



Resource Generation Lines Up Banks for Mine Funding

By Robb M. Stewart

MELBOURNE--Resource Generation Ltd. (RES.AU), a small Australian mining company sitting on a big coal deposit in South Africa's promising Waterberg region, said Tuesday it has lined up an international group of financiers to provide roughly 400 million Australian dollars (US\$409 million) in debt to fund the project's development.

It is another milestone for the company and a vote of confidence by the lenders in India's appetite for coal to feed the country's energy needs, since Resource Generation has in place two long-running supply deals with Indian companies. It also comes despite the labor disputes spreading across South Africa.

Resource Generation said it selected Barclays PLC (BCS)-controlled Absa Group Ltd. (ASA.JO), HSBC Holdings PLC (HBC), FirstRand Ltd.'s (FSR.JO) Rand Merchant Bank, Nedbank Group Ltd. (NED.JO), Standard Chartered PLC (STAN.LN) and Caterpillar Financial to provide 60% of the funds needed for constructing its Boikarabelo mine.

Formal credit approval is expected in early November, after which the company said it would push ahead with an equity raising it hopes to complete by mid-December. On that timetable, construction of the mine could proceed in January, it said.

The senior debt facility has a term of nine years and will provide a mix of U.S. dollar and rand loans on commercial terms. Paul Jury, managing director of the Australian and Johannesburg-listed firm, said the terms of the equity raising have yet to be determined.

Resource Generation is backed by a unit of RPG Group, which has agreed a 38-year contract for coal supplies, and Bhushan Steel Ltd. (500055.BY), which has a 20-year contract.

The Waterberg is forecast to become the main source of coal in South Africa as existing operations age. It is estimated to hold some 40% of the country's remaining coal resources, much of it sitting relatively close to the surface.

Resource Generation estimates the Boikarabelo project has probable reserves of almost 745 million metric tons of coal. It is targeting output in the first stage of development of 6 million tons a year.

In late August, the company trimmed the expected capital cost of Boikarabelo by US\$120 million to US\$630 million to reflect a commitment by state-owned power company Eskom to provide electricity to the mine. It earlier in the year secured a haulage agreement that will cover production in the first phase of development, a hurdle that had to be cleared in order to secure funding as the rail tariff is likely to represent a big chunk of the cost of production.

The latest arrangement with the financiers helped spark a rally in the company's shares, lifting them almost 20% before those gains were pared somewhat.

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