

Phu My 2.2: no ifs, just BOT

01/11/2002

Almost five years to the day of publication of the bidding document, Phu My 2.2 ? Vietnam's biggest project financing to date and its first build-operate-transfer (BOT) ? reached financial close in October. The transaction is the cause of a heightened optimism that South-east Asia could provide precious dealflow to regional bankers. It should also make upcoming financings in the country a great deal easier.

The \$480 million deal includes multi-sourced financing using a variety of financial products. Co-ordinating lead arrangers ANZ, SG Asia (also financial advisor, documentation bank and interest rate swap/hedge provider) and Sumitomo-Mitsui are coy on pricing but benefit from a \$75 million partial risk guarantee provided by the World Bank's International Development Association (IDA) as well as \$25 million in extended political risk insurance provided by a private insurer under a partial risk guarantee from the Asian Development Bank (ADB).

Japan Bank for International Cooperation (JBIC) has put up a \$150 million direct loan facility, priced at 185bp over libor, as has Societe de Promotion et de Participation pour la Cooperation Economique (Proparco) with \$40 million. ABD has also promised a \$50 million OCR loan facility.

The project is owned by Mekong Energy Company Ltd. (MECO), which comprises a strong set of sponsors ? EDF International (56.25%), Sumitomo Corporation (28.125%) and Tokyo Electric Power Company International BV, a tax efficient unit of Tokyo Electricity Power Co. Inc. (15.652%).

Despite being EDF-led, Coface declined to guarantee the original commercial bank portion of \$100 million ? since upped by JBIC to \$150 million. Lenders were simply uncomfortable with the deal's 15-year tenor in an untested Vietnamese market. The strength of the sponsors and the feasibility study eventually won out with JBIC.

Legal counsel on Phu My 2.2 ? Allen & Overy and Gide Loyrette Nouel (Vietnam) for the sponsors, and Clifford Chance and VILAF ? Hong Duc (Vietnam) for the lenders ? were faced with a number of challenges: Negotiation of the government guarantee; risk allocation on termination compensation; conversion of Vietnamese Dong into US dollars for remission; a Vietnamese-law compliant project finance insurance regime; and finally the application of Vietnamese foreign investment laws to a project financing.

Vietnam is progressing fast to a more open economy and Phu My 2.2 is the first project financing, and the first hedging agreement, to be approved by the State Bank of Vietnam. It is also the first to be registered at the new National centre for the Registration of Secured Transactions.

Coextensive with economic growth, Vietnam's electricity demand has grown by 13% in the past 10 years and 2.2 is an integral part of the Vietnam Electricity Planning approved in June 2001 ? the deal relieves some of the strain on Electricity of Vietnam's limited capacity to fund significant investment in the near term.

The project is part of the Phu My Generation Centre. The 715MW combined-cycle gas-fired plant is being built 85km of Ho Chi Minh City ? Vietnam's highest growth area ? and will be fuelled from the local Nam Con Son Gas development which has proven reserves of 20 years

Plant construction is due to begin in September 2003, and commercial operation from September 2004. Phu My 2.2's technical specs are tried and tested. General Electric is supplying F class technology ? already used in 70% of the world's gas fired turbines. The plant will be highly competitive relative to existing or future plants of EVN.

Technology aside, lenders also took comfort from the deal's power purchase agreement (expiry date September 2024) with EVN, which provides for a take-or-pay with capacity charge payable irrespective of despatch. Furthermore, the whole project comes with a government guarantee.

The next deal to come to market will be Phu My 3. With the template established sponsors are likely to have a smoother ride.

Status: Closed November 2002

Size: \$480 million

Location: Vietnam

Description: 715MW gas-fired plant

Sponsors: EDF International; Sumitomo Corporation; Tokyo Electric Power Company (TEPCO)

EPC contractor: EDF

Debt: \$340 million

Co-ordinating lead arrangers:

SG Asia; ANZ; Sumitomo-Mitsui Banking Corporation

Direct loans: JBIC (\$150m), Proparco (\$40m), ADB (\$50m)

Political risk guarantee: ADB (\$25m)

Partial risk guarantee: IDA (\$75m)

Legal counsel to sponsors:

Allen & Overy (international); Gide Loyrette Nouel (Vietnam)

Legal counsel to lenders:

Clifford Chance (international);

VILAF ? Hong Duc (Vietnam)

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