Ensus: Big bio

01/04/2007

SG, Calyon and RBS have arranged a £155 million ($306.5 million) debt package to back Ensus Group's bioethanol plant to be developed at Teeside, UK. The project will be the largest bioethanol plant in Europe and the first of a wave of prospective UK bioethanol plants due for financing in 2007.

Ensus had originally planned to solely develop the plant itself with proceeds from an AIM listing, however given the choppy liquidity greeting flotations on AIM at the back end of 2006 and the flagging patience of the equity markets regarding the lack of delivery in the biofuels sector, alternative financing was deemed the wiser option.

Ensus' solid business plan, attractive site location and a management team with a proven pedigree were significant draws for private equity.

The chairman is Sir Rob Margetts, who is also currently chairman of Legal & General, Senior independent director of Anglo American and was formerly Chairman of BOC and Vice Chairman of ICI. The CEO is Alwyn Hughes, who has worked for the majority of his career at ICI, holding a number of senior roles. And the Deputy chairman and Director of business development is Michael Fox, the original founder of the Company.

With a new strategy in mind, Ensus was purchased by new investors – The Carlyle Group (a global private equity firm) and Riverstone Holdings (a global energy focused private equity firm) – and decided to use project financing. SG acted as financial adviser.

The £155 million debt has a tenor of eight years. Lenders are taking some commodity risk regarding the procurement of grain and the sale of ethanol and dry-distilled grain. However these risks are mitigated by a generous margin; the debt to equity ratio is lower on the debt side than 65/35.

The debt pays a margin of around 170bp. The sponsors are afforded the flexibility to roll over repayments in a base case scenario and leave up to a 30% bullet at the end of the tenor; under the target case scenario the loan will evenly amortized across the tenor.

The project benefits from a 10-year offtake agreement with Shell for all of the ethanol and with Glencore for the dry-distilled grain. Drymill ethanol production uses only the starch portion of the feedstock which is about 70% of the kernel, the residual material is concentrated into distillers grain, and is usually used as feed for diary and beef cattle.

Glencore is also providing the grain feedstock. Because the grain feedstock and the dry-distilled grain offtake are linked products with linked prices, the price risk from fluctuations in feedstock is mitigated.
The announcement of financial close was well-timed: On 9 March 2007, the EU Council of Ministers endorsed a 10% binding minimum target to be achieved by all Member States for the share of biofuels in overall EU transport fuels by 2020.

The UK Government has also announced that from April 2008 it will be introducing the Renewable Transport Fuels Obligation (RTFO). The RTFO should ensure a significant and stable market for biofuels in the UK, setting a mandatory target of 5% of transport fuels to be made up of biofuels by 2010. A big positive for bioethanol is that it can be easily blended with petrol; a mix of 5% bioethanol and 95% petrol can be used in all cars today without the need for modifications to the engine.

Ensus will provide substantial underpinning to the UK meeting these targets and, at full capacity, will be capable of supplying approximately 35% of the bioethanol required to achieve the targeted 5% substitution of the UK petrol market.

The 400 million litre per year bioethanol facility will be at the Wilton International site in Teesside, an integrated petrochemical complex in North-East England. Construction will start in Q2 2007, with full production expected to begin in early 2009. The plant will use an established dry milling process technology licensed from Katzen. The manufacturing facility is being built by Simon Carves, Sembcorp which will be providing the utilities at Wilton; and Vopak which will be providing the specialised bioethanol storage and handling facilities.

The deal benefits from the convergence of a number of circumstances that are unlikely to be easily replicated: lenders were comforted both by the new heavyweight investors – Carlyle Group and Riverstone Holdings – and by the strength of the offtakers. The plant is located at the Wilton International site in Teeside, an integrated petrochemical site, with excellent road and port access for both the supply of feedstock and the transportation of the finished product. The plant also has large capex benefits through its proximity to steam and electricity provided by Sembcorp.

Nevertheless, Ensus, with its new investors on board, is hoping to replicate some of these conditions for a second plant on mainland Europe. The sponsors are looking for a site on the coast of Holland and Belgium and are likely to initiate financing before the Wilton plant comes online in 2009.
With private equity backing and all going well, it is likely Ensus will roll out its mainland European plant via project financing before looking for a trade sale or a floatation exit in five or six years time.

Ensus Limited
Status: Financial close 15 March
Description: £155 million 8-year facility for Europe's first world scale project financed bioethanol plant
Sponsors: Ensus Group, The Carlyle Group, Riverstone Holdings
Lead arrangers: Calyon, RBS, SG
Financial adviser: SG
Legal counsel to sponsors: Clifford Chance, Halliwells (Ensus)
Legal counsel to lenders: Norton Rose
Financial and tax adviser to Carlyle and Riverstone: Ernst & Young
EPC: Simon Carves