Horizon Singapore: Terminal debt

01/09/2005

Emirates National Oil Company's debut project financing in Asia – funding for the Horizon Singapore Terminals Private Limited (HSTPL) project – has closed. The transaction is a rare limited recourse project financing for Singapore and met with an enthusiastic reception from local and foreign lenders.

The financing also represents the first deal in the region for several other HSTPL shareholders, which include Independent Petroleum Group, SK Energy Asia, Martank and Boreh International.

HSTPL is a greenfield bulk liquid terminal to be built on Jurong Island. The project comprises petroleum product tanks with total capacity of around 840,000 cbm. All tanks have been designed to store either clean or dirty petroleum products to provide flexibility for Horizon's customers who have requirements for a large range of products.

The development will also involve the construction of four jetties to allow for up to seven ships to load or unload simultaneously. Construction started on 1 April 2005 and is expected to complete before 31 December 2006.

ENOC is investing in the project through Horizon Terminals Limited (HTL), a wholly owned subsidiary that is an existing terminal operator in the Middle East. The project is part of an HTL strategy to build up a significant presence in the terminalling industry in Asia within three to five years and a global presence within five to seven years.

The project financing is relatively straightforward and features a S$240 million ($145 million) 12-year project loan sole lead arranged by HSBC. Estimated total project cost is S$343 million. The remaining 30% of the expected cost is being funded by equity.

Financial close was achieved within a very short timeframe, particularly for a structured project financing. Invitations were issued in mid-June, banks committed in early July and the documents were signed in mid-July.
HSBC achieved a 100% hit rate during general syndication, receiving a positive response from all invited banks. "This is very rare for syndicated loans, and even more so for project financing facilities," says Mun Loong Lau, a banker at HSBC Singapore. Consequently, the facility was more than three times oversubscribed with 11 banks joining HSBC in the syndicate. The 11 banks are: BoTM, Credit Industrial et Commercial, OCBC, UOB, HVB, DZ Bank, Fortis, KBC, Natexis, NordLB and BNP Paribas.

Although ENOC is considered a highly bankable name, several banks struggled with some of the lesser names in the sponsor group. But the project's strong fundamentals – the deal benefits from a capped level of sponsor support and standard limited recourse security features – and attractive pricing brought lenders in. The 12-year debt facility is priced at 105bp over SOR during construction falling to 98.5bp in the first three years post construction; 112.5bp for years four to six; and 125bp from year seven.

Lenders could also draw comfort from an extensive feasibility and market study undertaken by Purvin & Gertz, an independent research company. "The study highlighted the role of Singapore as the break-bulk centre for the whole of Asia and the strong historical utilization rate for terminal facilities in Singapore," says Lau. "Over the last few years, average terminal utilisation rates have hovered between 90 and 95%."

According to the market study, refining shortfalls across Asia are expected to increase leading to greater imports into China, Vietnam, and Indonesia, in particular, and increased demand for terminal facilities. The study indicates the increased supply will not have a major negative impact on the HSTPL project.

Singapore's position as the sole pricing center in Asia is unlikely to change as China, the only likely competitor, is handicapped by restrictions on market entry and capital controls.

The relative scarcity of project financings in Singapore reflects both the size and maturity of Singapore's economy (the demand for new large scale projects is limited) and the financial strength of many Singapore investors and the cash-rich government sector.

"The fact that this is an oil terminal project financing is also noteworthy," says a banker participating in the financing, "as most terminal projects are financed on a corporate basis": Royal Vopak, which has an existing terminal in Singapore, recently funded the expansion of its Singapore facility via a corporate financing.

But HSTPL could soon be followed by another non-recourse terminal financing. Singapore-based company – HinLeong – is expected be in the market for a project finance loan for a new terminal project according to local banking sources.

Horizon Singapore Terminals
Status: Closed
Size: S$343 million ($207 million)
Location: Singapore
Description: Project financing for the construction of a greenfield bulk liquid terminal on Jurong Island, Singapore.
Sponsors: Horizon Terminals Limited (52%), Independent Petroleum Group (15%), SK Energy Asia (15%), Martank (10%), Borech (8%).
Lead arranger: HSBC
Participating banks: BoTM, Credit Industrial et Commercial, OCBC, UOB, HVB, DZ Bank, Fortis, KBC, Natexis, NordLB, BNP Paribas.
Debt: S$240 million ($145 million), 12-year project loan
Legal counsel to sponsors: In-house counsel only
Legal counsel to the lenders: Shearman & Sterling (international counsel), Rajah & Tann (local counsel)