# African Oil & Gas Deal of the Year 2006

01/03/2007

**Sonangol Sinopec International: China bright**

Sinpoec's financing for its joint venture with Sonangol is the Chinese expansion into overseas resource markets expressed in the project finance market. The deal is the largest project financing to date outside of China for Sinopec, the largest for any Chinese sponsor and sets benchmarks for the participation of Chinese banks in financings outside China. The deal is also the largest upstream project financing in Africa to date, and the first ever project financing in Angola.

Sinopec, or China Petrochemical Corporation, is better known as a presence in downstream oil and gas projects. It was, for instance, among the sponsors of the Nanjing and Shanghai petrochemical complex financings, and is thus well known to international project finance lenders.

The operator of the Block 18 field is BP, which, as Amoco, was awarded the project in 1996. Shell had been awarded the remaining 50% of the project at the same time, and in early 2004 proposed selling its stake in the asset to ONGC of India. But the Angolan government decided in early 2004 to award the stake to Sinopec, and Shell had little choice but to comply.

The award followed an earlier government-level agreement from 2003, where China's vice-premier, Zeng Peiyang, signed supply and refinery upgrade agreements in Angola's capital Luanda. It also followed China Eximbank's approval of a $2 billion line of credit to Sonangol, the latest in a long history of support from China for Angola's leadership.

The Block 18 field is located in deep water, 150km from the country's coast, and 200km from Luanda, and is serviced using a floating production, storage and offloading vessel. The block includes the Greater Plutonio project, which, when online later this year, will produce 240,000 barrels of oil per day. The Sonangol Sinopec International (SSI) joint venture is 55% owned by Sinipec and 455 by Sonangol.

In February, the joint venture's advisers, Calyon and Standard Chartered, went out to banks for proposals for a $1.4 billion borrowing base facility. The timing for the RFP was propitious, since Sonangol had closed a $3 billion corporate facility – increased from $2 billion in the face of strong demand – in December 2005.

Nevertheless, the advisers did need to contend with the non-recourse nature of the deal, the relative inexperience of Sinopec in the region, and the lingering political risk perceptions of Angola. Angola's civil war ended in 2002, and the country still suffers the after-effects of that decades-long conflict. This did not prevent the two financial advisers from extending a bridge loan of $1 billion to the venture, and Sinopex had already raised $1.1 billion, from a consortium of banks that included Calyon, in the Hong Kong market.

But the two financial advisers attracted a bid of 125bp over Libor for the SSI debt facility, from Royal Bank of Scotland. It is hard to say how serious the bid was, since it was attached to a demand for an agent title that the sponsors could not ultimately satisfy. RBS was not among the final group of mandated lead arrangers – BNP Paribas was technical bank and ING was facility agent, for underwriting commitments of $115 million, security agent Natexis provided $91 million, and the group is rounded out with BayernLB, Calyon, KBC and Standard Chartered each lending $76 million, and SG CIB providing $75 million.

The international banks only provided half of the total $1.4 billion. The remainder of the debt came from Chinese institutions, which were probably a pressure on pricing at least as potent as Sinopec's relationship pull. The five participating institutions were Agricultural Bank of China, Bank of China, China Construction Bank, China Development Bank and Export-Import Bank of the Republic of China. A combination of the Chinese banks' appetite, and RBS' outlying bid, brought pricing down from a rumoured 175bp over Libor to 140-150bp.

The seven-year loan features a pre-completion guarantee from Sinopec, a credit with which international banks are reasonably familiar, and Chinese banks very familiar. The pricing during this phase is 40bp, and once the loan turns non-recourse the pricing steps up to 140bp for the first three years and 150bp thereafter.

The most frequently cited comparison for the deal is Nigeria's Satellite oilfield financing, which closed in late 2005, and featured pricing below 200bp. That deal, however, was structured around the involvement of several Nigerian banks, and the pull of Exxon on international lenders.

Noting that independent oil and gas players had been raising debt at 300bp only 18 months previously might highlight the irrationality that potential China business has on offshore lenders. But the deal is shorn of much of the uncertainty that characterizes the independent financing. Between BP's role as operator, Sinopec's guarantee, and the quality of the Block 18 resource, project banks have little, beyond Angola risk, with which to trouble credit committees. And while Nigeria's onshore, and shallow offshore, operations have suffered from political violence in a manner to give pause to lenders, the FPSO-based Block 18 operations are as removed from Angolan risk as any extraction could be.

The borrowing base structuring is familiar to the experienced oil and gas lender. The main point of controversy was bringing the Chinese lenders into a single facility alongside the western banks. This was not so much a matter of adjusting to the Chinese banks' level of understanding of project finance structures, since most are now perfectly comfortable with non-recourse lending. But international lenders have a lingering, and understandable, fear that Chinese institutions will not always vote according to purely economic considerations. The documentation was adjusted to make the non-Chinese more comfortable.

SSI is already coalescing into a permanent, and powerful, force in Angola's oil industry. The venture turned heads when it bid $2.2 billion on licenses for the relinquished areas of Block 17 and Block 18 in early 2006. The two failed to grab the maximum stakes on offer, but emerged in May with a respectable 27.5% of Block 17 and 40% of Block 18. Banks will now have to match this appetite, knowing full well that Chinese lenders – and ECAs – can only get more comfortable.

**Sonangol Sinopec International**
Status: Closed 12 May 2006
Size: $1.4 billion
Location: Angola
Description: Borrowing base financing for Block 18 deep offshore the Angolan coast
Sponsors: Sonangol (55%) Sinopec (45%)
Financial advisers: Standard Chartered, Calyon
Lead arrangers: Agricultural Bank of China, Bank of China, BayernLB, BNP Paribas, Calyon, China Construction Bank, China Development Bank, Export-Import Bank of the Republic of China, ING, KBC, Natexis, SG CIB and Standard Chartered
Borrower legal: Jones Day
Lender legal: Norton Rose