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Acwa Power’s project-backed bond, Saudi Arabia

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Saudi Arabian developer Acwa Power’s recently closed project-backed bond issuance unlocks some $814 million in capital for the firm in what is its first investment-grade offering secured against operational assets.

The power generation and water desalination plant developer used the issue to raise longer-term capital in line with the maturity profile of its asset base, repay $500 million in existing debt and to diversify its funding sources, Acwa said in a statement.

Acwa had initially hoped to raise up to $1 billion via a hybrid structure using a traditional bond alongside a sukuk, which would account for around 30% of the total raised, *IJGlobal* revealed in November 2016. Launch of the bond was pushed into 2017 due to "timing constraints" with the size seemingly scaled back to $600 million.

Eventually Acwa dropped the sukuk element when it became clear most investor demand was for the standard bond structure, a source said. Acwa upsized the facility at close to $814 million from its publicly stated target of $600 million, though this was still short of the $1 billion initial target from last year. Acwa claims that the bond was almost 250% oversubscribed, having received over $2 billion in commitments.

Demand for the bonds was driven by unsated demand from Saudi Arabia’s $17.5 billion debut sovereign bond issue in October 2016, according to the source. Saudi’s sovereign issue was itself oversubscribed to the tune of $67 billion. The kingdom has continued to tap the bond market, with a $9 billion sukuk issued in April and plans to do so again later this year, Finance Minister Mohammed al-Jadaan said in early May 2017.

Bond structure

The bonds were issued against seven mostly operational projects in Acwa’s portfolio in Saudi, with their project companies and operations and maintenance (O&M) firms (all subsidiaries of Acwa’s Power’s First National Operations & Maintenance Company) servicing the bonds’ liabilities.

Project-level debt will be serviced in advance of dividends being paid to bondholders, although revenues to the operations and maintenance companies are senior to the project level debt payments.

“This transaction was truly unique as an investment grade project financed structure but securitized by holding company dividends subordinated to senior debt as well as O&M fees,” Hari Chandra, global joint head of power, renewables, and infrastructure investment banking at Jefferies – the sole structuring adviser on the issuance – told *IJGlobal*. “We have never seen this sort of structure achieve investment grade ratings before.”

The projects in the structure include:

- Shuaibah Expansion independent water producer (IWP) (150,000 cubic metres of water (m3) per day capacity)
- Shuaibah independent water and power producer (IWPP, 900MW and 880,000m3/day capacity)
- Marafiq IWPP (2,744MW and 800,000m3/day capacity)
- Shuqaiq IWPP (850MW and 212,000m3/day capacity)
- Rabigh independent power producer (IPP, 1,204MW capacity)
- Qurayyah IPP (3,927MW capacity)
- Bowarege IWP (50,000m3/day capacity)
- RAWEC independent water and steam power producer (520MW power, 189,000m3/day and 53,880 tonnes per day steam capacity)

Each of the projects has a 20-year power or water purchase agreement in place with a directly or indirectly government-owned entity; apart from Bowarege and RAWEC with three-year and 25-year agreements, respectively.

The deal neatly matches the income generated from the projects with the lifetime and obligations of the bonds whilst unlocking capital for Acwa to plough back into further development.

The underlying credit risk on the bond is quasi-sovereign due to the offtake agreements being guaranteed by the country's Ministry of Finance – essentially the payment risk is shifted over to the government rather than the sponsor, a source explained.

"The strategic importance of power and water generation assets to the Kingdom of Saudi Arabia is positive to the creditworthiness of these bonds," Adam Muckle, assistant vice-president analyst at Moody's commented to *IJGlobal*. "The credit quality of the offtakers (who pay revenues to the projects) is linked to the Saudi Sovereign credit quality."

Likewise, each project's offtakers are responsible for fuel supply to the plants, making the financial performance of the projects relatively insulated from fuel prices.

The issuance is rated BBB- by S&P and (P)Baa3 by Moody's, respectively. Moody's based its rating on a consolidated average debt service coverage ratio – through to bond maturity in 2039 – of 2.46x.

Acwa had planned to include an eighth project – the Rabigh 2 IPP – although this was later removed from the structure.

Issue features

Pricing on Acwa's bond gives investors a premium over the Saudi sovereign bond -- the 10-year sovereign issue yields 3.25% and the 30-year pays 4.5%. The Government of Saudi Arabia has an A1 rating from Moody's.

Acwa's bond issue priced at 365bp over the 10-year US Treasury benchmark, giving it an all-in price of 5.95%.

The 22-year fully amortising senior secured bonds will mature in 2039 and have an average life of 13.6 years. They are being issued by Acwa Power Sukuk SPC.

Some 130 investors joined the offering, including 45% from North America, 25% from the Middle East, 15% from Europe, and 15% from Asia. Most of the appetite was from pension funds.

The bonds will be listed on the Global Exchange Market of the Irish Stock Exchange.

Citi and Jefferies acted as joint global coordinators with CCB Singapore, Mizuho, NCB Capital and Standard Chartered Bank as joint bookrunners, MUFG and SMBC Nikko acted as co-Managers. Acwa mandated the banks in November 2016.

Investors in the issue were advised by law firm Shearman & Sterling. Acwa received legal advisory from Chadbourne and Parke.

More of the same in 2018

Acwa plans to return to the bond market “sometime during the course of next year” with another issue, *IJGlobal* revealed last week. Having established investor appetite for this sort of structure, the company will be keen to maintain and retain its new investor base.

The 2018 issue is likely to be of around the same size to the most recent offering and will target the same investor base. It could be issued either at the corporate level or against a number of projects – as in the most recent issue – or directly at an individual project level.