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Nuevo Pemex: Cogen’s Cinderella

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Key events in the structuring and placement of the $638.8 million 300MW Nuevo Pemex cogeneration project are like a series of photographic stills of changes in bank appetite between 2009 and 2010; stills that demonstrate the tendency of many banks to follow the herd irrespective of logic, a trait that both caused the financial crisis and then made life difficult for the very strongest of credits (of which this project is one) because of the u-turn from excessively lax to excessively conservative lending practices.

The deal started in 2008 with a strong term sheet and expensive pricing to entice lenders, and pulled interest from five banks. Despite the strong project fundamentals, those banks dropped out in early 2009 as global economics worsened. Financial adviser Santander then approached Banobras for 100% underwriting. Banobras agreed on condition that the debt was on terms that would normally be acceptable to a commercial lender. Finally, as the climate picked up again in 2010, and a semblance of logic returned to the lending market, commercial banks started asking to join the deal, Banobras dropped its underwriting to 50% and the debt financing went to a full bank syndication.

In a stable lending environment there would have been no reason for the series of events that befell Nuevo Pemex. The project has a very strong offtaker state-owned Pemex. The sponsors, Abengoa and GE, are also some of the best in the project business. The project is of political significance to the Mexican government, which passed energy reform legislation in 2008 as part of a commitment to reduce greenhouse gases by 50% below 2002 levels by 2050.

Furthermore, at the deal mechanics level there is no currency mismatch Pemex makes its payments to the project in dollars. And finally, the project is the first of nine planned to boost generation at Pemex installations nationwide by 3.2GW in effect a benchmark from which those banks that financed the first deal are likely to reap repeat business. Pemex has two similar plants in the pipeline which may be out to market this year.

In addition to overcoming significant hurdles spawned by the financial crisis, Nuevo Pemex is a first on a number of levels. Developed through the Mexico City office of Pemex Gas y Petroquímica Básica, the project is Pemex first power procurement and one of the first times it has procured a big-ticket item under the Ley de Adquisiciones, Arrendamientos y Servicios del Sector Publico (LAASP), legislation which imposes restrictions on the terms that public bodies can offer private bidders: The LAASP provisions did not provide many obstacles the termination schedules, and method of calculating the termination payment, are clear to lenders.

The financing is also the largest in the international market for a Mexican power project since ICAs La Yesca hydroelectric project, which raised $910 million from five banks in November 2007, and it is the largest cogeneration project in Mexico to date.

The project is located inside Pemex Tabasco gas processing complex. Pemex decided to procure a new cogeneration plant from an outside developer after concluding that it would provide cheaper power than continuing with its policy of small sub-5MW cogeneration plants (of which it has around 1.56GW of capacity) or buying power from Mexicos state power company the Comision Federal de Electricidad (CFE).

Bidding for the project concession a 20-year power and steam supply services agreement started in August 2009 on the back of the full underwriting commitment from Banobras. Abengoa was selected at the end of that month and documentation started in September. Abengoas fellow sponsor, GE Energy Financial Services (GE EFS), which came into the deal on the back of the projects use of GE 7FA turbines, would not commit its $72 million of equity until debt financing was in place because it lacked Abengoas familiarity with the Mexican market and some of the lenders.

The debt financing was finally signed on 17 June 2010 with Santander, HSBC Mexico, BES and Credit Agricole as book-runners: The bookrunners were selected on the basis of their willingness to provide Abengoa with a corporate bridge loan $20 million each which allowed it to start construction in late 2009.

The debt package is best understood as something equivalent to an A/B loan, with 50% of the debt retained by Banobras being the A loan and the syndicated (or B) piece lacking explicit cover but benefiting from the implied protection of the state-owned lender. The loan has a 6.5-year tenor, a bullet maturity, and pricing starting at 412bp over Libor during construction. After the 36-month construction period, the margin increases to 437bp through months 48 to 60, and 462bp through months 60 to 78. Fees are 325bp. The minimum debt service coverage ratio is 1.35x and average DSCR is 1.45x with a DSRA of six months of debt service.

The key to the success of Nuevo Pemex cogen was Banobras but it should not have been. Mexico risk aside, few projects have such strong fundamentals and the next Pemex cogen deal is unlikely to have as many difficulties drumming up finance.

Abengoa Cogeneración Tabasco
S. de R.L.de C.V.
Status: Signed 17 June, funded 23 June 2010
Size: $638.8 million
Debt: $460.1 million
Equity: $178.7 million
Location: Villahermosa, Tabasco state, Mexico
Description: 300MW, 550-800 tons per hour steam plant with 20-year Pemex service contract
Sponsors: Abengoa (60%), GE Energy Financial Services (40%)
Underwriter: Banobras
Financial adviser: Santander
Bookrunners: Santander, HSBC Mexico, BES, Credit Agricole
Lead arrangers: Scotia Capital, La Caixa, EDC
Lender legal counsel: Mayer Brown (international); Galicia Abogados (local)
Borrower legal counsel: Shearman & Sterling (international); Creel, Garcia-Cuellar, Aiza y Enriquez (local)
Independent engineer: RW Beck
EPC: Abener Energia