Mostorod refinery, Egypt - IJ Awards 2013 Deal of the year

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Citadel Capital and Egyptian Refining Company reached financial close in June 2012 on the US$3.7 billion financing for the development of Mostorod refinery near Cairo.

The financing included US$1.1 billion of equity, US$2.35 billion senior debt and US$225 million subordinate debt.

The deal was due to close in February of this year but due to the downgrading of WestLB and Banco Espirito Santo new investment was needed, but the sponsors were able to proceed on the landmark deal with some restructuring of the original term sheet, and succeeded despite the political upheaval in the region.

Development despite challenging conditions

The deal represents a significant achievement in project finance in Egypt. Tim Pick partner at Shearman and Sterling, legal adviser to the sponsors, said "The ERC project offers a welcome demonstration that it remains possible to structure and close large scale infrastructure investments in post-Arab Spring Egypt.”

The debt providers are not entirely settled even now with KBC Bank being swapped out for another guarantor following its downgrading this week. Sources say that EIB is "unlikely to stop funding" but will exert pressure on SG to locate a new lender.

The deal is said to have been rescued earlier this year with additional equity funding from InfraMed Fund (US$100 million) and QPI (US$362 million). The involvement of QPI secured the deal as the company brought both cash and an international oil sponsor to the project, something it had previously lacked.

Katan Hirachand, managing director, advisory and project finance for the Energy Group, EMEA, Societe Generale, financial adviser to the sponsors said “Mostorod is a landmark project in terms of its size and structure – its capital structure is unprecedented and highlights how different sources of funding (with differing objectives) can be harmonized."

“This is a deal that couldn't be done now given its private equity sponsorship and domestic off take” added Hirachand.

The project was inked during 2006 and faced difficulty from the outset. The lack of familiarity with international transactions in the country coupled with what another source called "less sophisticated companies" made the deal difficult to negotiate. The central problem was how to finance a refinery with no sponsor guarantee; Egyptian General Petroleum Corporation (EPGC) and Citadel, the major sponsors of the project, couldn’t guarantee capital as neither company had the balance sheet to support it, the source said.

As is becoming clear it was the strength of the EPC contract, described by one source as the "strongest and most loaner friendly" he had seen, that pushed the deal forward. Crucially Mitsui, EPC contractor for the project, had assumed US$200 million subordinate debt, thereby mitigating risk for other lenders through demonstration of long term interest. When asked why Mitsui decided to offer the debt, a source commented that the "EPC contract was extremely financially attractive to Mitsui" adding that Mitsui's involvement in the close of the deal was "financially renumerative" for the company.

The project experienced more turmoil following the political upheaval in Egypt in 2011 that saw the fall of President Mubarak and his regime. While letters from the interim government of Egypt to the Ministry of Petroleum pushing the project provided "soft comfort" for lenders, IJ has learned that the Egyptian government allowed its central bank to stand behind the letters of credit (LC) issued by sponsors in relation to the project. This enabled the procurement of EGPC equity LC's critical to the projects continuation and payment of US$7 million in fees to the consortium of lenders in compensation for the delay.

Hirachand said of the deal; "In order to complete the transaction in an increasingly hostile financial market all lenders moved into new territory to fill the gaps - AfDB made their first subordinated loan to a project; EIB accepted the guarantee of an Egyptian bank(s) for the first time; KEXIM offered 80 per cent of its support in the form of a direct loan to counter low guarantee liquidity; JBIC provided support to Egypt for the first time; DEG and FMO provided equity after initially considering senior debt. Exceptional circumstances led to exceptional support from all parties."

Stephen Craen, managing director, head of advisory and project finance for the Energy Group, Oil and Gas, EMEA, Societe Generale added; "We adopted a pathfinder approach, where a small core of commercial banks became involved at an early stage to maintain commitment to the deal; approaching the banks later might not have seen similar uptake."

Project scope

The Egyptian Refining Company (ERC) was established in July 2007 as a Law 8 Company to design, construct and operate the new Mostorod facility.

The Mostorod refinery project is intended to address the increased demand for refined oil products in Egypt. The new petroleum processing facility adjacent to the existing Cairo Oil Refinery Company (CORC) site, is located in the Mostorod Petroleum Complex, 20 km northeast of Cairo in Qalyoubia Governorate.

Shearman & Sterling's Tim Pick said of the project, "Egypt has crude oil, but has had to import transportation fuels in large quantities as Cairo's existing refinery is old and low-tech, producing low grade fuel oil which causes pollution and is unsuitable for modern motor vehicles. The Egyptian Refining Company project will process that fuel oil into EU-grade fuels at a location in the heart of Egypt's biggest fuel market, Cairo. Thus it will reduce dependency on imports and costs as well as significantly lowering pollution levels."

