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Greater Equate: Banks' banquet

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Perhaps no project better epitomises the current appetite of international banks for Middle East assets than the Kuwaiti Equate 2 deal. The $2.5 billion financing of Greater Equate brought in 34 international banks, including some newcomers to Middle East project lending, whose commitments had to be scaled back. Such was the appetite from international banks that the need for a planned Islamic tranche has been eliminated.

The project – also known as Equate 2 or Olefins II – is a brownfield expansion of an existing facility (Equate 1) with the same shareholders. The sponsors' equity contribution is the existing facility to which the lenders will have recourse after completion. This gives the project an average DSCR that is close to 4x and a gearing of only 50%. The project is located 40km, south of Kuwait City in Shuaiba. Equate is owned by Petrochemical Industries Company (PIC) (45%), Dow Chemical Company (45%), and Boubyan Petrochemical Company (10%). PIC is a wholly owned subsidiary of Kuwait Petroleum Corporation (KPC).

The proceeds of the financing will fund the construction of an ethane cracker with a capacity of 850,000 tonnes a year and an ethylene oxide/ ethylene glycol plant with a capacity of 600,000 tonnes a year. The project is due for commissioning in 2008.

Equate 2 has been in the pipeline for some time, and had originally been scheduled to close mid-2005. A large part of the delay was due to negotiating the EPC contracts against the backdrop of climbing steel prices. Technip was appointed the EPC contractor for the cracker, and a joint venture of Foster Wheeler and Hyundai Engineering & Construction Company was awarded the ethylene oxide/ethylene glycol plant contract. Fluor Corporation is providing engineering, procurement and construction management services for the utilities and infrastructure portion of the project.

The project's sponsors, advised by Societe Generale (SG), sought $2.5 billion of 14-year debt. SG used an unusual method of pricing and bank take determination. In April 2005 a project update was issued to a group of active project banks asking for written letters of intent. Rather than giving banks the option of, say, five different tickets, which is usually the case, the adviser individually asked banks what their final hold position would be.

Two ticket sizes were eventually offered to the market as a result of this process: $100 million and $150 million. The deal came in oversubscribed and the banks committing to the smaller ticket have taken scaled back commitments of $70 million, while most of the others have been scaled back to $125 million.

SMBC has been given the role of documentation bank, National Bank of Kuwait is the facility agent, HSBC the security agent and Citibank the offshore account bank. Margins on the deal begin at 50bp over Libor for the first seven years and then step up to 60bp from years seven to 10 and 70bp for the remainder. Also unusually, there is no differentiation on front-end participation fees according to ticket size. Commitments pay 60bp participation fees across the board.

The full bank list and takes for the deal are as follows: EDC, GIB, KfW and National Bank of Kuwait with $150 million each; Citigroup, Hypo Public Finance Bank and Mizuho with $125 million tickets; ABN Amro, Arab bank, ABC, Apicorp, Banca Intesa, BNL, BBVA, Banco Santander Central Hispano, BTM, Bayerische Landesbank, BNP, Calyon, Commercial Bank of Kuwait, DZ Bank, Fortis, HSBC, ING, Mashreqbank, Natexis, National Bank of Greece, QNB, RBS, San Paulo IMI, SG, Standard Chartered, SMBC and WestLB, all with takes of $70 million.

Some of the names in the bank line-up are surprising. Banco Santander is on the deal – the first foray into the Middle East by the Spanish bank. Similarly National Bank of Greece is an MLA, along with Hypo Public Finance Bank, a start-up bank (a spin-off from Hypo Real Estate) that has only been in the project market for two months – Equate 2 is its first deal.

The deal raises the perennially thorny issue of the lack of local and regional bank participation (see 'What's the landscape?' at www.projectfinancemagazine.com). Aside from the seven large regional banks that joined as lead arrangers – National Bank of Kuwait, Arab bank, ABC, Apicorp, Commercial Bank of Kuwait, Mashreqbank, QNB – there is unlikely to be any other regional or local banks coming in on the deal given that the Islamic tranche was scrapped and that general syndication is unlikely (Apicorp, Santander, BayernLB, GIB and Mizuho had been appointed provisional bookrunners).

That new international entrants are entering the market is ominous for smaller bank participation on these projects. "Some of these jumbo club deals have offered tickets that are too high for some foreign banks to come in," says one participant. "But they are desperate to come in, and some who have missed out on the Qatari deals appear to have convinced their credit committees to now come in on $100 million."

Now that QP has financed all its medium term projects and the current round of jumbo Middle East projects is coming to an end, the question is whether the competitiveness of the market can transfer to Africa and Russia.

Greater Equate
Status: Signed 19 May, conditions
precedent fulfilment scheduled 7 June, first disbursement shortly after
Description: $2.5 billion financing for an expansion to the Equate Kuwaiti petrochemical complex
Sponsors: Petrochemical Industries Company (45%); Dow Chemical Company (45%); Boubyan Petrochemical Company (10%)
Lead arrangers: EDC; GIB; KfW; National Bank of Kuwait; Citigroup; Hypo Public Finance Bank; Mizuho; ABN Amro; Arab bank; ABC; Apicorp; Banca Intesa; BNL; BBVA; Banco Santander Central Hispano; BTM, Bayerische Landesbank; BNP; Calyon; Commercial Bank of Kuwait; DZ Bank; Fortis; HSBC; ING; Mashreqbank; Natexis; National Bank of Greece; QNB; RBS; San Paulo IMI; SG; Standard Chartered; SMBC; WestLB
Financial adviser: SG
Lender legal counsel: Norton Rose
Borrower legal counsel: Linklaters
EPC: Fluor Corp; Technip; Foster Wheeler and Hyundai Engineering & Construction Company