Yansab: Multiple firsts

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Financing for Saudi Basic Industry Corporation's (Sabic's) $5 billion subsidiary, Yanbu National Petrochemicals Company (Yansab), has successfully closed.

The deal is a coup for the financial advisers to the sponsor, ABN Amro and Saudi Hollandi Bank, because the $3.5 billion debt is Saudi Arabia's largest ever greenfield project financing and includes the largest Islamic tranche in any multi-sourced financing.

The way in which the deal was assembled was also unique, since ABN Amro extended its remit from adviser to fully structuring, solely underwriting and bookrunning for the deal. Yansab is the largest solely underwritten financing in the MENA region and the first time Sabic has entertained a true project financing.

Yansab is a joint-stock company 51% owned by Sabic, 4% held by Sabic Industrial Investments Company for the benefit of an employee option scheme, and 35% owned by the Saudi public, following a public subscription process that closed on 5 January 2006. The remaining 10% is owned by private investors.

The usual criticisms faced by a pyramid-type financing, where a large underwriter sells down to sub-underwriters through to syndication, are firmly rebuffed on Yansab. One common criticism is the lack of local and regional bank participation at lead-arranger level, yet 10 of the 19 banks that have come in the deal are local or regional. Sabic purposefully instructed its advisers to maximize the Islamic tranche – listed companies want to be seen as supporting Islamic financings.

Inflated debt pricing is another criticism of large sub-underwritings, yet Yansab compares competitively against its benchmarks, Rabigh and Sharq. Even though the $5.8 billion debt for the Rabigh project boasts the formidable Saudi Aramco as one of its sponsors and the lower risk profile of being an expansion rather than greenfield project, the Yansab debt is priced at only around 10bp more.

Given that the tenor on the debt backing Yansab is 12 years, as opposed to the 15-year Rabigh debt, and that the deal was significantly oversubscribed, one banker close to the process suggests that Yansab could have priced even tighter. The original plan was to bring aboard eight to 10 sub-underwriters and then go to general syndication, but such was the demand that most of the 19 banks are likely to take and hold their positions.

When pricing the deal the advisers had one eye on their client's long-term plans. Sabic is certain to tap the project bank market at least a further two times in the next 24 months or so. In this regard, Yansab debt was priced so as not to squeeze banks too tightly, and also multi-sourced, to maintain appetite for Sabic exposure down the line.

The $3.5 billion debt comprises a SR4 billion ($1.067 billion) 13-year tranche from the Public Investment Fund (PIF) – this is the cheapest source of funding, and so was maximised – a $850 million 12-year Islamic tranche; a $700 million ECA comprehensively covered tranche provided by EGCD ($150 million) and Sace ($550 million); a $350 million working capital facility; and a $533 million 12-year uncovered commercial tranche. The debt to equity ratio is 70/30.

Unusually for a multi-sourced financing, there is near-parity in terms of equivalent cost to the lender for the Islamic, ECA and commercial tranches. The commercial debt pays a pre-completion margin of 45bp over Libor, stepping up to 65bp once the project is complete. The Sace tranche pays a margin of 12.5bp over Libor throughout the life of the loan, while the ECGD debt pays 10bp over.

Although the sponsor support for lenders falls short of a full completion guarantee, banks have comfort from an uncapped cost overrun commitment and an uncapped delay in start up facility. These facilities force the sponsor to step in if there is a cost overrun that cannot be met using the existing financing, and if there is a delay that causes a shortfall in payment of principal and commission. These facilities are available until the project end date, which is 30 April 2010 – 18 months after the scheduled commissioning date. During the operational phase the financing is fully non-recourse.

The project is a petrochemicals complex with an annual capacity of over 4 million metric tons (MT) of various petrochemical products including: 1.3 million MT of Ethylene; 400,000 MT of Propylene; 900,000 MT of Polyethylene; 400,000 MT of Polypropylene; 700,000 MT of Ethylene Glycol; 250,000 MT of Benzene, Xylene and Toluene, and 100,000 MT of Butene-1 and Butene-2.

The feedstock comprises mostly ethane drawn from the natural gas network, with the balance made up of propane, both sourced from Saudi Aramco. In keeping with WTO guidelines, there can be no guarantee of the preferential treatment on the pricing of the gas, but Saudi Arabia, perhaps along with Qatar, is widely recognised as the cheapest source of ethane. Propane is provided at about a 30% discount and currently ethane is sold to domestic consumers at $0.75 per million BTU. In the current climate of high oil prices the cost advantage over a naphtha-fed plant can be as high as $8 per million BTU. Nonetheless, the economics of the project assumed a higher ethane cost during the later stage of the repayment period. The offtake will be sold through Sabic's marketing arm.

Next on the block for Sabic will be its Kayan Olefins project, for which it recently signed up to a 35% stake. GIB is financial adviser on the IPO of 55% of the project company, while ABC, BNP Paribas and Samba Financial are advising on the project financing of the complex.

The deal is expected to reach the bank market in the fourth quarter of this year and is likely to follow the Yansab template. The scheme has been doing the rounds for a long time but has now secured an ethane feedstock from Saudi Aramco.

Yanbu National Petrochemicals Company
Status: Signed 18 June 2006
Description: $3.5 billion debt for a Saudi greenfield petrochemical complex
Sponsor: Saudi Basic Industry Corporation (SABIC)
Mandated lead arrangers:
ABN Amro; Saudi Hollandi Bank; ABC/ABC Islamic; Apicorp; BNP Paribas; BTM; Citibank; Fortis; GIB; Islamic Development Bank; ING; Mizuho; Saudi British Bank (HSBC); Saudi American Bank; SMBC; Standard Chartered
Lead arrangers:
Arab Bank; Banque Saudi Fransi; NCB
Financial advisers:
ABN Amro; Saudi Hollandi Bank
Borrower legal counsel: Baker & McKenzie
Lender legal counsel: Clifford Chance
Technical consultant: Nexant
EPC contractors: Fluor (utilities and facilities); Aker Kvaerner and China Petrochemical Corporation (polyolefins plant); TEC (ethylene glycol plant); Technip (ethylene and propylene plant)

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