

Hongsa: Thailand outbound

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Thailand's independent power sector has long been a popular destination for power developers. As this market grew to maturity, Thailand's banks moved aggressively into the market for financing independent power projects. Now, with the financing of the Hongsa mine-mouth power project, Thai banks have crowded out international banks from the Lao power market. Indeed, Hongsa is the largest project loan of any kind closed in the Thai bank market.

Hongsa is best understood as a Thai power project financing that happens to be for an asset located in Laos. The sponsors of the plant are Thailand's Ratchaburi Electricity Generating Holding (40%), Banpu (40%), a Thai coal producer that is expanding in the power sector, and Lao Holding State Enterprise (10%). The offtaker for 95% of the plant's capacity is Electricity Generating Authority of Thailand, which owns 45% of Ratchaburi.

The project grew from Banpu's location and development of the Hongsa coal deposit located in the Hongsa sub-district of Xayaboury, Lao Peoples Democratic Republic, and its initial halting attempts to develop a power plant around the reserve. Ratchaburi, with its strong institutional links with EGAT, the main potential offtaker for a Lao power project of this size, was an obvious candidate to come on board.

Laos and Thailand have a history of cross-border power sales going back to 1971, and a power sales framework was first formalised in 1993. The most recent financing in Laos was a \$607 million expansion financing for the Theun Hinboun hydro plant, sponsored by Electricite du Laos (60%), Statkraft (20%) and GMS Power (20%). On that financing, as well as 2005's \$1.4 billion Nam Theun 2 deal, both international and Thai banks participated.

EGAT's interest in a coal-fired project comes from the fact that 70% of its roughly 31GW of installed capacity is gas-fired, 12% is hydro, and roughly 10% is lignite. Purchases from Laos to date have been of hydroelectric power, making it vital that the sponsors had access to the necessary technical expertise. Ratchaburi, thanks to EGAT's substantial shareholding, has access to engineers that are responsible for EGAT's over 2GW Mae Moh lignite facility.

The offtaker, then, is likely to have a substantial role in overseeing construction of the project, which uses Chinese-made Harbin boilers, though the two EGAT divisions operate, and negotiated, at arms length. This degree of EGAT involvement could only increase the attraction of the Thai banking community to the project. The construction contractor on the project is China National Electric Equipment Corporation, which holds a \$1.68 billion contract to build the plant.

The sponsors named Bangkok Bank financial adviser in late 2009, and it went out to banks early in 2010. The sponsors entertained proposals from Thai and international banks in parallel, but when it realised that the country's largest lenders were prepared to write very large tickets, chose to go with an all-Thai group. The financing was 2x oversubscribed, with Siam Commercial Bank joining Bangkok Bank as lead arranger, Kasikornbank, Government Savings Bank, and Krung Thai Bank joining as joint lead arrangers, and Export-Import Bank of Thailand; Bank of Ayudhya, Siam City Bank, TMB Bank joining as co-lead arrangers.

The financing breaks down into a Bt63 billion term loan with a tenor of 17 years and seven months, a \$930 million term loan with the same tenor, a \$53 million bank guarantee, with the same tenor and a \$25 million working capital loan with a tenor of 13 years and 2 months. The financing is split between Hongsa Power, with a cost of \$3.4 billion, and Phu Fai Mining, which owns the \$400 million lignite mine. The mine has a slightly different shareholding structure, with the Lao

entity owning 25%, and the two shareholders 37.5%.

The use of a Chinese boiler and construction contractor would have allowed the sponsor to access the Chinese bank market, and it is still possible that the Thai banks might recycle their commitments by selling them to Chinese banks. But so far, no Chinese lenders have become comfortable enough with the credit to buy in.

The sponsors will probably have more luck pitching the project to the Thai bond market. Ratchaburi Electricity Generating, the Ratchaburi subsidiary that owns the power plant of the same name, recently issued Bt16 billion in short-term debt. According to Noppol Milinhangoon, Ratchaburis president, a bond refinancing is under active consideration.

For all the appetite that the Thai lenders have demonstrated for Hongsa, there are two more Lao power deals, each with a Ratchaburi participation, close to market. Ratchaburi owns 25% of the forthcoming 440MW Nam Ngum 3 hydroelectric plant, with GMS Lao Company, owing 27%, Marubeni owning 25%, and Lao Holding State Enterprise owning 23%. It owns 25% of the 390MW Xe-Pian Xe-Namnoy plant, located in Attapue and Jampasak provinces, with SK owning 26%, Korea Western owning 25%, and LHSE 24%.

Hongsa was one of the largest greenfield power financings in Asia in 2010, but, more importantly, sees Thai banks taking a leading role in a cross-border power project financing. Whether they follow up on this will depend on the circumstances. Laos, which is often described as Thailand's backyard and has close cultural and linguistic ties, is a special case, the more so since EGAT buys so much of the country's power. Even in Laos, projects with different sponsor groups and contractor choices are likely to turn back to home market ECAs and international lenders. The financial adviser on Nam Ngum 3, for instance, is BNP Paribas.

Hongsa Power Co, Ltd and Phu Fai Mining Co, Ltd

Status: Closed 29 October 2011

Size: \$3.897 million

Location: Lao PDR

Description: 1,878MW lignite-fired power plant with three units, and associated coal mine

Sponsors: Banpu Power Limited (40%), Ratchaburi Electricity Generating Holding Public Company Limited (40%), Lao Holding State Enterprise (20%)

Equity: \$927 million

Debt: \$2.97 billion

Lead arrangers: Bangkok Bank, Siam Commercial Bank

Joint lead arrangers: Kasikornbank, Government Savings Bank, Krung Thai Bank

Co-lead arrangers: Export-Import Bank of Thailand; Bank of Ayudhya, Siam City Bank, TMB Bank

Financial adviser: Bangkok Bank

Lender legal counsel: Latham & Watkins (international); DFDL Mekong Law Group (Lao); Chandler & Thong-ek Law Offices (Thai)

Sponsor legal counsel: Milbank

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