Atlas Methanol

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Latin American Petrochemicals

Deal of the Year 2002

Atlas Methanol

The Atlas financing is a tightly structured and wildly popular manifestation of the changes sweeping the commodities market in the Atlantic region. A series of new, highly-efficient producers in everything from LNG to fertilizer and, now, methanol, are taking on more established operators. In this they are receiving hearty support from banks wishing to diversify their assets away from the power sector. It is also a rare chance to do project business with BP, a producer not known for its love of non-recourse debt.

Atlas is located in Trinidad and Tobago, a country blessed with substantial gas reserves and which wants to diversify away from raw gas and LNG. A methanol facility on the island of Trinidad would be capable of earning substantial value-added export revenue, as well as new investors to the country. One such is Methanex, the specialist methanol producer and the lead sponsor on the deal. Methanex owns properties in the US, Canada, New Zealand and Trinidad.

The Atlas plant will be built alongside an existing smaller facility, Titan, in which Methanex owns a 10% stake. Methanex owns a 63.1% stake in the venture, while BP holds the remaining 39%. BP is a rare user of project finance ? the product rarely holds up well against its return on equity requirements ? but the joint venture nature of the project made it viable.

Atlas will produce 5,000 tonnes of methanol per day, equivalent to 1.7 million tonnes per year. It will be the largest single-train methanol production facility in the world, with a strong competitive advantage over its peers. It is located at the Pont Lisas Industrial Estate in Trinidad. It will source its gas supplies from the Natural Gas Company of Trinidad and Tobago under a long-term contract.

The other significant input for the plant is the use of oxygen as a feedstock, supplied under a contract with Air Products. Air Products will have to construct a dedicated plant next to Atlas for this purpose. This plant has raised finance from GE Capital, but lenders to the larger, and more complex Atlas plant require some security that their plant will get its oxygen. To this end they have certain step-in rights should there be non-performance under the contract. But, as one participant put it ?this is proven technology. It is very hard to mess up.?

The offtakers are a much more solid basket, and include BP (Aa1) and Methanex (Ba1), each taking 350,000 tonnes per year. A third offtaker of 150,000 tonnes is rumoured, but not confirmed, to be Air Products, rated at A2 from Moody's. The remainder is to be sold onto the merchant market, using Methanex as a marketer.

While the purchase agreements will provide a crucial level of comfort to lenders, the merchant prospects need to be carefully considered. Here the advanced technology of the Atlas plant, coupled with its size, makes it a big beast in the global methanol market. At the same time the market is dominated by much higher-cost facilities. Any drop in prices will likely force other producers out of business.

The key analogy here is with the fertilizer market. New plants, once they get financing, tend to enjoy immense competitive advantages. The Profertil plant, for instance, is now operating so comfortably it is apparently the only Argentinean project not in default at present.

For the methanol market, as previously was the case in the US market, the most immediate threat comes from Californian regulators. The state wants to ban the use of methanol product MTBE as a fuel additive. MTBE is one of the chief uses of methanol, and if California's decision is followed, and methanol gives way to ethanol, this would cause an precipitous drop in demand. The main mitigants here are the cost position of Atlas, and the fact that California is being painfully slow in implementing the ruling, which Methanex has disputed before NAFTA.

The sponsors and their financial advisor SG selected WestLB to arrange the debt on the deal, which amounted to $237 million. This broke down into three tranches. The first was a senior piece with a tenor of construction plus six years, which was syndicated down to Scotiabank Trinidad and Tobago ($15 million), Bank of Scotland, SG (both $18.767 million) and ANZ ($41.697 million), with the WestLB retaining the last piece of $19 million.

The second is a senior local debt tranche of $24 million sold down to Trinidadian institutions using Citibank as an agent. The final piece is an institutional tranche of $100 million, of which $63.1 million went to John Hancock Life Insurance of Vermont, and the remainder to ANZ Investment Bank. In this instance, however, ANZ has swapped its project exposure into BP corporate debt, with BP sharing in the economics of the senior debt.

This arrangement is not without precedent in the industry ? oil and gas majors such as TotalfinaElf and Shell have taken similar positions in the past. But the arrangement adds another layer of complexity to the deal since with BP effectively acting as both sponsor and lender the other lenders have to be sure that it cannot sabotage lender actions in its own interests. This had led to a bespoke schedule of rights, laying down exactly what BP can vote on under an intercreditor agreement.

A final $18 million in subdebt came from the EPC contractor, which had an agreement tailored to the tight schedule for the plant's operation. The next financing from Trinidad should be the Atlantic LNG trains 3 and 4 deals, for which a request for proposals is due shortly.