Ichthys LNG, Australia

Michael Pooler

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Billed as the largest project-financed development ever, the INPEX-led Ichthys LNG Project closed a US$20 billion loan package in December through a complex arrangement weaving together non-recourse debt provided by export credit agencies (ECAs) and more than 20 commercial lenders, as well as upfront cash from sponsors.

Lying 137 miles (220km) offshore Western Australia on Block WA-285-P, the US$34 billion development will involve the extraction and liquefaction of resources which are then pumped through an 889km-long subsea pipeline to be processed at a facility near Darwin, in the country's Northern Territory.

It will attend to the burgeoning demand for LNG in the Asia-Pacific region, and the well-established method used for debt structuring may become more widespread as resource-poor countries seek energy security further afield.

The development marks the debut of primary sponsor INPEX (66.07 per cent holding) in leading a world-scale LNG project as operator. It is joined by its main partner Total of France (30 per cent) alongside an assortment of junior sponsors from Japan: Tokyo Gas (1.575 per cent); Osaka Gas Group (1.2 per cent); Chubu Electric Power (0.735 per cent); and Toho Gas (0.42 per cent). Equity will be contributed as and when required to meet the conditions in the loan agreements, such as debt-to-equity ratios that need to be met in the drawdown period.

Debt

In total there was US$16 billion in loans from lenders and an additional US$4 billion provided by sponsors. Credit facilities reached close on 17 December with debt comprising an estimated 59 per cent of the overall capital structure. The loans consist of 11 tranches, with the eight participating ECAs at the heart of the arrangement:

- US$5.8 billion in direct loans from ECAs, including the largest ever commitment made by JBIC of US$5 billion, with Kexim and EFIC completing the complement
- US$5.4 billion of ECA-covered (insured or guaranteed) loans from Nippon Export & Investment Insurance (Nexi), Atradius, Compagnie Francaise d'Assurance pour le Commerce Exterior, Euler Hermes, Export Finance & Insurance Corp, Export Import Bank of Korea, Japan Bank for International Cooperation (JBIC) and K-Sure
- US$4.8 billion uncovered commercial loan from a syndicate of Japanese, Australian and international commercial banks
- US$4 billion senior sponsor loans, including US$1.5 billion raised by Total via a shareholder loan to finance its contribution

All debt was senior, according to a source with knowledge of the deal, and sponsors had an obligation to “put in a certain amount of equity which goes in as sub debt”. Although arranged on a non-recourse basis, lenders benefit from a customary debt service undertaking from sponsors up to project completion.

Lenders

Twenty-four banks have been confirmed as participating in the syndication and although initial reports suggested oversubscription led to the number of lenders being scaled back, the source said this could yet rise to “30-plus”.

This popularity led to individual commitments being cut down. Three Japanese banks – BTMU, Mizuho Corporate Bank and SMBC – will hold US$1.35 billion, reduced from earlier commitments of US$1.5 billion. Prior to the deal some in the industry were privately sceptical whether three major Japanese lenders could be attracted by one deal; but eventually the solid reputation of the developers and ECA backing proved irresistible.

Meanwhile, local lenders CBA, ANZ and NAB also ended up with smaller-than-anticipated tickets of less than US$1.1 billion, less than US$750 million, and over US$600 million, respectively. BOS International completed the local complement by providing uncovered debt of US$108 million.

The other confirmed lenders were: Citigroup, HSBC, Industrial & Commercial Bank of China, ING Bank, Mitsubishi UFJ Trust & Banking, Mizuho Trust & Banking, Shinsei Bank, Standard Chartered Bank, Societe Generale and Sumitomo Mitsui Trust Bank.

Maturity and pricing

“The actual terms of the debt deal – that is, the provision of loan agreements – are all in the same common loan facility,” said one adviser on the deal. On the lending side this differs for ECAs and commercial lenders.

Maturity of the loans is set at 16 years, a condition understood to be driven by the ECAs. In terms of pricing, covered facilities all pay the same margin of 220bps over Libor with a fee of 200bps.

Commercial portions of the debt are priced “at and above” 240bps over Libor during construction phase, according to the source, and it is believed this will step-up once operations starts, eventually rising to 375bps with a fee reported as being “in the mid-200bps range”.

