INVESTOR BRIEFING:
Adani Abbot Point Terminal Debt Issue

- Greenpeace warns potential lenders to avoid funding risky and controversial project.
- Key issues are over-gearing, re-contracting risk, disclosure and governance concerns.
- Caution urged on reputation risk from involvement in “relentlessly controversial” port.

Greenpeace is warning potential lenders to avoid the Adani Abbot Point Terminal debt issue after the Wall Street Journal reported last week Commonwealth Bank, Deutsche Bank AG and Westpac Banking Corp's appointment as joint lead managers for the A$1.25 billion (US$1.2b) refinancing. The new debt will help refinance Indian conglomerate Adani Group’s 50 million tonne per annum coal terminal (T1) at Abbot Point near Bowen in QLD – three years ahead of the maturity of an existing A$1.14b facility.

Over-leveraged 8:1

Adani Abbot Point Terminal Pty Ltd (AAPT) is highly leveraged, an issue cited in Moody’s first time rating of the company. Adani “company promoters” paid US$235m in March this year to take it off the books of the Indian listed Adani Ports and Special Economic Zone Limited (ADSEZ: IN). Against this is existing debt of around US$1.9 billion – an amount comprised of the well-publicised A$1.14b senior debt finalised in March 2012 and a US$800m loan from the State Bank of India, referenced in the Annual Report of ADSEZ.

Re-contracting Risk

This week brought news that Australian banks Commonwealth and Westpac are among those facing losses on A$3b debt provided to Stage I of the Wiggins Island Coal Export Terminal (WICET) in Gladstone, Queensland. Despite the fact that the coal company owners of WICET are committed to take-or-pay capacity allocations, junior miners struggling with downturns in demand and delays to new projects could face difficulties meeting those obligations. Wood Mackenzie estimated that when the port begins shipping in 2015, only about half of its 27 million metric tons of initial annual export capacity would be used.

Though it is operational, AAPT has faced similar issues, with Moody’s noting that: “The rating could face negative pressure if the company is unable to ramp up throughput at the terminal to the full 50mtpa run rate or if our base case expectation regarding contract renewals does not materialize.” AAPT’s contract with Glencore Xstrata, which represents 13mtpa or 26% of total throughput, is its first major contract to reach maturity – it does so in July 2019. Doubts linger over prospects for renewal. Most coal majors have been paring back their Australian coal investments. In Glencore’s case, this has involved scrapping both the proposed Wandoan ‘super-mine’ and Balaclava Island Coal Export Terminal developments.

The obvious backstop for Adani is the realisation of their own 60mtpa Carmichael coal mine project in the Galilee Basin. However, Macquarie Group, advisors on the last refinancing of AAPT, published a research note in May this year stating that development of the Galilee looked “increasingly remote.” All this is exacerbated by the outlook for global coal
demand with analysis from Bernstein, Citi and Goldman Sachs all adding weight to a statement by West Australian Premier Colin Barnett that coal is facing a long-term structural decline.

Disclosure & Governance

Prospective debt providers should note with caution the disclosure implications of Adani’s complex restructure surrounding AAPT. Where previously key company data was available in the filings of ADSEZ, the owner is now the opaque private Adani family group of companies – entities with effectively no regulated reporting requirements. Additionally, questions must be asked about the motives of inserting the Singapore parent company, Abbot Point Port Holdings Pte Ltd, into the structure and the relationship this has to the Reserve Bank of India tightening of rules in August 2013 curtailing overseas investments.

Adani’s assurances regarding the independence of the AAPT board and so-called ‘ring-fencing’ provisions from the other Adani Group companies also appear to ring hollow on close examination.

These questions follow a record of environmental destruction and non-compliance by Adani Group companies. For example, in 2011 the Karnataka anti-corruption ombudsman, Lokayukta, investigated a major scandal by Adani involving “bribery and theft in the export of iron ore that cost the Indian government $3 billion in royalties.”

Loss-making Asset

Adani’s Abbot Point coal terminal is already a loss-making venture, with a pretax loss of Rs 3.69 billion (US$68m) for the 12 months ending 31 March 2013 listed in a recent Adani Ports prospectus.

Reputation Risk

The areas surrounding Abbot Point are of enormous environmental significance, and the Abbot Point Port is a focal point for controversy and community concern over the coal industry’s expansion plans.

Civil society groups and local community members from Bowen are concerned about the port from perspectives as diverse as climate change to impacts of extensive dredging on the local fishing industry and damage to seagrass beds. Earlier this year, Greenpeace brought its ship the Rainbow Warrior to Abbot Point to raise awareness of the environmental values of the area that are threatened by Abbot Point Port – which followed a blockade of the port by another Greenpeace ship in 2009. Investors buying into this debt facility will be in the spotlight of the growing movement targeting financial institutions that fund or invest in projects that threaten the Great Barrier Reef World Heritage Area, exacerbate land-use conflicts between mining and agriculture and drive the extraction of unsustainable levels of fossil fuels.

For more information:

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