor-DeJongh's role in the project will include financial analysis and risk evaluation and structuring of the security package. The project's kick-off meeting, held in mid-June in London, was attended by Terry Newendorp and Afonso Reis e Sousa. This transaction represents the first-ever commercial or project financing in Saudi Arabia by U.S. Ex-Im Bank. The structuring of U.S. Ex-Im Bank's terms and security package could well lay the groundwork for U.S. Ex-Im Bank's participation in some of the massive petrochemical financings to come in that country. The legal advisors to U.S. Ex-Im Bank are Allen & Overy, and the technical and market advisors are Yankee Group. ■

INDUSTRY INSIGHT - MINING

Commentary provided by
Pierre Larroque, Senior Advisor

Mining Boom -- Here to Stay?

Over the cycles, base metals prices have historically declined in real terms at a rate of about 1.5% p.a., very much in line with the value decline of other base commodities (petrochemicals, pulp and paper, etc.). This was due mainly to the relentless reduction of production costs with low-cost large new capacity overshooting global demand (which averaged about 4% p.a. over successive cycles).

For the last 2-3 years, industry observers have wondered if the emergence of China, both as (i) a main customer of basic materials (China now for instance consumes 27% of the world's nickel production, up from 8% seven years ago) and as (ii) a major producer of cheap final (consumer and industrial) products would structurally alter the mining industry value chain, and hence permanently increase metal prices. In the short term, China has clearly altered fundamentals.

When looking at mining finance, Taylor-DeJongh keeps its view that fundamental competitive ranking remains the key to raising limited recourse finance. Justifying the financing of new projects on metal prices remaining at today's high level appears aggressive. High grade and not too onerous infrastructure requirements remain the drivers of an attractive mining investment, alongside quality sponsorship of course. ■

SUPPORTING ALUMINA REFINERY - GUINEA

Roxanne Suratgar has recently spent time in the republic of Guinea assessing the needs of the mining industry and infrastructure. Global Alumina, a North American project developer and client of TDJ, is finalizing its plans for the development of a US$2.2 billion alumina refinery and associated infrastructure, to take advantage of the high quality bauxite available locally. The project is significant for its size, as it will be one of the largest projects ever under taken in West Africa. Global Alumina's intention to maximize the local participation in the construction of the facilities is noteworthy. The assessment team spent the last weeks visiting Ministries and existing facilities to complete a diligence effort related to both the planning of manpower requirements for the next stage of construction activities and the capital investments required to support this development. ■

Cornerstone for the port facility associated with with the refinery.

SAMIR REFINERY UPDATE

TDJ, together with Moroccan bank BMCE Capital continues to advise Société Anonyme Marocaine de l'Industrie du Raffinage ("SAMIR"), the dominant Moroccan refinery company, on securing financing for the upgrade of SAMIR's existing facilities. The upgrade project will include the installation of a new hydro-cracker complex which will allow the refinery to produce higher value diesel product that will meet enhanced environmental standards. The financing is expected to be in the range of US$630 million and is expected to be sourced from SACE, African Development Bank, Proparco (the French development bank), international banks (BNP Paribas and Barclays Capital) and local Moroccan banks.

Lenders are in the process of finalizing their due diligence and SAMIR expects to reach Financial Close in 3rd quarter 2005. The project is being led by Guy Ranawake, a TDJ Director in London. ■

SOCAR UPDATE

TDJ, in collaboration with SALANS, ICF Consulting and PFC Energy, presented preliminary recommendations to SOCAR, the state oil company of Azerbaijan, on how to best restructure its operations to optimize the firm's efficiency and profitability. A task force meeting, chaired by the President of SOCAR, was held to review organizational models and to establish a road map that will enable SOCAR to conform to best international oil and gas industry practices. The results of the task force meeting established milestones and operating indicators for implementation of the restructuring program. ■

Maiden's Tower at Baku, one of the city's landmarks.

EQUATORIAL GUINEA LNG UPDATE

Japanese trading houses Mitsui and Marubeni have each acquired a stake in Equatorial Guinea's LNG liquefaction project. The investment is expected to close in the third quarter, after which Marathon will hold a 60% interest in the project; GEPetrol, Equatorial Guinea's national oil company, will hold 25%; Mitsui will hold 8.5% and Marubeni will hold 6.5%. EGLNG will add to the two firms' existing LNG portfolios; Mistui has a 25% share in Altamira, Mexico receiving terminal as well as stakes in liquefaction projects in Australia, the Middle East and Russia. Marubeni has a 7.5% interest in Qatargas-1. The investment in EGLNG represents the first involvement by Japanese trading houses in an LNG export project not expected to supply LNG to Japan. All of the output of this project will be taken by BG Group and destined for the U.S. market, primarily.

