IJGlobal
A Green Street Company

Middle East Power and Water Deal of the Year 2003

01/02/2004

Any independent water and power project (IWPP) in the Middle East is usually a vast undertaking. These large and complex plants tend to stretch what the debt market can do. They also tend to be located a missile's throw from Iraq, a detail that may now be unlikely to come true, but nevertheless makes international bidders nervous.

The $1.2 billion Umm Al Nar IWPP shares another characteristic with its forebears - it is the largest yet to come to market.

As Project Finance noted in August, shortly after the financing closed, getting power deals done in the Gulf despite tough market conditions is the norm. That the arrangers decided to test market appetite to an unprecedented degree is a real feat.

The project is located in Abu Dhabi in the United Arab Emirates, and differs from other IWPPs in one key respect - it involves taking over an existing asset.

The current Umm Al Nar plant is an 805MW unit which is over 20 years old. The new concession calls for it to be replaced by a newer unit with a capacity of 1,550MW. The plant's water output will decrease from 162 million gallons per day to 25 million g/d.

Four groups bid for the project, whereby a partner acquires 40% of the project's equity, with the Abu Dhabi Water and Electricity Authority (ADWEA) holding 60%. A consortium of International Power (20% of the final equity), Mitsui (10%) and Tokyo Electric Power Company (10%) beat out competition from TotalFina, Tractebel and Enel Power.

The winner had early backing from Bank of Tokyo-Mitsubishi, HSBC, Gulf International Bank (GIB), WestLB and ING.

Such groupings, while unwieldy, tend to provide a sponsor with an accurate market read, and enable financings to close quickly. And with the body of experience that local and international banks have built up, structuring the deal was relatively painless.

International Power also has experience in the market as a sponsor of the Shuweihat IWPP alongside CMS Energy. Until Umm Al Nar that deal was the largest of its type and pioneered the use of Islamic finance alongside conventional international debt. It has since become a template for regional deals.

The project will be run on a build-own-operate (BOO) basis. Electricity and desalinated water from the existing plant and the new one will be bought by ADWEA subsidiary Abu Dhabi Water & Electricity Company (ADWEC), under a 23-year agreement

The acquisition of the existing plant enabled the lenders to extend a dedicated short-term facility that could strip out construction risk and use existing revenues for repayment. This five-year $232 million tranche matches debt service to cashflow from the old assets. It is locally funded and was arranged by GIB and National Bank of Abu Dhabi (NBAD). It includes ADIC, Arab Bank, Apicorp, Saudi Fransi, Mashreq Bank, National Bank of Bahrain and National Bank of Dubai, The largest piece is a $855 million, 20-year loan arranged by Abu Dhabi Commercial Bank, Bank of Tokyo Mitsubishi, Bayerische Landesbank, First Gulf Bank, GIB, HSBC, NBAD, Sumitomo Mitsui, WestLB, Abu Dhabi Investment Corporation, ING, Mizuho and KfW.

This has a pricing mechanism starting at 110bp from signing until the end of construction at year five, then 100bp from years five to seven, 115bp from years eight to 10, 130bp from year 11 to 13, 155bp from years 14 to 16 and then 165bp for years 17 to 20.

Umm Al Nar managed to price at a lower level than Shuweihat, which was flexed after syndication was launched the same day as the September 11 attacks. This deal, however, launched in the aftermath of the Iraq war. The transaction also features a $250 million, 20-year Islamic tranche, a $290.5 million Islamic equity bridge, and a $150 million commercial equity bridge.

The Islamic tranche was structured differently from previous deals. Because the sponsors had an asset to offer as security, the debt could be structured as a sale and leaseback rather than the more complex metals-based contracts used on previous financings.

According to Peter Barlow, director of corporate finance at International Power, "the mechanism of the tranche is different, but it works in much the same way as the facility we arranged for Shuweihat. But we worked to maximize the funding we could get from Islamic sources." The tranches, however, benefit from common terms.

The deal sold down strongly to regional institutions despite the uncertain political situation. Such lenders tend to be less easily discouraged by short-term political ructions. They are not yet likely, however, to edge out the international arrangers.

The warm reception for Umm Al Nar, coupled with the relative dearth of deals in the Middle East last year, means that 2004 should be a busy and profitable year.

Deals set to come to market include the Taweelah B2 project, on which a request for proposals has been issued. There should also be a number of Saudi Arabian plants, for which a mixture of conventional and Islamic finance will be well suited, that IP has already been awarded.

Umm Al Nar

Status: closed 2 July 2003

Location: Abu Dhabi, UAE

Description: acquisition and expansion of water and power plant

Cost: $1.77 billion

Financing: $855 million, 20-year international commercial tranche; $232 million, short-term (five year) regional tranche; $250 million, 20-year Islamic tranche; $290.5 million Islamic equity bridge; $150 million commercial equity bridge.

Lead arrangers: Abu Dhabi Commercial Bank, Abu Dhabi Investment Company, Abu Dhabi Islamic Bank, Bayerische Landesbank, First Gulf Bank, Gulf International Bank, HSBC, ING, Kreditanstalt fur Wiederaufbau, Mizuho Corporate Bank, National Bank of Abu Dhabi, SMBC, Bank of Tokyo-Mitsubishi, WestLB

Lawyers to ADWEA: White & Case

Lawyers to the lenders: Milbank Tweed Hadley & McCloy

Financial advisor to ADWEA: CSFB

Technical advisor: PB Power

Insurance advisor: Miller Consulting Services