Although the equity-to-debt ratio (approximately 41:59) appears unusually slanted to equity, industry figures said this was unsurprising on two counts. Firstly, as the deal “hoovered up” vast amounts of liquidity, there was nowhere left to turn for debt. Secondly, the AA credit rating of both leader sponsors, “blue chip firms with deep pockets” in the words of a legal adviser, and location of the project (Australia is one of few sovereigns with a safe AAA rating) lowered the risk profile. Coupled with the projected high revenues from LNG sales – the adviser labelled the Japanese off-takers as “some of the best in the world” – there was little cause for worry on the part of lenders.

An investment banker indirectly involved on the deal commented: “LNG allows you to raise the most money in project finance; it’s been this way for years.”

The role of ECAs

Instrumental to the debt close were the ECAs; indeed, the same adviser on the deal said it would have been “totally impossible” in their absence and explained two motivations for their involvement:

“Some ECAs come to the table to finance the procurement of goods and services from their country – in this case Hermes, Kexim and K-Sure. For the others it is to support LNG sales or equity stakes in the projects, this is what JBIC falls into. The developers always had this in mind”.

With nearly all of its 54 nuclear reactors idled following the Fukushima disaster, Japan’s looming energy crisis explains JBIC’s and NEXI’s role. Cursed in the way of natural resources, the country has long been the world’s largest importer of LNG and Ichthys is slated to provide around 10 per cent of its imports in the coming years. The future complexion of Japan’s energy mix is uncertain following the election of a tentatively pro-nuclear government, but in any scenario LNG is going to play a large part.

“If you sell the natural resource into Japan the government has a political interest in making funds available,” says one lawyer based in Japan.

By contrast, South Korea’s interest lay in facilitating the export of platforms constructed by domestic engineering firms.

One insider with experience of working with ECA on big infrastructure deals described the process, which is driven by the sponsors’ financial advisers:

“The ECAs are government agencies and a bit more conservative, they want to be thorough on due diligence. You engage them early on in the project, develop a term sheet with them setting out the terms of the financing, help them with due diligence and get the exports in to do reports. Once that process is done you release [the term sheet] to the banking community and ask them for comments and to commit to certain amounts of debt with price offers.”

The presence of ECAs was also crucial to the tenor and pricing. “For commercial banks, if they are covered by an OECD ECA, the amount of capital they have to set aside to support that loan is less than what if they were lending on the basis of no cover,” the same lawyer added.

ECAs were given a helping hand by the Organisation for Economic Co-operation and Development (OECD), the body that sets rules governing ECA financial involvement in projects in order to set a level playing field for exports, which had earlier extended an exemption in response to global liquidity constraints allowing ECAs to provide debt to projects in developed countries on a longer tenor than normal. Usually long-term debt from ECAs is reserved for projects in developing countries.

This is in turn freed up the commercial banks to lend on a longer-term basis, as ECA backing reduces the amount of capital commercial lenders are required to set aside to support the loans - in effect making it cheaper for them to provide credit to the developers.

To be sure, this level of ECA involvement in LNG is nothing new: only half a year earlier in May 2012a trio of Origin Energy, ConocoPhillips and Sinopec inked an US$8.5 billion non-recourse deal which consisted of three tranches, of which two were direct ECA loans.

“The structure of this deal has been in the last five or six LNG projects; there isn’t anything unique about it,” said the source with knowledge of the deal.

With developments in Mozambique and Russia on the financial horizon, industry observers are eyeing up similar deals in the near future.

Background to financing

Financing efforts started in Spring 2011, taking around 18 months to come to fruition – a typical timeframe for a mega-project of its size. Sources say no abnormal difficulties were encountered.

And what of the spectre of refinancing? Unlikely, says one industry figure: “There is no need as there are good tenors. It’s all to do with economics and pricing. If, in seven years’ time when [the project] is up and running, margins are lower because there is more liquidity in the market than there is now and you can get better pricing people may look to refi. If the price of LNG drops and the cash flows are less robust you are going to have less appetite within the debt market.”

For Latham & Watkins, which acted as adviser to the lenders, Ichthys marked their eleventh LNG financing in 10 years.

Allen & Overy, acting on behalf of the sponsors, were instructed three years ago to help on the structuring of the project and commercial arrangements.