Qatar moves back on track

01/08/1999

Q-Chem has reversed opinions on Qatar

The $750 million Q-Chem project financing is the last in the present pipeline of projects in Qatar and will probably be the biggest oil, gas or petrochemical deal of 1999 for the Middle East. The transaction has been a long time in the offing and is widely seen as the bellweather for the Qatari market following a turbulent year.

By the time banks were invited to bid on Q-Chem there was a lot of interest and support building up for the deal. This was helped along by the recent successful closure of the $400 million NGL-4 financing, sponsored by QGPC, which closed heavily oversubscribed.

Says Michael Crossland, director in the structured finance department at Q-Chem's financial adviser Greenwich NatWest in London: ?It was good timing. The highly successful outcome of the NGL-4 facility set the stage for a positive deal.?

Shortly after initial bids had been submitted, a 24-strong bank group was selected by the project's sponsors ? Qatar General Petroleum (QGPC) (51%) and Phillips Petroleum (49%). The selected arrangers are ABN Amro (security trustee and accounts bank), ANZ, Apicorp (regional bookrunner), BoT-Mitsubishi, Banque Nationale de Paris, Barclays Capital (documentation bank and facility agent), HypoVereinsbank, Bayerische Landesbank, CIBC, Commerzbank, Crédit Lyonnais, Dai-Ichi Kangyo, Deutsche, Export Development Corporation, Fuji, Greenwich NatWest, Gulf International, HSBC (international bookrunner), IBJ (technical bank), KBC Project Finance, Paribas, Qatar National Bank, Royal Bank of Scotland (modelling bank) and WestLB (insurance bank).

Unexpectedly, the banks were all mandated at the same arranging level rather than tiered between arrangers and co-arrangers. Says Crossland at Greenwich NatWest: ?The response from the market was so positive that it made no sense to differentiate between two tiers of banks.? The level of demand for senior roles on the deal also allowed pricing to tighten compared to recent Qatari deals. ?The sponsors are delighted with the pricing,? says Crossland. ?There was a broad consensus among the banks and all the bids were within a narrow range.? The deal's margin is set at 70 basis points over Libor for the construction phase, this then steps up to 125bp post-completion until year six and 140bp until year 10, the final step-up brings the margin to 160bp through to maturity which is a maximum of 13 years.

World-scale operations

The project involves the construction of a world-scale petrochemical plant at Messaieed Industrial City for the production, export and sale of polyethylene and hexene-1. QGPC will provide Q-Chem with sour, ethane-rich gas as feedstock which will be sourced from the NGL-4 plant.

The plant's product will be sold through the spot market to Asia, Europe and the Middle East. The prospects for the global ethylene market are good ? this year its price, which is closely linked to oil prices, has risen substantially and is forecast to increase through the construction period of the plant which will come onstream in 2002.

The transaction is sensitive to the volatility and cyclicality of ethylene markets. The repayment profile has a built in flexibility to accommodate both positive and negative market price movements. The debt will be booked by banks as a 13-year facility, although the target final maturity is structured at 12 years giving the project room to either extend final maturity out to 13 years or reduce it to 11 years, through repayments from excess cashflow, if conditions allow. Says Crossland: ?The project's structure is designed to reflect the cyclicality of prices in the project's market and gives some flexibility.?

Volume risk will be mitigated by offtake support for 100% of the plant's output provided by Phillips Petroleum which will also undertake to market the product in Asia, Europe and the Middle East. Phillips Petroleum has a powerful grip on the high-density polyethylene market, with some 33% of global market share and a 50% share for the US market, through both its Marlex brand and through licencees which use its proprietary technology.

Into retail

The project's loan documentation is scheduled to be signed in the second half of August with a general syndication expected to be launched in September.

The deal is likely to be well-backed by the market during retail although most of the exact amount to be raised is yet to be determined. It is likely to be above $150 million. The reappointment of the international and regional books on NGL-4, HSBC and Apicorp respectively, to the same roles on Q-Chem indicates that a similar strategy will be taken.

The appointment of a large bank group of arrangers and underwriters, something of a trend in the region, will help to mitigate concerns over sell-down risk. Pro rata there is a similar underwriting exposure for the 24 underwriters on Q-Chem as there was for the 14 underwriters on NGL-4.

Some portion of Q-Chem's bank debt, probably around 50%, may be refinanced through a capital markets issue at a later stage. Details on this remain flexible and will be based on prevailing market conditions closer to the time. However, any capital markets issue will probably take place after the plant has been commissioned and its risk profile correspondingly lowered.