



Financing of the Ramu Nickel JV, Medang Province Papua New Guinea

A research paper prepared for the Mineral Policy Institute

Profundo
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Introduction

This report analyses the financing of the Ramu Nickel project, located in Papua New Guinea. Two kinds of analyses are provided:

Investment analysis: Researching the financing of the Ramu Nickel project by MCC-JJJ Mining Development, the majority owner of the project. This analysis will include:

- Small profile of the company and the investment
- Analysis of the sources of financing used for the investment
- Description of the deal(s) related to the investment
- Listing of all banks involved in these deals, including their roles and financial commitments

Deal analysis: Checking which banks are involved in one specific deal provided to the Ramu Nickel project in the form project finance. This analysis will include:

- Description of the deal
- Listing of all banks involved, including their roles and financial commitments

Chapter 1 Financing of the Ramu Nickel project

Chapter 1.1 Profile of the Ramu Nickel project

The Ramu mine was discovered in the 1960s and is one of the largest undeveloped nickel-cobalt mines in the world. The mine is located 75 kilometres west of the provincial capital of Madang, Papua New Guinea (PNG) and is expected to realize an annual output of 31,150 tonnes of nickel and 3,300 tonnes of cobalt over a 20 year mine life. Progressive commissioning commenced in December 2009 and continued in 2010. The mine is expected to start production in December 2010. Figure 1 shows the project area of the Ramu Nickel project.¹

Figure 1. Project area of the Ramu Nickel project



Source: Highlands Pacific, "Ramu Nickel project brochure", *Highlands Pacific*, August 2008.

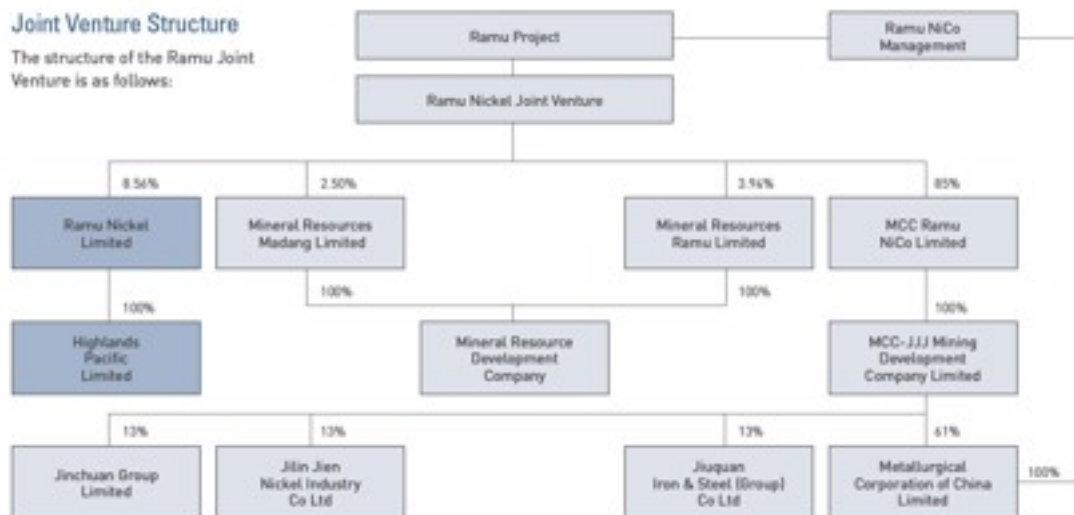
Figure 2 gives an overview of the joint venture structure of the US\$ 1.4 billion Ramu Nickel project. The project is mainly owned (85%) by China's MCC-JJJ Mining Development company, which is a Chinese consortium comprised of:

- Metallurgical Company of China (MCC, 61%)
- Jiuquan Iron & Steel (13%)
- Jilin Jien Nickel (13%)
- Jinchuan Group (13%)

The other 15% of the Ramu Nickel project is owned by two companies:

- Highlands Pacific (8.56%), which is incorporated in Papua New Guinea but has its main office in Australia. The company is listed on the ASX stock exchange of Australia and the Port Moresby Stock Exchange (POMSoX) of PNG.
- Mineral Resources Development Company (6.44%), a state-owned company which is based in Papua New Guinea.

Figure 2. Joint venture structure



Source: Highlands Pacific, "Annual Report 2009", *Highlands Pacific*, April 2010.

Chapter 1.2 Sources of financing for the project

Total investment costs of the Ramu Nickel project are estimated at US\$ 1,400 million. This investment will be financed by the following sources: ²

Equity	30%	US\$ 420 million
Shareholder loan from MCC-JJJ Mining Development	30%	US\$ 420 million
Project finance facility	40%	US\$ 560 million

The equity portion of the investment costs normally has to be funded by all companies participating in the project, corresponding to their share in the project (see paragraph 1.1). But in this case it is agreed that the four Chinese companies participating in MCC-JJJ Mining Development will supply the equity on behalf of all joint venture partners.

The 15% of the equity (US\$ 63 million) which should be invested by Highlands Pacific and Mineral Resources Development will also be funded by MCC-JJJ, in the form of a loan. Highlands Pacific and Mineral Resources Development will probably repay this loan from their share in the proceeds of the project.

Also an agreement is made that Highlands Pacific has the option to increase its share in the project to 11.3% once debt has been repaid out of cash flow, and further to 20.55% by buying additional shares at market value.³

The contribution of the Chinese consortium MCC-JJJ Mining Development to the Ramu Nickel project therefore amounts to 60% of the total project costs (US\$ 840 million). Based on the shareholdings of the Chinese companies in MCC-JJJ Mining Development, their contribution to the finance of the Ramu Nickel project will be as follows:

- Metallurgical Company of China US\$ 512 million
- Jiuquan Iron & Steel US\$ 109 million
- Jilin Jien Nickel US\$ 109 million
- Jinchuan Group US\$ 109 million

The following paragraphs will provide information on the finance provided to the companies of the Chinese consortium and the project finance facility. MCC has provided the biggest share of the financing costs, so the financiers of this company are most important for the Ramu Nickel project.

