Middle Eastern Sponsor of the Year 2013: GDF Suez

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GDF Suez was a joint sponsor on two of the largest and most significant deals in the Middle East in 2013, and stood out for its efforts to incorporate new debt sources into its financings. Its Dubai-based development group also oversaw the financing for a ground-breaking independent power producer project in South Africa, and is nearing close on a deal in Abu Dhabi that will bring mini-perm financing to the GCC.

The $2.2 billion Shuweihat 2 refinancing (see Middle Eastern Project Bond Deal of the Year 2013 below), which closed in August, attracted a record number of US-based investors to a bond from the region. The refinancing also involved reducing the pricing on the commercial component on Shuweihat 2s original financing from 2009, closing despite disruption to the market caused news of potential reductions to the US Federal Reserves bond purchases.

The Shuweihat plant, located 250km south-west of Abu Dhabi on the emirates coast at Jebel Dhana, has a power capacity of 1,503MW and water capacity of 100 million imperial gallons per day. GDF Suez owns a 20% stake in the project, and state-controlled TAQA (54%) and ADWEA (6%), and Osaka Gas (10%) are co-sponsors. The large government ownership gave significant comfort to international institutional investors, but the sponsors still had to talk investors through the projects risk profile, given the lack of previous bond issuance from the region.

GDF Suez owns 45% of the private shareholding in the Az Zour independent water and power project in Kuwait (see Middle East PPP Deal of the Year 2013 below), which closed in December. The deal is the first from Kuwaits Partnerships Technical Bureau over five years after the PPP unit was founded. The financing showed that PPP structures can take root in the country, despite the backdrop of political turbulence, although social infrastructure deals may prove more troublesome than a more conventional IWPP.

The $1.4 billion Az Zour financing is split between a JBIC direct loan, a Nexi-covered facility featuring three international lenders, and a larger uncovered facility that featured local bank National Bank of Kuwait (NKB). GDF Suez extracted low pricing on the deal despite the political risk and untested nature of the project documentation. The 23-year debt is fully amortising.

Another landmark deal for the developer in the GCC region was also taking shape for the developer in theduring 2013, and most of the financing is now in place for the Mirfa IWPP in Abu Dhabi. Joint sponsors GDF Suez and Sojitz have received a strong response from the bank market for their $1.8 billion soft mini-perm financing, and hope to reach financial close by the end of the first quarter of 2014.

The deal features cash-sweeps and a step-up in margin after seven years, a structure has been rare in the GCC region of late. Export credit agencies such as JBIC are unwilling to assume refinancing risk, but the sponsors were confident that there would be enough interest from the local and international bank market to fund the deal. Around seven of the major Japanese project finance banks, four Middle Eastern lenders and a couple of European banks have all submitted proposals.

Granting Authority ADWEA encouraged bidders to enter proposals that used soft mini-perms, which shows confidence in

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the likely availability of refinancing in the local market. However Stefano Terranova, executive vice-president at GDF Suez, thinks project grantors in the region could be even more experimental when looking at different funding options. [Mirfa] is still only a soft-mini perm, and so the banks still have to commit long-term. I think the next stage would be for the offtaker to assume refinancing risk to use a construction financing model, he says.

ADWEA will have drawn comfort in supporting the mini-perm from the success GDF Suez and its co-sponsors enjoyed with the Shuweihat 2 bond, which took place shortly before the Mirfa tender documents were released. Despite the timing of the issue, the Shuweihat bonds still came in under guidance pricing.

Shuweihat 2 was not the only GDF effort to widen its lending group to outside the bank market. The developer, alongside Mitsui and local community groups, closed on South Africas DOE peaker projects (see African Power Deal of the Year, below) in August 2013. The sponsors convinced institutional investor Sanlam Capital Markets not just to lend but also to provide interest and foreign currency hedges.

Terranova said: We are all aware that the banking market is not as deep as it used to be for project finance, particularly in terms of international banks. Our perspective is that there is no silver bullet or one simple solution that will solve credit issues, but what we are trying to do is broaden our horizons and look at as many funding sources as possible.

GDF Suezs Dubai group is not just looking for new liquidity pools but at new geographies too. Terranovas group now covers South Asia, Middle East and Africa, and will now be looking carefully at investment opportunities in India.

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