Middle East LNG Deal of the Year 2006

01/03/2007

Nakilat: Fleet finance

Large and innovative structures are built on solid foundations. QGTC's Nakilat LNG shipping deal that closed 14 December 2006 is no different.

The foundation for the deal is Qatar Petroleum and its partners' monetisation of the Qatari gas fields using LNG and the strength of the supply chain from feedstock through liquefaction to market. There is arguably no better story globally for banks to tell their credit committees than the Qatari LNG story. The novel aspect of the deal is that vessels are usually financed on a deal-by-deal basis, however here Qatar Gas Transport Company, with advisory from SMBC, has used a debt programme to source $4.265 billion debt for 16 LNG vessels with the ability to annex further debt using a similar term sheet for further vessels.

Lenders to the deal therefore had to get comfortable with an unusual credit – a mix of shipping and project finance covenants. Banks booked their commitment through their shipping department, or project department, or a combination of the two. Ultimately given the strength of the underlying credit (the charter counterparties) the multi-sourced deal was an easy sell.

The vessels, which will be built at Korean shipyards, will service Qatargas 2 and 3. Qatargas 2 is sponsored by Qatar Petroleum (70%) and Exxon Mobil (30%), and Qatargas 3 shareholders are Qatar Petroleum (68.5%), ConocoPhillips (30%) and Mitsui & Co (1.5%). Six vessels will be chartered to Qatargas 2 and 10 to Qatargas 3, both for 25 years. These charter agreements form the security to the financing, as well as cashflow covenants and standard shipping contracts.

On QGTC's insistence the deal was structured to tap different pools of liquidity to diversify its sources of funding and enable the additional debt to be added on without bottoming out, for example, the commercial bank market and damaging the prospects of cheap pricing in the future.

The financing is split between a $1.15 billion bond issue, a $2.4 billion commercial bank facility and a $725 million export credit agency facility.

The bond, managed by CSFB and Lehman Brothers, brought in $1.15 billion for notes maturing in 2033. The issue comprises an $850 million Aaa3-Moody's rated senior bond and a $300 million A1-rated junior bond.

The senior piece priced at 145bp over Treasuries and the sub-debt at 165bp. Yield on the deal is 6% and pricing is said to be similar to the 45bp-75bp range on the senior commercial bank debt tranche. Tenor on the bond is 27 years with a 22-year average life on the senior and 18 years on the junior.

There was a degree of flex prior to the bookrunning of the bond as 24 mandated lead arranger banks had pre-committed to a $2 billion-plus commercial bank tranche, which could be pared down depending on the pricing of the notes.

The commercial bank portion eventually came in at $2.391 billion with a tenor of 15-years plus construction (a scheduled 2025 end date), split between a $2.216 million senior term loan and a subordinated piece of $175 million.

Kexim and KEIC provided a 12-year $725 million ECA portion, with Kexim providing a $500 million direct loan and KEIC providing political and commercial insurance to a $225 million commercial bank-funded tranche.

Lead arrangers on the commercial debt were offered tickets of a minimum $100 million. Agents for the general syndication of the bank debt are Barclays Capital, BNP Paribas and DNB Nord with GIB as regional agent.

A second $3 billion fundraising to fund a further 11 vessels, which will be annexed to this deal, is likely to be launched at the end of 2007 or early 2008. The new debt, which is likely to match the tenor of the first phase, can be annexed once a set of pre-agreed conditions are met. The pricing of the annexed debt, almost one year on, will give an good indication of the factors driving market sentiment: the upstream projects are likely to continue smoothly to operation but oil prices are forecast to be slightly more lower than when the original deal priced.

The banks currently in the deal are likely to absorb most of the new debt, nevertheless new entrants are welcome.

Nakilat LNG vessel financing
Status: Closed 14 December 2006
Description: Multisourced $4.265 billion debt for 16 LNG vessels to service Qatargas 2 & 3
Sponsor: Qatar Gas Transport Company (QGTC)
Financial adviser: SMBC
Bond bookrunners: Lehman Brothers, CSFB
Bank debt bookrunners: Barclays Capital, BNP Paribas, DNB Nord, GIB (regional bookrunner)
Mandated lead arrangers: Arab Bank, BTM, Barclays Capital, BNP Paribas, Calyon, Citigroup, CBQ, CSFB, Dexia, DNB Nord, Fortis, Goldman Sachs, GIB, HSBC, JP Morgan, Lehman Brothers, Mizuho, Morgan Stanley, Nordea, QNB, RBS, SG, Standard Chartered, SMBC
Borrower legal counsel: Latham & Watkins
Lender legal counsel: Skadden Arps