DEAL ANALYSIS: Jabiru-1

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The export credit arms race in satellite technology shows little sign of abating. Australian-listed NewSat, until now a reseller of capacity on other satellites, is moving to put its debut Jabiru-1 satellite into orbit, thanks to a $390.1 million debt package featuring both US Ex-Im and Frances Coface. The sponsor assembled the debt and equity for the project in February 2013, signed documentation in July 2013, and met or waived its conditions precedent to close on the financing on 17 February 2014.

NewSat had a market capitalisation at the start of the process of around A$50 million ($45 million), though it is now over five times that amount. Meeting the gap between the debt package and the $611 million project costs proved difficult. NewSat persuaded Lockheed Martin, its satellite supplier, to start work on the project before closing the debt financing, and persuaded both export credit agencies (ECAs) to make their terms more generous in a bid to close the equity gap.

Still, its shareholders had to endure frequent share trading suspensions while Newsat worked on closing the equity gap. The eventual placement raised A$105 million, but involved increasing the number of NewSat shares outstanding from 233 million to 515 million, and warrants from 53 million to 193 million. NewSat shares, which had closed as high as A$35 in late 2011, have hovered around A$0.40 for the last year, with the exception of an October spike to A$0.57.

NewSat was founded in 2002, and to date has resold capacity on other satellites through its teleports in Adelaide and Perth. These operations bring in revenue, which is a comfort to lenders and investors, but launching and owning Jabiru-1 will transform the company and expand its asset base.

Australia is the largest OECD country without a privately-owned fleet of satellites. The previous administrations plans to provide broadband access to remote areas became a contentious political issue, and gave NewSats efforts to launch the Jabiru fleet a wider national importance.

The geostationary Ka-band Jabiru-1 satellite will provide 7.6GHz of capacity to government and enterprise customers in Asia, the Middle East and Africa. NewSats existing teleport customers include oil and gas companies such as Chevron and ExxonMobil, and its business, which carried on through the crisis intact, has benefited from Australias resources boom.

In 2009, NewSat began to plan the Jabiru development and financing in earnest. It started preselling capacity on the satellite and by the end of February had 18% presold, and plans to have 70% under contract by the time Ariansepace-5 launches the satellite in 2015.

Jabiru Satellite Limited

Status

Funding agreed February 2013, signed July 2013, closed 17 February 2014

Size

$611 million

Description

Ka-band geostationary satellite with 7.6GHz of capacity

Sponsor

NewSat

Equity

$108 million in new equity, $49 million in historic spending

Mezzanine

$30 million

Mezzanine lender

Ever Tycoon

Debt

$300.5 million US Ex-Im facility, $89.6 million Coface-covered loan

Coface and standby debt provider

Standard Chartered

Equity placement agents

Credit Suisse and Baillieu Holst

Equity adviser

Gresham Partners

Sponsor legal advisers

Pillsbury; King & Wood Mallesons

That timetable has slipped considerably from its original date of 2012, and the slippage illustrates the challenges of a listed start-up accommodating itself to the demands of a satellite project financing. Coface and US Ex-Im, while often supporting competitors for satellite contracts, work together well, but the pace of project financings do not always lend themselves to the attention span of retail investors.

In July 2012, US Ex-Ims board approved a $280 million loan for the project and Coface approved cover for a $102.74 million loan, with Standard Chartered in line to provide the covered debt. The commitments from the two export credit agencies left NewSat to find another $200 million in funding, and NewSat had planned to meet half of that gap with equity and half with debt.

That gap proved to be tough to bridge. NewSats share price did not move enough on news of the approvals to make an equity raising cost-effective. The borrower was able to nudge the size of the Ex-Im loan up to $291 million, and the Coface portion to $108 million. But after NewSat suspended trading in its shares it lost the services of investment banks Lazard and Morgan Stanley, which had been working on the equity-raising.

Gresham Partners took over advising NewSat on the equity issue, while Credit Suisse and Baillieu Holst took over the placement. It raised A$105 million ($108 million) in equity at A$0.40 per share, and a $30 million mezzanine facility from Ever Tycoon Limited, the investment vehicle for an unnamed group of Singaporean investors. It also persuaded Standard Chartered to put up a $25 million standby facility.

The proceeds, not to mention $49 million that NewSat had already spent on the project, were enough for Newsat to announce that Jabiru-1 was fully funded. The borrower said that it had managed to lower the gap by reducing the fees that the ECAs charged, using the standby facility instead of building in a contingency, and lowering the deals required debt service reserve.

NewSat managed to persuade the ECAs to reduce their demands for structural enhancements, and it got its equity issue away, though it had to hand out a number of warrants to advisers, and convert several smaller bridge financings to equity. Orbital Capital, with a A$5 million bridge loan, and CCK, with a A$3.5 million bridge loan, were among the beneficiaries, though a A$1 million convertible note from Khattar Capital remained outstanding.

Accompanying the equity raising were the issue of 127.9 million Jabiru warrants, and 21.5 million A$0.40 warrants. The Jabiru warrants are being issued to the mezzanine lender, CCK and the advisers on the Jabiru financing, and have an exercise price of A$0.00001, while the A$0.40 warrants were issued for free to new equity buyers.

NewSats struggles did not end in February 2013. In June, Coface reduced the size of its coverage, saying that one of its co-underwriters had pulled out of the deal. NewSat again went back to US Ex-Im, and was again able to increase the size of its facility, but still faced a $2.6 million funding shortfall.

On 3 July 2013 NewSat signed again with Orbital Capital, on a A$5 million bridge facility. The bridge was meant to fund at the same time as the ECA debt, but in October 2013, Orbital agreed to waive the conditions precedent to funding, and convert the loan into NewSat equity.

The 8.5-year senior debt consists of the $300.8 million direct loan from US Ex-Im, which is priced at a fixed rate at close of CIRR flat (currently 1.81%) during construction, and CIRR plus 77bp during operations, and $89.6 million in Coface-backed debt. Of the Coface debt, 83% carries an all-in rate of 4.26% (of which all but 250bp will accrue until completion), and the rest carries a margin of 305bp over Libor (of which Libor plus 55bp will accrue).

The senior financing features a 100% cash sweep if this standby facility is used, and until it is repaid, a 75% sweep if the loan life coverage ratio is below 2x and the debt/Ebitda ratio is above 3x, and a 50% sweep after that.

The sponsor had hoped to close on the financing by the end of November, but did not close the financing until 17 February. With the closing of the facilities, NewSat can make a $78.9 million payment to Lockheed for the satellite, and $34.7 million to Arianespace for launch services. Jabiru-1 is now on schedule for launch in 2015.

The financing for NewSats debut satellite shows that there are limits to how supportive export credit agencies will be on financings for newer entrants. US Ex-Im, which stretched to accommodate NewSats weaknesses, and offered a noticeable pricing advantage, comes out a little better from the process than Coface.

But the appearance of both agencies on a single financing shows that collaboration, as much as competition, will be a feature of satellite financings, especially for start-up operators.

Critics of the generous export finance terms on offer to satellite buyers say that the operators business plans are vulnerable to external shocks. They point to the restructurings of Globalstars Coface facilities as evidence that high-skill jobs can take precedence over credit discipline. But the time taken by NewSats ECAs to get comfortable with the operators business plan suggests that their due diligence was very real, and very painstaking.