Chapter 1.3 Financing of MCC

Since 2007 MCC issued bonds and shares several times. The proceeds of these issuances were probably used - among other things - to fund the Ramu Nickel project in the form of an equity investment and a shareholder loan. Information on the financial institutions involved in these issuances are provided in the following paragraphs.

Chapter 1.3.1 Bond issuances

- In July 2008 MCC issued 10-year 6.0% bonds for a total value of US\$ 513 million. The proceeds were used for general corporate purposes, working capital and project finance. The following banks participated in the facility:⁴
 - **CITIC Securities** - China Bookrunner
 - **BOC International** - China Co-lead manager
 - **China Securities** - China Co-lead manager
 - **Guotai Junan Securities** - China Co-lead manager
- In July 2009 MCC issued 4.5% five-year bonds for total proceeds of US\$ 454 million. **Bank of Communications** (China) underwrote the whole amount.⁵

No information is found on the financial institutions buying these bonds.

Chapter 1.3.2 Share issuances

- In September 2009 MCC issued 2.8 billion shares through an Initial Public Offering (IPO), raising a total amount of US\$ 2.35 billion from Hong Kong H shares and US \$ 2.8 billion from Shanghai A shares. Proceeds were, among other things, used to fund the Ramu Nickel project. The following banks participated in the issue:⁶
 - **Bank of Communications** - China
 - **CAF Securities** - Hong Kong
 - **China Galaxy Securities** - China
 - **China International Capital Co** - China
 - **China International Trust & Investment** - China
 - **China Jianyin Investment** - China
 - **China Securities** - China
 - **Citicorp** - United States
 - **Dongwu Securities** - China
 - **First Shanghai Capital** - Hong Kong
 - **Guosen Securities** - China
 - **Haitong Securities** - China
 - **Hongyuan Securities** - China
 - **Huaxin Securities** - China
 - **Morgan Stanley** - United States
 - **Nanjing Securities** - China
 - **Qilu Securities** - China
 - **Samsung Securities** - South Korea
 - **Zhong De Securities** - China

No information was found on the financial institutions buying these shares. We do however know which financial institutions own significant holdings in the company's Shanghai shares (listed in Table 1). Probably these shareholders have been buying new shares as well.

Table 1 Shareholders of MCC, Shanghai shares

Shareholder	Country	Share	Value (US\$ million)	Filing date
National Social Security Fund	China	2.16%	207	13 June 2010
Baosteel Group	China	0.76%	74	13 June 2010
Hongyuan	China	0.24%	23	28 May 2010
China Southern Fund Management	China	0.22%	21	13 June 2010
China Life Insurance	China	0.20%	20	13 June 2010
Penghua Fund Management	China	0.19%	18	28 May 2010
Harvest Fund Management	China	0.13%	12	13 June 2010

Source: Thomson One Database, "Share ownership", Viewed in August 2010.

The institutions that own significant holdings in the company's Hong Kong shares are listed in Table 2.

Table 2 Shareholders of MCC, Hong Kong shares

Shareholder	Country	Share	Value (US\$ million)	Filing date
Vanguard Group	United States	0.93%	14	30 April 2010

Source: Thomson One Database, "Share ownership", Viewed in August 2010.

Chapter 1.3.3 Other joint-venture partners

Next to MCC, Jiuquan Iron & Steel, Jilin Jien Nickel and Jinchuan Group also provided part of the finance for the equity investment and shareholder loan (US\$ 109 million each). None of these companies have attracted loans, bonds or share issuances around the time that the loans were provided to the Ramu Nickel project (between 2007 and 2009). However, their shareholders play a role in financing the project. Table 3 summarizes the institutional investors that own significant shareholdings of Jilin Jien.

Table 3 Shareholders of Jilin Jien

Shareholder	Country	Share	Value (US\$ million)	Filing date
Mengke Investment Holdings	China	2.71%	58	7 July 2010
Anshan Iron and Steel Group Corporation	China	1.21%	26	7 July 2010
Guangdong Huachuang Chemical Company	China	0.63%	13	7 July 2010
Zhejiang Paradise Guigu Yingtong Venture Investment	China	0.62%	13	7 July 2010
Zhejiang Shanyu Holding Group	China	0.60%	13	7 July 2010
Tianjin Kaishi Yili Interest Investment Fund	China	0.54%	12	7 July 2010
Baosteel Group Corporation	China	0.41%	9	7 July 2010
Dacheng Fund Management	China	0.31%	7	7 July 2010

Source: Thomson One Database, "Share ownership", Viewed in August 2010.

Jiuquan Iron & Steel and Jinchuan Group are private companies. No information could be found on institutional shareholders of these companies.

Chapter 1.4 Project finance

A project finance facility of US\$ 560 million has been supplied by the **Export-Import Bank of China** (China) to the Ramu nickel project. The facility is expected to be repaid before 2019.⁷

Chapter 1.5 Conclusion

The Ramu project is financed almost entirely by Chinese sources. The most important financier is Export-Import Bank of China, which provided a project finance facility that accounted for 40% of total project costs. In addition, a range of Chinese banks and institutional investors play an important role, since these institutions have provided finance to MCC and the other joint venture partners which own MCC-JJJ Mining Development, the majority shareholder of the Ramu project.

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