

# Hidd: Turning Japanese

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The \$1.3 billion financing of the Al Hidd IWPP acquisition/expansion project in Bahrain is more than double the size of the financing of the first independent power project in Bahrain – Al Ezzel. An indication of how far the market has come since Al Ezzel, the senior lenders on Hidd not only matched the 20-year tenor of the first project, but also came in at 25bp less on the margin.

The success of the Hidd financing is due, in no small part, to the participation of the Japanese parties on the deal; Sumitomo as part-sponsor, Mizuho as joint arranger, and JBIC providing a \$600 million direct loan to the project that accounts for 46% of the overall financing. This is the first loan JBIC has extended as a project financing in Bahrain.

The project company, Hidd Power Company, is owned by three strong international players: Sumitomo, International Power and Suez Tractebel. Hidd Power Co will use the funding proceeds to finance the purchase of an existing power generation and desalination plant (power generation capacity: 965MW, desalination capacity: 30 million gallons/day) from the Ministry of Electricity and Water. The plant is located in the Al Hidd district, 20km east of Manama, the capital city of Bahrain. The plants are currently Bahrain's largest-class power generation and desalination facilities.

Hidd Power Co will also construct a new desalination plant (capacity: 60 million gallons/day) to sell electric power and water to the Ministry of Electricity and Water for 20 years. The power and water purchase agreement (PWPA) was officially signed on 22 January 2006.

Completion of the new desalination plant is scheduled for November 2007. When the new plant is operational the complex will have a domestic market share of about 20% for power generation and approximately 65% for water desalination.

The funding package comprises a \$600 million direct-loan JBIC facility, a \$390 million senior commercial facility, a \$175 million equity bridge, \$102 million in equity from cashflow from existing facilities, and a mezzanine tranche of \$35 million. The senior commercial debt pays 90bp over Libor, rising to 150bp over time. The six banks that equally underwrote the commercial portions are RBS, Mizuho, KfW, SMBC, Gulf International Bank (GIB) and Standard Chartered. BNP Paribas, which also advised on the Al Ezzel IPP, advised the Bahrain Ministry of Finance.

Syndication is expected to close by the end of June. Bookrunners RBS, SMBC and Standard Chartered have already received initial commitments on tickets of \$30 million, split \$17.5 million for the term loan and \$12.5 million for the bridge.

The key structuring twist on the deal, besides JBIC's large participation, is the use of a mezzanine tranche to take out the need for greater equity. On an upfront pure-equity only basis the deal is structured at an aggressive 92:8, but taking into consideration the bridge and mezzanine this falls to 76:24. The minimum average debt service cover ratio is 1.2x.

"No matter how cheap the debt becomes in the region, the cost of equity is still high," says one banker, "To my knowledge this is the first time a mezzanine tranche has been used on a power project in the GCC region, and could well feature again."

The comparison between Hidd financing (Bahrain's first desalination and second IPP privatization) and Tractebel and GIC's Al Ezzel IPP deal (Bahrain's first IPP privatization) highlights an incremental shift in both the financial and sponsor markets. The 1000MW Al Ezzel deal was banked in November 2004. HSBC and SG were lead underwriters on the deal which in total brought 11 banks into a \$373 million, 20-year term loan priced at 120-175bp over Libor and a \$127 million, 3.5-year equity bridge with a margin of 40bp.

As well as coming in under Al Ezzel, Hidd is also priced below the Saudi multi-sourced Shuaibah IWPP financing that closed in December 2005. This is significant given that Shuaibah is part government sponsored with SEC and the Saudi governmental investment fund, PIF, owning 40% of the project company, and that under OECD's risk classification Saudi (2) is actually rated a lower political risk than Bahrain (3). For Shuaibah, the \$875 million 20-year commercial debt and the \$210 million Islamic tranche priced at 120bp over Libor pre-completion, falling to 115bp from completion to year seven, and then rising to 170bp (search Shuaibah at [www.projectfinancemagazine.com](http://www.projectfinancemagazine.com)).

Despite the strength of the sponsors and low Bahraini political risk, both Hidd and Al Ezzel feature no local banks at lead arranging level – this is principally a reflection on the Bahraini power sector, and the cultural reluctance to accept long tenors on project financings over shorter corporate deals. For the sponsors to raise \$1 billion of long-dated Bahraini debt for Hidd, most bankers acknowledge that JBIC's participation was crucial.

In terms of sponsor market, the Al Ezzel tender attracted five bidders; the Hidd IWPP only attracted four, and only three put forward submissions. International Power, Tractebel and Sumitomo won the bid with the highest quotation of \$738 million for the existing plants at the opening of the bids on 14 December.

The Bahraini government is currently pushing ahead with another IWPP project with a large newbuild component. Although JBIC's pervasive lending policy is facing uncertainty (search "New Limits" at [www.projectfinancemagazine.com](http://www.projectfinancemagazine.com)), Japanese parties are likely to be in on the deal at some level. The power capacity of the IWPP is thought to be around 1000MW and the water capacity 40-60 million gallons per day, so another \$1 billion-plus financing is likely. Bidding is expected in the first quarter 2007.

### **Hidd Power Company**

Status: Financial close 4 April, syndication imminent

Description: financing for \$1.3 billion acquisition/expansion of IWPP

Sponsors: International Power (40%), Tractebel (30%), Sumitomo (30%)

Lead arrangers: RBS; Mizuho; KfW; SMBC; GIB; Standard Chartered

ECA: JBIC

Financial adviser: BNP Paribas

Government legal counsel: Freshfields

Lender legal counsel: Clifford Chance

Government technical adviser: Mott MacDonald

Lender technical adviser: Stone & Webster

Principal EPC contractor: Sidem

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