# Rasgas II & 3: Bank bonding

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Cited by arrangers as a rare example of pricing efficiency in both bank and bond markets, the first bank debt and bond tranches in the $10 billion commercial debt programme to fund the RasGas II & 3 expansion projects in Qatar closed on the 8th and 9th of August respectively, with first drawdown the following week.

Both bond and bank debt were oversubscribed, the bank debt allocations were cut back by around one-third and pricing on the bank debt was so tight that it mirrored that of the bonds. This is both unusual and symptomatic of the bond and bank debt being tendered in parallel and the deal being pitched as corporate flavour debt – a flavour the banks and ratings agencies bought into.

RasGas is a 70:30 joint venture between Qatar Petroleum (QP) and ExxonMobil. The RasGas II & 3 expansion project involves the development of five new LNG trains at the existing two-train Ras Laffan site. Trains 3,4 and 5 produce 4.7mtpy while trains 6 and 7 will be almost double the size at 7.8mtpy (the first time trains of this size have been built).

Trains 3,4 and 5 make up the RasGas II project with RasGas 3 containing trains 6 and 7. Only 50% of construction of train 5 remains to be completed, trains 3,4 and 5 having been funded to date by $3.5 billion of sponsor equity. Consequently, cashflow from trains 3 and 4 is available to service this first round of debt, which will part fund construction of train 6 and completion of train 5. Completion of train 6 and construction of train 7 will be funded by the remaining $5.4 billion of debt to be raised under the RasGas programme.

The project – rated A1/A+ by Moody's and Fitch with Standard & Poor's coming in lower at A – features a strong economic and political case.

Rasgas II is backed by 20 year-plus take-or-pay SPAs with Petronet, Edison, Endesa and Distrigas with distribution into India, Spain, Italy and Belgium respectively – all LNG hungry markets and which will account for around 88% of RasGas II capacity. The remaining 12% will be sold into the spot market, a risk that QP and ExxonMobil have demonstrated does not concern them by entering a 20-year ship-or-pay capacity subscription agreement with Fluxys (owner of the Zeebrugge LNG terminal in Belgium).

RasGas 3 does not have SPAs in place yet but has signed heads of agreement with CPC in Taiwan for 3.0 mtpa and features a base case that sees an ExxonMobil affiliate buying the entire train 6 and 7 capacity from 2008 onwards on a 25-year take-or-pay basis for shipment into the US market.

Lack of global demand for LNG is unlikely to be an issue – Petronet, for example, is already in talks with RasGas for another 2.0 mtpa on a short term contract.

Similarly, the low cost of Qatari gas gives RasGas a major cost advantage over all other LNG sources. The breakeven costs on the project are highly conservative with the plant remaining competitive and being able to service its debt even if oil dropped to under $11 per barrel (currently $68) and gas fell to below $2 per mmBTU (currently around $9 but expected to fall and to be around $4 throughout the term of the debt). The project will also generate 30% of its revenues from condensates and LPG by 2010, both of which have established and stable markets.

The risks on RasGas are in getting the gas to market. The project will require 38 ships and the construction of greenfield regas terminals by the offtakers. Edison's longstanding Rovigo terminal project (co-sponsored by QP and ExxonMobil) in Italy has seen off a legal challenge and construction is underway, but it could yet face an appeal court challenge. Similarly ExxonMobil's Golden Pass terminal in the US has been given FERC approval.

The financing has shown a robust performance under sensitivity tests conducted by all three rating agencies. Minimum and average debt service coverage ratios on a base case scenario are very strong at 4.45x in 2007 and 5.84x over the amortization period respectively according to Standard & Poor's (which came in with the lowest rating).

The strengths are reflected in the debt pricing. Both bond and bank debt financings were launched in parallel with the final mount of bank debt dictated by the uptake on the bond. The bond was 2.5 times oversubscribed at $7 billion and the bank debt brought in commitments of $1.65 billion.

Structured by RasGas' financial advisor Royal Bank of Scotland (RBS), the final deal features $4.6 billion of debt comprising $1.4 billion of 15-year Series A bonds; $850 million of 22-year Series B bonds; $970 million of commercial bank project debt; and a $1.38 billion sponsor loan from ExxonMobil. The sponsor loan is split into three tranches that match the terms and pricing of each of the three tranches of third party debt.

Although the bank debt priced before the bond, pricing on both is more or less equal. Pricing on the Series A bond is 97bp over US Treasury with an average life of 10.5 years. Pricing on Series B is 130bp over Treasury with an average life of 19.5 years. Pricing on the bank debt is 45bp over Libor during years 1-5; 55bp for years 5-10; and 65bp for years 10-15 (fees are 60bp upfront and 20bp commitment).

Nineteen mandated lead arrangers (MLAs) joined the bank tranche, including the bond underwriters. All banks now hold around $50 million each and there will be no general syndication, but prior to scale back bank allocations were: Royal Bank of Scotland $200 million; Qatar National Bank $150 million; SG and SMBC $100 million each; Arab Banking Corporation, Apicorp BNP Paribas, Calyon, Citibank, Commercial Bank of Qatar, Dexia, DNB Nor, Fortis, Gulf International Bank, Goldman Sachs, Lehman Brothers, Mizuho and WestLB with $75 million each.

The bond issue was lead managed by Lehman Brothers and Goldman Sachs with ABN Amro, BNP Paribas, Calyon, CSFB, HSBC, Morgan Stanley, Qatar National Bank and RBS Greenwich Capital joining as co-managers. The bond lead managers – aware that QP wanted to see the colour of their money – also participated in the bank debt.

**RasGas II & 3**

Status: Closed August 2005
Description: LNG expansion project
Sponsors: Qatar Petroleum; ExxonMobil
Financial adviser: Royal Bank of Scotland
Bond lead managers: Lehman Brothers; Goldman Sachs
Bank debt lead arrangers: Arab Banking Corporation, Apicorp, BNP Paribas, Calyon, Citigroup, Commercial Bank of Qatar, Dexia, DnB NOR Bank, Fortis, Goldman Sachs, Gulf International Bank (regional bookrunner), Lehman Brothers, Mizuho, Qatar National Bank (regional bookrunner), SG CIB (international bookrunner), Standard Chartered, SMBC, RBS (international bookrunner); WestLB.
Legal counsel to lenders: Skadden Arps
Legal counsel to borrowers: Latham & Watkins