Gas glut: PNG LNG

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WHAT WE SAID THEN: "In terms of sheer scale and complexity PNG LNG represents not only the largest PF deal ever but also a true pathfinder that has profound implications for the regional energy finance market."

The LNG export market over the last decade has seen huge cycles of high demand followed by surplus as a result of overbuild. The first few years of this decade saw a succession of very large LNG infrastructure developments in Australia.

But these were pre-dated by an even bigger project in neighbouring waters, the $17 billion Papua New Guinea LNG.

It $14 billion debt package was at the time the largest project financing ever in the world, which is remarkable given its emerging market location. But like many of the Australian projects financed around that time, PNG LNG suffered significant cost overruns, pushing capital expenditure above $19 billion.

The first gas shipment from PNG LNG was made in May 2014. The proceeding five years had witnessed the build-up of the US shale gas boom, which eventually resulted in a crash in oil and gas prices. This price depression has put pressure on oil companies around the world, and PNG LNG's shareholders are no exception.

Add to this growing local disillusionment with the project given it perceived lack of positive economic impact for Papua New Guinea, and it has been a far from straightforward post-financial close period for PNG LNG.

ExxonMobil is the lead sponsor for the project as the largest of seven shareholders. The sponsors finalized the term sheet for the original project financing in July 2009, with commitment letters signed in December of that year.

Original plans for a bond element to the deal were dropped, given the appetite shown by commercial lenders.

The 17-year ECA debt broke down as: $3 billion from US Exim; $1.8 billion from JBIC; Australia's EFIC provided $350 million; SACE $900 million; NEXI $950 million; and China Exim $1.3 billion.

The $1.95 billion uncovered commercial bank tranche was provided by 17 lenders. The loan had a 15-year tenor with pricing starting at 325bp over Libor, rising to 400bp after the 4.5-year construction period and stepping up to 425bp between years nine and 15.

ExxonMobil co-lent $3.75 billion distributed across the facilities on a pro rata basis, following the term of each facility.

The huge required capital expenditure is because PNG LNG is essentially three projects in one: the upstream gas fields, a 450km pipeline and then the LNG plant.

To cover construction risk, the sponsor group provided a completion guarantee that worked in such a way that stronger members of the group could cover those in danger of default. Offtake risk was given a natural hedge through the diversity of the offtake group, and Exxon's central presence on the deal had been seen from the start as mitigating any possible operation risk.

The most significant risk for lenders was that of Papua New Guinea – a B-rated economy that has suffered from periods of political instability in the past. This aspect of risk is largely mitigated by the fact that the PNG government is a member of the equity group, and that there is a stakeholder benefit agreement in place that spotlights local stakeholder gains, which is intended to mitigate country risk through economic incentive.

An independent report by Acil Tasman commissioned in 2007 estimated that the project would double PNG's national GDP once operational. Recent news reports of continuing public opposition to PNG LNG suggest the sponsors have not been entirely successful at winning hearts and minds however.

Papua New Guinea LNG

Financial close: 15 March 2010

Description: Construction of a 6.6 million tonnes-per-year LNG facility in Papua New Guinea

Size: $17 billion

Sponsors: ExxonMobil (33.2%), Oil Search (29%), Santos (13.5%), the PNG government (16.6%), Nippon Oil Corp (4.7%), PNG landowners through Mineral Resources Development Company (2.8%) and Petromin PNG Holdings (0.2%)

Debt: $14 billion

Financial adviser to the sponsors: Societe Generale

MLAs: NAB, ANZ, Westpac, CBA, BTMU, SMBC, BNP Paribas, Calyon, China Development Bank, CIC, DnB NOR Bank, Intesa Sanpaolo, Mizuho Corporate Bank, Natixis, Societe Generale, Standard Chartered Bank and UniCredit

ECAs/Multilaterals: JBIC, EFIC, US Exim, SACE, China Exim, NEXI

Legal advisers: Sullivan & Cromwell, Allens Arthur Robinson (sponsors); Latham & Watkins, Blake Dawson (lenders); Latham & Watkins (ECAs/Multilaterals)

Consultants: Shaw (technical); D'Appolonia (E&S); NSAI (reserves); Gas Strategies (market); Control Risks (security); Miller (insurance); Poten & Partners (shipping)

Model Audit: PKF