European Oil & Gas Deal of the Year 2013: EnQuest

21/02/2014

Even as non-bank lenders take greater shares of transport, social infrastructure and power finance business, banks have been able to comfort themselves that they have a solid hold on upstream oil and gas.

North Sea oil and gas independent EnQuest demonstrates the willingness of banks to provide reserves-based facilities to the right operators. In October 2013 it signed a $1.2 billion reserves-based revolving credit with BNP Paribas and Scotiabank.

But earlier in 2013, EnQuest closed a £145 million retail bond issue pricing the nine-year bonds at 5.5% and opening up a new investor base. Then, in November, it closed a £10 million tap of that retail issue, which is subordinate to the bank facility.

Between the proceeds of the retail bonds and the reserves-based loan (which can be expanded under an accordion feature by an additional $500 million if reserves justify it), EnQuest has access to enough liquidity not just to develop its high-profile Kraken field, but also continue a run of acquisitions of upstream assets.

EnQuest was formed in 2010 from the merger of the North Sea assets of Petrofac and Lundin Petroleum. It is now the largest independent operating in the North Sea, with stakes in 33 production licences, covering 45 blocks or part-blocks in the UK continental shelf. Enquest is the operator of 25 of the 33 licences in which it has stakes, and is also operating on a smaller scale in Norway and Malaysia.

EnQuest Plc
Status
Signed 30 October 2013
Size
$1.7 billion
Description
Borrowing base financing for the development of the Kraken field in the UK Continental Shelf
Sponsor
EnQuest
Debt
$1.7 billion
Lead arrangers
BNP Paribas, Scotiabank
Sponsor legal adviser
Ashurst
Lender legal adviser
Herbert Smith Freehills
Reserves engineer
Gafney Cline

The operators debt requirements have grown alongside its operations. Shortly before Enquest shares started trading in April 2010, Enquest established a debut $280 million two-year revolving credit, with Lloyds ($160 million) and BNP Paribas ($120 million). In March 2012 it replaced that facility with a new $900 million facility, for which Lloyds, Bank of America Merrill Lynch, Barclays, BNP Paribas, Crédit Agricole, NICB and Royal Bank of Scotland were lenders. The increased loan was priced at between 225bp and 325bp over Libor, depending on EnQuests financial ratios.

By the end of 2012, EnQuest had acquired 60% of the Kraken field development in the North Sea, and had become its operator. Kraken, a heavy oil accumulation located in the East Shetland basin, has a reserve estimated at 137 million barrels of oil and requires £4 billion of capital and operational investment (£1.4 billion in upfront capex net to EnQuest). Cairn Energy (25%) and First Oil (15%) own the remaining equity in the field.

The retail bonds will make a modest contribution towards that expenditure, but have the advantage of going out to nine years, being subordinate to any borrowing base debt, and carrying a sub-6% coupon.

Numis started roadshows for the bond in February, and planned to place £100 million of bonds. In the end, interest from UK investors was so great that EnQuest increased the final issue size to £145 million.

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The success of the retail bond highlighted another advantage of the retail avenue broadening EnQuests lender base. Two UK solar developers Good Energy and CBD have come to market with retail bonds, but with much more modest goals and much more mixed results. Whatever the green credentials of solar development, retail moneys preference for the hydrocarbons sector was clear.

The increased borrowing base came from just two lenders BNP and Scotia. In common with earlier financings, the leads will be allowed and likely to sell their exposure down. The choice of leads highlights the retreat of UK lenders from upstream, the recovery of French lenders from their 2011/12 liquidity issues, and Canadian banks continued strong franchise in North Sea upstream.

Following signing on the loan, EnQuest closed a £10 million tap of the retail bond, which priced, again with Numis as lead, at 101.65% of par. The bonds have since traded at as high as 104% of par.

Kraken increases EnQuests proven and probable (2P) reserves by 60 million barrels, or 50% on top of its 2P reserves at the end of 2012. EnQuests net production from the field at peak production will be 30,000 barrels per day. Bumi Armada is supplying a floating production storage and offloading vessel for use at the field, with delivery scheduled for 2016.

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