Gao-an-tun: Sinosure prevails

15/04/2010

Owned 88.9% by Golden State Holding Group and 11.1% by the Chaoyang District government, the Rmb890 million ($130 million) Beijing Gao-an-tun waste-to-energy project (GAT) features the first non-recourse financing for a private majority-owned entity in the Chinese waste sector. The deal is also the first municipal waste-to-energy project in China's capital and establishes a template for other major Chinese cities to follow in the waste sector.

The Rmb600 million deal is a refinancing of an earlier Rmb400 million debt facility, which part funded construction from 2006 onwards – to meet the timeline set by the district government as part of preparations for the 2008 Olympics – and a later Rmb150 million bridge loan disbursed in 2009 to enable the project to meet its final completion schedule. Standard Chartered lead arranged both the bridging facility and the 10-year refinancing, with Sinosure credit enhancement cover on both facilities.

Located within the Gao-an-tun Waste Treatment Centre in the Chaoyang district, the project has a 30-year concession agreement with the district government for solid waste treatment. The plant has a capacity of 1,600 tons per day and disposes of 50% of the district's daily waste volume, alleviating pressure on landfill operations that are expected to be fully used within five years and have no room to expand.

The plant generates 30MW of electricity from the waste incineration and benefits from a Rmb0.25/kWh subsidy under China's renewable energy regulations. It sells electricity to Beijing Electric Power Company (BEPC) on a take-or-pay basis.

Technology risk on the project is minimal in that it uses proven travelling grate incinerating equipment from Takuma. Furthermore, in 2004 the project was given priority status under the Beijing 2008 Olympics green programme and the sponsors had to upgrade the plant's original technical specifications to meet the more stringent environmental requirements. The plant achieved physical completion and commenced trial operation in July 2008, with full commissioning and start of commercial operations by May 2009.

The refinancing/full construction facility was mandated to Standard Chartered in mid-2008. With dollar liquidity non-existent at the time, StanChart recommended raising the debt domestically. In addition, with the project completion date looming the arranger proposed an interim Rmb150 million bridging loan to get the project finished on time. The bridge loan was disbursed in 2009 and came with Sinosure cover to mitigate refinancing risk – the first time Sinsoure had provided such cover.

Although a Chinese project in one of the few bank markets unmolested by the global liquidity crisis, raising the long-term 10 year take-out debt was still problematic – the sponsor had obtained political risk cover from MIGA before going ahead with the project and lenders wanted similar comfort.
Consequently, Sinosure agreed to cover the two offtakers' – Chaoyang district government and BEPC – future payments thus enabling Standard Chartered (Rmb300 million), China Merchants Bank (Rmb200 million) and China Bohai Bank (Rmb100 million) to provide the 10-year Rmb600 million term loan on a club basis.

Debt pricing is based on a premium over the prevailing People's Bank of China rates. There are 19 semi-annual principal repayments, sized and scheduled to match the project's forecasted cashflows available for debt service.

Sinosure's involvement was critical to the success of the deal. The agency is covering up to 90% of the outstanding principal and interest if either the Chaoyang district government or BEPC fail to meet their payment obligations.

The term loan also has a cash-sharing mechanism that reduces the risk associated with the 10 year tenor – if the project does not meet certain financial tests a portion of its net free cashflow will be used to prepay the term loan.

While the Chinese project debt market has been renowned for offering loans priced at rates way below what the international bank market is able to offer, it does not have a matching reputation for structural innovation. The combination of a bridging loan, a non-recourse term loan, and most importantly Sinosure credit enhancement – a combined first, and for a relatively small domestic project – is a signal that the seeds of innovation in the Chinese project market are sown. And with Chinese banks under pressure to tighten project lending practices, further deals like Gao-an-tun are at least possible.

Beijing Gao-an-tun Waste to Energy
Status: Signed 14 August 2009
Description: Rmb600 million refinancing for a 1,600tpd/30MW waste to energy project in Chaoyang, China
Sponsors: Golden State Holding Group; Chaoyang District Government
Concession Awarder: Chaoyang District Government
Financial adviser: Standard Chartered
Lead arrangers: Standard Chartered Bank, China Bohai Bank, China Merchants Bank
Insurance: Sinosure, MIGA
Lender legal counsel: Jun He Law Offices
Consultants: PB Power (technical); AON-COFCO (insurance)
EPC: Beijing Golden State Engineering Corp
Technology supplier: Takuma Co Ltd