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## Line up your funding ducks

Friday, 24 October 2008 - Kate Haycock

**THAT funding is harder to come by and debt is more expensive will come as no surprise to most miners. However, one Australian resources advisor said companies can still get money, but only if they have all their ducks in a row.**

Perth-based PCF Capital Group corporate finance director **John Correia** told miners at the Paydirt nickel conference in Perth the key to achieving good finance in these turbulent times was to be "boring". He warned that "exotic" commodities had fallen out of favour and instead banks were looking for "bulletproof" offtake agreements, robust demand, strong numbers and a cautious approach to risk. "It is a lenders market, the banks are largely inflexible, and 'going back to lending basics' is very much in Vogue," he said.

Investors were now spoilt for choice and looking for low-cost, high-margin assets. In this climate, hopeful miners needed to minimise risks and be realistic about what could be achieved. "They should adopt a very realistic approach on funding including a high level of comfort with capital Expenditure and operating expenditure assumptions," Correia said.

"There will also be a need to demonstrate to lenders, adequate backstop liquidity so that a company has The capacity to fund potential cost overruns. Have a robust understanding of the key drivers of your business and be prepared to be challenged on those."

Correia told the conference capital avenues were "severely" restricted and banks were becoming Extremely inflexible on their requirements. He said during the course of one funding negotiation he had been involved with, margins on debt increased by a quarter to 50 basis points and commodity price Assumptions dropped by around 40-50%.

He said Triple B-rated corporate plays were raising debt at 100-120 basis points above the official bank rates, while unrated companies – such as miners – are facing much higher spreads. Meanwhile, commodity price changes happened so quickly they took lenders by surprise – some lenders' downside risk assumption is actually above spot prices in commodities like nickel, meaning pricing assumptions Have been inaccurate.

Because of this changing climate, Correia warned miners that a 10% downside upside risk contingency Just wouldn't cut it anymore. However, he said there were signs the funding market was easing. "The cost of funding in the interbank market has come down quite dramatically, almost as quickly as it has come up," he said. "Some things are starting to unstick so hopefully that will flow through to the funding costs you have to pay, though that will take a while yet," he said.

"The debt markets will recover, they are open for business, [but] you have to get your ducks in a row."