

DEAL ANALYSIS: Shuweihat 2

11/09/2013

Federal Reserve Chairman Ben Bernanke's comments on 19 June about a possible end of quantitative easing fed through quickly to the resurgent project bond market. Bond market activity and the price of 10-year bonds fell sharply as investors feared an impending rise in interest rates. But within a month market fears had created a shortage of new buying opportunities. Into this gap stepped the Shuweihat 2 independent power and water project, a well-rated asset that satisfied investors looking to diversify.

The timing of the 144A issue was far from perfect however. If the notes had launched before Bernanke's remarks then Shuweihat's sponsors TAQA (54%), GDF Suez (20%), Osaka Gas (10%), Marubeni (10%) and ADWEA (6%) might have achieved a spread around 20bp lower. But the bond still came in below initial pricing estimates of 6.25% to achieve a yield of 6% on 25 July. The \$825 million in bonds will mature in 2036. Investors included insurance companies (56%), asset managers (42%) and other buyers (2%).

More significant was the nationality of these investors. Of the roughly 60 accounts in the issue, 70% came from the US (with 23% from the Asia, 3% from mainland Europe, 2% from the UK and 1% from the Middle East and North Africa). US-based institutional investors are increasingly eager buyers of project debt, though Shuweihat is not the first bond for a Middle East project to attract non-local support.

But Shuweihat highlights what enthusiasm from US bond investors could mean for GCC sponsors. Deals in the GCC region tend to have long tenors and high yields, and it has taken a while for the US market to become familiar with their risk profile. While US investors represented the bulk of bond buyers, large Asian accounts such as China Life were significant participants.

Shuweihat 2 has several features that make it a fairly safe bet for investors unfamiliar with the region. In TAQA and ADWEA, it has two sponsors which are partly (the former) or wholly (the latter) state-owned, and ADWEA is also the offtaker from the plant. The deal is a refinancing, with no construction risk, and the plant is already operational with strong proven cash flows. S&P rated the bond A- while Moodys awarded it a rating of Aa3. The project's standalone credit profile, according to S&P, is just BBB, but it notched the issue higher because it thought that government would be highly likely to intervene if the project suffered financial stress.

Citi (lead left), HSBC, BNP Paribas, National Bank of Abu Dhabi, Mitsubishi UFJ, and Standard Chartered Bank were the bookrunners on the issue, with Mizuho also an arranger. The bond was the final piece of a \$2.2 billion refinancing, which also included a \$700 million direct loan from JBIC and a 17-year commercial bank loan of about \$700 million which signed in October last year.

The refinancing replaces the original 22-year debt for the plant, which closed on 19 October

Shuweihat 2
STATUS
Closed August 2013
SIZE
\$2.2 billion
DESCRIPTION
A combined-cycle independent water and power plant located 250km south-west of Abu Dhabi on the emirates coast at Jebel Dhana.
SPONSORS
TAQA (54%), GDF Suez (20%), Osaka Gas (10%), Marubeni (10%) and ADWEA (6%)
BOOKRUNNERS
Citi, BNP Paribas, HSBC, Mitsubishi UFJ, National Bank of Abu Dhabi, Standard Chartered
COMMERCIAL LENDERS
Samba, KfW, SMBC, SMTB, BTMU, Standard Chartered, National Bank of Abu Dhabi, Mitsubishi Trust Bank, Mizuho, HSBC, BNP Paribas, Credit Agricole, Societe Generale, Natixis
ECA
JBIC
SPONSORS LEGAL COUNSEL
White & Case, Chadbourne and Parke
INTERNATIONAL LENDERS LEGAL COUNSEL
Latham & Watkins
LOCAL LENDERS LEGAL COUNSEL
Hafed & Partners
ECAS LEGAL COUNSEL
Milbank, Tweed, Hadley & McCloy

2009. That deal was split between a commercial bank tranche of just under \$1.1 billion and JBIC loan of just over \$1.1 billion.

This new deal reduces the JBIC debt but retains its original margin of a flat 235bp over Libor, making the JBIC piece the highest priced tranche, though it retains the same tenor, with a maturity of August 2031. The new bank tranche is priced at 175bp rising to 250bp over the facilities 17-year tenor, whereas the original commercial debt had a margin of 260bp rising in step-up to end at 350bp.

Samba, KfW, Sumitomo Mitsubishi Banking Corporation (documentation bank) and Sumitomo Mitsui Trust Bank had the largest tickets on the commercial tranche, at around \$100 million, BTMU provided around \$65 million, National Bank of Abu Dhabi (NBAD), Mitsubishi Trust Bank and Standard Chartered Bank lent about \$40 million, Mizuho, HSBC and BNP Paribas committed \$30 million each, while Credit Agricole, Societe Generale and Natixis took smaller tickets. NBAD is providing a \$34 million working capital facility, the repayment of which ranks below the payment of principal on the main debt package.

The Shuweihat plant has a power capacity of 1,503MW and water capacity of 100 million imperial gallons per day. It enjoys a 25-year power purchase agreement with ADWEA, which ends in October 2036. The facility uses two Siemens SGT5-4000F gas turbines and benefits from a long-term maintenance contract with Siemens that ends in 2022. The plant began full operations in October 2011 after a three-year construction phase.

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