Guangdong LNG: wafer thin

01/04/2004

The Guangdong Dapeng LNG Terminal and Trunkline project has received considerable attention as the first LNG venture in mainland China. But for those habitually involved in project finance in the PRC the more important feature highlighted by the financing was the tension between those few mainland banks pressing for higher non recourse loan margins and those still aggressively pursuing deals at almost any price.

According to one Chinese bank involved in the deal, the debt financing for the $850 million project comprises a RMB2.8 billion loan with a term of up to 18 years, a $219 million, 15-year US Dollar facility, and a RMB585 million working capital facility provided on a 3-year, renewable basis. The working capital facility can be drawn in either Renminbi or US Dollars.

ABN Amro is financial adviser to the project company, and four Chinese banks, Agricultural Bank of China, China Construction Bank, China Development Bank and Industrial & Commercial Bank of China are acting as co-ordinating arrangers. All the debt will be sourced from domestic banks, predominantly the four leads. "At least 90% of the debt will be provided by the four arrangers," says the PRC banker, "but a small portion may be sold down to other domestic institutions."

Ahead of the scheduled signing on 28 April, the exact pricing was not revealed by banking officials. However, one Chinese source suggests pricing on the US Dollar loan is below Libor plus 55bp. The cost of the long-term RMB loan is 90% of the five year PBOC rate. "There was a clear split between those banks who understand the risks of project finance deals and were looking for higher margins and those who were still prepared to be very aggressive on price," says Han Deping at China Development Bank. "Many banks take the view that they can make a good 150bp spread on the RMB loan and are therefore willing to provide US Dollar loans at very fine rates. The margins clearly reflect the fact that China is now a borrower's market," says Han.

The pricing secured for the sponsors, principally China National Offshore Oil Corporation (33%), BP Global Investments Limited (30%) and Shenzhen Investment Holding Corporation (14%), is all the more remarkable because the loans are genuinely non-recourse. Bruce Macfarlane, executive director, project finance and structured debt at ABN Amro, points out that the financing is one of the first in China to be drawn up without either completion guarantees or cash deficiency support.

Lenders can at least take comfort from the fact that the sponsors have found buyers for all the LNG throughput for the first phase of the project, which according to the project company is scheduled to commence operation at the end of 2006. Annual throughput in this first phase will be 3 million tonnes per year and buyers have entered into take or pay contracts with the project company. Han says approximately 30% of the natural gas is destined for town gas distributors including Shenzhen Gas, Guangzhou Gas, and Hong Kong & China Gas. The other 70% will be sold to five power stations in Guangdong. One of these power stations is an existing oil-fired plant being converted to natural gas. The remaining four plants have yet to be built, but already have planning permission from the relevant government authorities.

What has concerned some of the Guangdong LNG lenders is the changing regulatory environment for new power stations. "Under the new regulations, power stations can no longer enter into new power purchase agreements and this makes project financing more problematic," says a PRC banker. Project Finance understands, however, that several domestic banks have already agreed to finance the power plants. And, as Macfarlane points out most of the funding for the Guangdong project and the new power stations will come from the same sources. "They are hardly going to lend to the Guangdong LNG scheme and not to some of the project's major offtakers," he says

Part and parcel of the overall financing for the Guangdong LNG Pilot Project includes a ship finance loan covering two LNG vessels. Whereas previous LNG projects have purchased tankers from established LNG shipbuilders, the Guangdong LNG project includes a plan for the vessels to be built locally, by Hudong Zhonghua Shipbuilding Group. China has a strong interest in developing a domestic LNG shipping business and it is hoped this new shipbuilding capability will be used in the other upcoming Chinese LNG projects.

China Development Bank is sole arranger for the $301.87 million deal which covers 75% of the purchase price of the ships. Three sponsors, Cosco, China Merchant and NWS Ventures will inject the remaining 25% . Han says the bank has fully underwritten the debt and will syndicate the loan later in the year.

A series of other large scale LNG terminal projects will follow in the footsteps of the Guangdong project, including the Fujian LNG Terminal project, and developments in Zhejiang, Tianjin and Shandong.

Han expects the future Chinese LNG projects to be financed on a similar basis to the Guangdong pilot project. Macfarlane agrees: "we understand some of the most important features of the Guangdong LNG project, including the sale and purchase agreement, have been replicated in the Fujian project and we would expect the financing to also be more or less the same." Sponsors of the Fujian project have appointed a financial adviser, HSBC. Financial adviser contracts for the other schemes have yet to be mandated.

Guangdong Dapeng LNG

Status: Signing April 28

Size: $850 million (total project cost)

Location: China

Description: The project is made up of a jetty, a terminal and trunklines to the off-take stations across Guangdong Province. It will also supply gas to Hong Kong gas users via two sub-sea pipelines owned and installed by the Hong Kong users.

Sponsors: CNOOC (33%), BP Global Investments Limited (30%), Shenzhen Investment Holding Corporation (14%), Guangdong Yuedian Power Assets Managing Company Limited (6%), Guangzhou Gas Company (6%), Dongguan Fuel Industrial General Company (2.5%), Foshan Municipal Gas General Company (2.5%), Hongkong Electric Holding Limited (3%), The Hong Kong & China Gas Company Limited (3%).

Debt: RMB2.8 billion loan, $219 million US Dollar loan, RMB585 million working capital facility

Coordinating arrangers: Agricultural Bank of China, China Construction Bank, China Development Bank and Industrial & Commercial Bank of China

Legal counsel to sponsor: Jones Day (international), King & Wood (PRC)

Legal counsel to lenders: White & Case (international), Summit Law Offices (PRC)