The project reached FID in April 2004 and expects first cargos by 3Q 2007. Taylor-DeJongh is due to launch the financing process by 4Q 2005, starting first with key official agencies that will underpin the financing by commercial banks. ■

David Ghighi and Guy Ranawake lead the LNG Project Financing Workshop

David Ghighi and Guy Ranawake gave formal presentations on "LNG Project Financing Structures" and led a workshop on "LNG Project Financing: Recent trends and future challenges" on the 25th of May in London as part of the recent IQPC Contract Risk Management LNG conference.

The workshop focused on how the changing nature of global LNG trade (greater price risk, shorter sales contracts) was impacting project financing structures. The workshop included a survey of the current status of LNG projects and their capital expenditure requirements, together with a review of the state of debt markets for LNG project financing for each of liquefaction, shipping and regasification. Finally, the workshop examined the risk mitigation mechanisms, which were now being incorporated into contract structures to accomodate the increased flexibilty being demanded by both purchasers and suppliers.

Please contact either Guy Ranawake in London or David Ghighi in Washington for further information. ■

Recent Conference Reviews

TDJ Senior Staff address over 200 attendees at MEED Gulf Petrochemicals Conference

Challenges - both to and from - large volumes of proposed production capacity across the Persian Gulf region dominated the well-attended conference in Manama, Bahrain. High-level speakers from Saudi Aramco, SABIC, Qatar Petroleum, National Petrochemical Company of Iran, EQUATE, Innovene, Reliance Industries of India and other state-owned and private sector participants provided details on planned greenfield and expansion projects and discussed product market, feedstock supply, technology, logistics and marketing issues.

David Ghighi discussed differentiating projects from a financier's perspective and outlined different sources of capital available for regional petrochemical projects.

TDJ Comments on Petrochem Sector

Several countries in the region are gearing up for massive investments in new cracker facilities, olefins, methanol, fertilizer and other petrochemicals projects as new production is shifting to the Middle East to take advantage of low feedstock costs. There are questions in the market place as to whether or not the global market, especially Asian importers, will be able to absorb the new capacity that will come online towards the end of the decade. Projects that are in competition for financing will need to achieve a superior business strategy, including effectively managing the EPC process, employing new technologies, tackling logistical challenges such as shipping, and adopting a strong marketing strategy. They must also look at a broad array of sources of debt capital, especially export credit agencies. ■

News'*n*Views

M&A Commentary from TDJ

Major trends currently driving the M&A market

Through the first half of 2005, global M&A activity continued its strong pace from 2004. Strategic buyers, bolstered by low interest rates and strong balance sheets, are consolidating fragmented markets. Private equity funds are also eager to put their substantial amounts of capital to work through acquisitions. Banks are willing to provide leverage, but in this increasingly competitive environment, it is important to approach transactions with the appropriate level of expertise using highly qualified advisors.

"Mergers & Acquisitions: Trends and Opportunities" by R. Raman and S. Flippen. ***Financier Worldwide July/Aug 2005***

Strong growth in the LNG sector will lead in the near future to an M&A boom for which investors must be prepared. The LNG sector presents specific risks that a traditional due diligence process may not uncover. Investors should be particularly focused on the terms of the sales and purchase contracts and on the location of the re-gasification terminal and its access to take-away pipeline capacity.

"LNG Importing Terminals-- future targets with risks not found in the Data Room" by D. Ghighi and S. Guiny, ***Financier Worldwide M&A Supplement June 2005***

Both articles are located on our website.

IN THE PRESS

Upcoming Articles in the Press by TDJ:

"**Mergers and Acquisitions: Trends and Opportunities in LNG**", *Financier Worldwide,* July

"**Project Finance in a Cash-Rich World**", *Project Finance*, July

"**North America Energy - Trends in PF Initiatives**", *PFI-North America Special Report*, July

"**Challenges in Developing the Financing of QatarGasII**", *LNG Review*, August/September

"**An Overview of Islamic Financing**", *Emerging Markets Report*, September

"**The Current State of LNG Project Financing**", *LNG Observer*, September/ October

If your contact details require updating, or if you would like to be added to our mailing list for future issues of TDJ's NewsNViews, please email Nat Loke at ndloke@taylor-dejongh.com.

Taylor-DeJongh
1101 17th Street, NW
Suite 1220
Washington, DC 20036
USA