

## Duferco, Belgium

### Taking tolling to a new level



**MLA and underwriter:** Deutsche Bank & UFJ Bank

**Borrower:** Duferco La Louviere Sales, Belgium

**Deal size:** €80m

**Tenor:** 364 days

**Broker:** Texel Finance

For many years Deutsche Bank has had a particular strength in introducing developed market-financing techniques into the emerging markets. Yet on 10 December 2004, Deutsche Bank and UFJ Bank, closed syndication as mandated lead arrangers on a €80m (\$104.3m) deal to Duferco La Louvière Sales, the trading arm of Belgium's largest steel producer, in a transaction that applies emerging-market-financing technology to Western Europe.

The deal is a tolling facility to finance up to 80% of the borrower's inventory held at the production sites of Duferco La Louvière in Belgium, as well as in three independent port warehouses in Ghent and Antwerp.

"Belgian law restricts the rights of inventory financiers," says Kris Van Broekhoven, vice president, global trade finance, Deutsche Bank. "Yet we managed to raise the level of finance significantly by making the trading arm of Duferco the borrower and by applying a tolling structure."

The deal is supported by Duferco's five-year asset-backed securitisation programme, the proceeds of which will repay the revolving 364-day facility. Proceeds due to Duferco as a result of sales of receivables into the securitisation programme are assigned to the lenders and collected in a pledged collection account held by Deutsche Bank's Brussels branch.

Indeed, this combination of a syndicated structured commodity-finance facility with an asset-backed securitisation programme is another first for the deal.

"The real challenge with the structure of this transaction was to link it with the asset-backed securitisation programme Duferco was setting up for its production plants in Belgium," says Van Broekhoven. "This was a major task in terms of documentation and was only possible with a sophisticated borrower and a great amount of team work."

One complication in syndication was that the borrower, with existing lending relationships with more than 60 financial institutions worldwide, requested that the arrangers focus on bringing only new lenders into the deal – allowing Duferco to increase the credit lines available for the group.

"Duferco had existing relationships with just about every commodity-finance bank in the world," says Boris Jaquet, vice president of global trade finance at Deutsche Bank, "This meant that, at a time when many banks are cutting back on commodity lending, we had to go into the market and source new appetite."

Such obstacles did not, however, prevent the deal closing syndication on 15 December 2004, after a 22 November 2004 launch. And they did not prevent the deal coming in oversubscribed.

"The oversubscription of the syndication clearly shows that, with the combination of structural innovation and a deep understanding of the investor market, new and inventive funding routes can be explored," says Jaquet.

Joep Kockmann, head of commodity and structured trade finance at UFJ Bank, says: "This transaction provided Duferco with all the strengths and benefits of both styles of financing and maximised the level and stability of funding available to the group for a substantial part of its Belgian operations."

Bayerische Landesbank, BCEN-Eurobank, Commerzbank and RMB International (Dublin) were all co-arrangers on the transaction. Deutsche Bank and UFJ Bank employed Lovells in London and Altius in Brussels as legal counsel. Texel Finance brokered the transaction.

"By bringing structured-commodity-finance expertise into a Western European credit, where traditionally such facilities are provided by commodity-trade-finance relationship banks, it was possible to establish new liquidity and a more creative and effective solution to the needs of the borrower," says William Shaw of Texel Finance, London. "At a time when emerging-market prices are falling anyway, it makes every sense to utilise this expertise in an OECD country within a more transparent and comfortable legal environment. We expect to see more OECD structured deals in the coming years, at least while the parity in pricing remains."

"We were quite pleased with the outcome of the process, particularly in the great success of the syndication's oversubscription," says John Rapuano, CFO of the Duferco Group.