RAF A1: Better but no benchmark

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The Qatari authorities have every reason to be pleased with the financing of the Ras Abu Fontas A1 (RAF A1) water project. Despite closing after the summer of 2007, the deal priced below its nearest benchmark, the $467 million term loan backing the Ras Abu Fontas B Power Plant Expansion II (RAF B2).

The RAF B2 debt, which closed in June 2006, was split between a $467.5m 25-year term loan and an $18 million 25-year standby facility, with BTM, Calyon, Commercial Bank of Qatar, GIB, HSBC and Qatar National Bank as the mandated arrangers. The term loan margin was 65bp, ratcheting to 150bp.

The RAF A1 financing comprises $432.2 million in 20-year debt and $144 million equity (a debt-equity ratio of 75/25). The pricing came in close to model pricing, which began at 60bp and finished at 120bp.

The debt splits into a $288.2 million 20-year commercial term loan and a $144.1 million 20-year Islamic tranche. The lead arrangers are Bank of Tokyo-Mitsubishi (also financial adviser), Doha Bank, Gulf International Bank (GIB), Royal Bank of Scotland, Standard Chartered and Qatar Islamic Bank (QIB).

QIB was sole underwriter of the Islamic facility, the first Islamic transaction into which Qatar Electricity and Water Company (QEWC) has entered. The facility is also thought to be the largest Islamic underwriting in Qatar by a single bank. The facility has been structured as a 20-year Istisna-Ijara scheme (lease-to-own) through which QIB will finance the construction of three multi-stage flash-type desalination units, with a capacity of 15 million gallons per day each.

QIB has already syndicated the financing via a distribution through its subsidiaries in Malaysia (Asian Finance Bank) and the UK (European Finance House), as well as directly to Saudi banks.

Qatar's current requirement of 170 million gallons of water per day is being met by the current water supply network, with RAF A1 intended to meet future demand in the next three to four years, since real estate and industrial development is creating a 9% year-on-year increase in the demand for water. The plant will be the only one of its kind in Saudi Arabia where vapour would be cooled to produce water for consumption. Heat will be extracted from the existing plants enabling us to ensure production with relatively less energy.

Unlike most of Qatar's recent IWPP transactions, the developments at the Ras Abu Fontas site are sponsored without private developers as shareholders, principally because QEWC owns the land. There have now been a total of three quasi-corporate, quasi-structured transactions for plants at the location. RAF A1 benefits from strong government support through a series of contractual agreements which fall just short of a guarantee.

QEWC is the sponsor and the deal is backed by a 25-year full offtake agreement with the Qatar General Electricity & Water Corporation (KAHRAAMA). The plant is being constructed under a turnkey, fixed-price EPC contract with commissioning expected in 2009. The EPC contractor is Fisia Italimpianti.

While the transaction and underlying contractual structure is not that unusual, the deal is notable for the volatile market conditions in which it was forged. Should financial advisers and syndication desks use the deal as a regional pricing benchmark post- credit crunch? No. QEWC was in constant dialogue with its financial adviser Bank of Tokyo-Mitsubishi during the unfolding credit market turbulence last year, and while most of the financial documentation had been prepared before the middle of 2007, the financial engineering was tweaked to invite banks in as a club on a take-and-hold basis.

Under the financial model the tariff payable by KAHRAAMA, and therefore the end-user price, is sensitive to the debt pricing, so the Qatari authorities were also particularly keen to extract the best possible terms from the market.
The timetable for the RAF A1 project financing was held up while another Qatari financing, the Mesaieed A IWPP, was going through the market. The Mesaieed A deal, which closed on 16 April 2007, comprised a 25-year $1.25 billion commercial tranche arranged by Calyon and an $800 million JBIC direct loan tranche. The commercial tranche was generously priced at 90bp over Libor during construction, dropping to 80bp then climbing in increments to 170bp.

The pricing on the Mesaieed A IWPP debt was widely acknowledged to be too high to properly reflect Qatari risk and was the principal reason behind the new power template used on Ras Laffan, whereby the Qatari authorities themselves raise the financing rather than the private developer.

RAF A1 was eventually launched to the market in August 2007 with the deadline for underwriting submissions set for September 2007. Unlike another Qatari project, the Qasco transaction, bank commitments on RAF A1 were made on pricing as the subprime issues took hold, so the banks had little reason to back away from an unofficial commitment.

Nevertheless, the full extent and scope of the market turmoil was not known in September, so the deal does not represent a true reflection of post-crunch pricing: if the deal had come to the market just two or three months later (possibly less) the debt margins would certainly be higher.

After Qasco and, to some extent, Mesaieed A, the Ras Abu Fontas A1 signals a return to form for Qatar, which bodes well for Ras Laffan C and beyond.

Ras Abu Fontas A1
Status: Signed 13 March; financial close 27 March 2008
Description: $432.3 million conventional and Islamic finance for 45 MIGD water desal project in Qatar
Sponsor: Qatar Electricity and Water Company (QEWC)
Mandated lead arrangers: Bank of Tokyo-Mitsubishi; Doha Bank; Gulf International Bank; Qatar Islamic Bank; Royal Bank of Scotland; Standard Chartered
Financial adviser: Bank of Tokyo-Mitsubishi
Legal counsel to sponsor: Shearman & Sterling
Legal counsel to banks: Simmons & Simmons
Technical adviser: Stone & Webster
Insurance adviser: Jardine Lloyd Thompson
Model Audit: Operis
EPC: Fisia Italimpianti