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Tamar refinancing, Israel

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The successful – and attractively-priced – five-tranche $2 billion bond refinancing for Delek Group's stake in the Tamar gas field should make bonds more attractive to other upstream producers with the right assets. It will also influence the way that Leviathan – the next, and larger, Israeli field – is developed and financed.

Delek Group owns Delek Drilling and Avner Oil, which each own 15.625% of the Tamar field. Tamar is located about 80km west of Haifa and has a proven gas reserve of 223 billion cubic metres and 10.2 million barrels of condensate (P90 confidence).

Tamar's operator is Noble Energy, which owns a 36% interest, while Isramco Negev owns 28.75% and Dor Gas owns 4%. The Tamar field sells 2.7 billion cubic feet per year of gas to Israel Electric Corporation (IEC) under a 15-year offtake agreement with pricing starting at $5.70 per million BTU.

The Tamar field has been in development since 1999, with BG as its original operator, though its formal discovery was in 2009, after Noble took over as operator in 2006. It is the second large-scale discovery offshore Israel, after the Yam Tethys field.

Exploitation of Israel's offshore deposits initially looked extravagant as Israel was able to import Egyptian gas at cheaper prices. Revolution in Egypt has made the exploitation of fields like Tamar a priority.

Earlier financings

Delek closed two successive bank financings for Tamar before the bond refinancing. In 2010 it closed a $430 million field development bridge financing with Barclays and HSBC, and in August 2012 closed a $900 million eight-year financing with 11 lenders.

Even the bank deals were notable for combining the contracted revenue streams of a midstream oil and gas deal with the reserves-based security package of an upstream financing. They also allowed the sponsor to make sure that the regulatory framework and project was strong enough not just for a bank lender but also for a bond investor.

The sponsors obtained a statement from Israel's Petroleum Commissioner that affirmed the rights of lenders to enforce a security interest over their interest in the field. While Israel views reserves like Tamar as strategic assets, and wants to be consulted in changes in ownership, it recognised the need for the sector to attract low-cost capital.

A larger, more mature market that had few difficulties in attracting capital might not have been willing to be as flexible. A frontier market might have struggled to convince lenders of its reliability. Israel is perfectly positioned to allow a bondholder-friendly security package.

The field entered operations in March 2013, and is sending gas onshore using a mixture of its own infrastructure and the existing Yam Tethys infrastructure. The IEC contract currently accounts for 66% of the field's revenues, though Tamar

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has another 24 customers. But thanks to the ability to enforce security over the interest in the reserves, the bonds have a rating of BBB-/Baa3 (S&P/Moody's), slightly higher than IEC's BB+/Baa3 rating.

The bond issue

The proceeds of the $2 billion in bonds pay Delek an $885 million dividend, fund a $100 million debt service reserve, and refinance the $1.015 billion balance on the long-term bank debt package. The size of the dividend is one indication of the benefits that the longer-dated bond package gives Delek in terms of leverage.

Citi, JP Morgan and HSBC, the last of which was financial adviser, trustee and collateral agent, were the joint book-running managers on the bonds. The debt breaks down into five equal bullet tranches maturing in 2016, 2018, 2020, 2023 and 2025.

The split between the maturities is largely a factor of the cashflows under the IEC contract, because market demand would have focused on the shorter tranches. But as the shorter pieces mature, if the sponsors prove higher reserves and sign additional offtake agreements, they may be able to issue additional long bonds, subject to meeting NPV to debt and gas volume covenants and receiving a ratings affirmation.

The field sponsors recently signed a letter of intent with Union Fenosa Gas to supply the Spanish utility 70.8 billion cubic meters of gas over 15 years.

While the three leads were all international banks, and European and US accounts subscribed to the bonds, Israeli institutions were key to the success of the issue, as the list of joint lead managers indicates:

- Credit Agricole
- Natixis
- Societe Generale
- Leader
- Exellence Nessuah
- Barak Capital
- Menora Mivtachim
- Leumi
- Clal Finance

The leads tightened pricing on all tranches considerably between issuing initial pricing guidance and closing books, and the debt is understood to have traded up immediately after the issue closed.

Tranche	Initial (bp)	Final (bp)	Final coupon (%)
2016	237.5	200	2.803
2018	262.5	225	3.839
2020	275	230	4.435
2023	300	245	5.082
2026	312	255	5.412

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