"Combining a private equity structure with development finance institutions, a joint venture with a major industry player like Qatar Petroleum International and multiple tranches of senior and mezzanine debt, as well as achieving limited recourse during construction, has been an enormous challenge," added Pick.

The financing

The deal closed with Qatar National Bank (QNB), Arab Petroleum Investment Corps (APICORP) and Societe Generale (SG) replacing West LB and Banco Espirito Santo, which were downgraded and therefore unacceptable guarantors to EIB. Sources said that QNB was the most substantial contributor, replacing the US$100 million from Banco Espirito Santo. APICORPS took the West LB US$29.32 million and SG assumed the remaining US$33.83 million under KEXIM. The tenor of the debt is 15.5 years, and 17.5 years for ECAs.

Sources close to the deal told IJ News that the pricing on the commercial debt is 325bp with the NEXI and KEXIM tranches carrying margins of 175bp and 195bp respectively.

The project's debt package is structured as follows:

The African Development Bank arranged US$200 million senior debt and a US$25 million bank subordinated convertible loan

The deal also featured a US$180 million debt covered by Korean ECA KEXIM (Fixed rated bond type, one year duration, LIBOR rate). Tranche roles on this piece are as follows:

- Sumitomo Trust and Banking 5.55 per cent US$10 million
- Societe Generale 26.56 per cent US$47.83 million (including appropriation of the 18.79 per cent US$33.83 million formerly from West LB)
- KBC Bank 7.77 per cent US$29 million
- Credit Agricole 4.65 per cent US$8.37 million
- KfW 29.53 per cent US$53.16 million
- Bank of Tokyo-Mitsubishi UFJ 9.76 per cent US$ 17.58 million
- HSBC 7.81 per cent US$14.06 million

Tranche roles on the US$360 million term loan covered by Japanese ECA NEXI (Fixed rated bond type, one year duration, LIBOR rate):

- Standard Chartered Bank 13.8 per cent US$50 million
- Societe Generale 27.77 per cent US$100 million
- Credit Agricole 11.04 per cent US$39.75 million
- HSBC 18.55 per cent US$66.78 million
- Sumitomo Trust and Banking 5.55 per cent US$20 million
- Bank of Tokyo-Mitsubishi 23.18 per cent US$83.47 million

US$472.5 million term loan with EIB guarantee (Floating rate bond type, one year duration, LIBOR rate), arranged by:

- KBC 5.26 per cent US$24.88 million
- APICORP (formerly West LB) 6.2 per cent US$29.32 million
- Standard Chartered Bank 7.4 per cent US$35 million
- KfW 79.65 per cent US$45.61 million
- Qatar National Bank (replacing Banco Espirito Santo's originally planned ticket) 21.12 per cent US$100 million
- Ahli United Bank 8.71 per cent US$41.16 million
- Commercial International Bank (Egypt)10.22 per cent US$48.29 million
- Societe Generale 10.4 per cent US$49.15 million
- HSBC 8.37per cent US$39.56 million
- Bank of Tokyo-Mitsubishi 9.21 per cent US$43.53 million
- Credit Agricole 3.38 per cent US$16 million

A US$450 million development bank debt from EIB which runs alongside the US$475 million commercial guarantee tranche)

US$620 million term loan direct lending from KEXIM

US$540 million term loan direct lending from JBIC

US$200 million mezzanine debt from lead arranger Mitsui and Co.

The equity component is structured as follows:

- US$270 million from EGPC (for a 23.8 per cent interest)
- US$362 million from Qatar Petroleum International (for an effective 27.9 per cent interest)
- US$155 million, both directly and indirectly, from Citadel Capital (for an effective equity stake of 11.7 per cent)
- US$85 million from International Finance Corporation (6.4 per cent ownership)

- US$29 million from Dutch development bank FMO (2.2 per cent ownership)
- US$26 million from Germany's DEG (2.0 per cent ownership)
- US$100 million from The InfraMed Fund (effective ownership of 7.5 per cent)

The InfraMed Fund invested through its wholly-owned subsidiary Infra Rev Holding in Orient, a company with a majority holding in Egytptian Refining Company. This equity injection represents an effective ownership of 15.6 per cent in Orient. Other participants in the funding include investors from Egypt and the Gulf Cooperation Council countries as well as other development finance institutions.

EFG Hermes Investment Banking acted as placement manager for the equity component, raising approximately US$462 million of the required equity funding for ERC.