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Etihad Rail Project, Abu Dhabi

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29/01/2014

Abu Dhabi's state-run railway developer and operator Etihad Rail reached financial close on the first phase of one the Middle East's largest railway network procurements last year. The deal is a reflection of the region's increasing focus on development of the rail sector and the intention to collaborate with international sponsors and lenders in doing so.

The project is part of a planned US$11 billion major railway network in the United Arab Emirates (UAE). Financing for the first phase of this network, worth US$1.28 billion, was signed by Abu Dhabi's state-run railway developer and operator Etihad Rail in January 2013. While initial phases focus on shifting freight transportation from road to rail, future plans include serving passenger travel too.

Once all phases are complete, the network will connect key natural resource hubs within the UAE and extend to other GCC countries eventually running some 2,177kms. It will also link UAE to Saudi Arabia from Ghweifat City in the west and connect to Oman through Al Ain in the east.

Project Scope & Financing

The procurement timetable for Etihad Rail's first phase suffered a few setbacks due to political uncertainty that hit the wider Middle East region. So while the tender was released in early 2010, financing only launched two years later.

A private sector consortium of Saipem, Tecnimont and Dosal Engineering was named preferred bidder for the project in November 2011. The consortium is responsible for carrying out the project's civil and track works, while Electro-motive Diesel is providing seven locomotives custom-built for desert conditions, CSR corporation is supplying 240 covered hopper wagons, and PCL Strescon is supplying sleepers for stage one.

The first phase comprises 264km of track from Shah and Habshan to Ruwais in the UAE. The rail line will be used to transport granulated sulphur for export from Abu Dhabi National Oil Company's oil and gas fields located at the three points, extending through Abu Dhabi's western region to connect with UAE's other emirates.

Stage two of the project will connect Mussafah, Khalifa and Jebel Ali Ports and extend to the Saudi and Omani Borders. Construction on the first phase is already underway and procurement for the other two phases will follow soon. Once completed, a joint venture between Etihad Rail and German state-owned rail company Deutsche Bahn, will take-over operation and maintenance of the railway's fleet.

The project's financing structure is not strictly traditional project finance; instead more akin to a corporate finance deal. This comes as no surprise since financing for most deals in the Middle East is backed by the Sovereigns. In addition, local commercial banks in the region are not experienced enough to carry out a pure project finance structure. Most commercial banks and sponsors are more comfortable working on deals that are supported by a risk-mitigating, cash flow injecting body, one lender who worked on Etihad Rail said.

Financing for the first phase of Etihad Rail comprises a US$1.28 billion, five-year term loan from four banks:

- Abu Dhabi Commercial Bank
- Bank of Tokyo-Mitsubishi UFJ
- HSBC
- National Bank of Abu Dhabi

National Bank of Abu Dhabi also acted as facility agent. All four banks took nearly equal tickets on the debt. The short-term bank loan has an amortising structure with payments due in four instalments beginning 42 months from the date of signing. The loan is fully backed by the Abu Dhabi National Oil Company (ADNOC) through a guarantee that involves step-in rights and Capital Tariff Agreements (CTAs). This made the deal's credit profile less risky and more accessible to both the sponsors and lenders. The four banks may also look at financing further phases of the project.

Etihad Rail project's first phase is expected to be completed within the next two years, and once all phases are complete better connectivity will be achieved across the UAE and further GCC countries.

In addition to Etihad Rail, there are other large scale rail projects currently in procurement around the Middle East, focussing both on freight transportation and public transit, which is key for both social and economic integration of countries across the Middle East. However regional governments will need to make sure they continue to invigorate the infrastructure financing landscape in order to attract experienced lenders and sponsors to their markets.

Advisory Roles

Legal advisors for the consortium were Allen & Overy, while Clifford Chance acted for the lenders. Project management was conducted by a joint venture between Parsons and Aecom. Atkins acted as engineering services consultant.

UBS provided financial advice to borrower, while Al Tamimi was legal adviser to ADNOC.