

Rubicon Drilling Services: Bond-bank boosted

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Grupo Rs \$655 million acquisition of the PetroRig III deepwater drill ship is the first time that a sponsor in the sector has been able to combine project bank debt and bond debt in a single transaction. This deal, for a Pemex-chartered vessel, prefigured two later bond issues for Brazilian rig operators. The high-yield bond element of the financing was generously priced, and has yet to be replicated, but indicates how rig owners can get increased leverage on assets even with tight charter terms.

The debt financing consists of a \$225 million senior bank facility, led by BBVA, and a \$270 million high-yield bond placed by Jefferies. The bank financing signed on 4 March, had a tenor of five years, and pricing that stepped up from 375bp over Libor every two years to 425bp in year five. The high-yield bond, which ranks subordinate to the bank debt, has a coupon of 11.875%, but, taking into account the original issue discount of 2.869%, yields 12.5%.

This pricing led bankers to be highly sceptical about capital markets ability to replace project debt on drill-ship financings, though they were a little more humble when Odebrecht completed the bond refinancing of its Norbe rigs. But the financing for Rubicon Drilling Services is more about a comparatively unknown privately held sponsor acquiring an asset with a far-from-generous charter with attractive leverage levels. In this light, the high-yield looks more like a cheap alternative to equity than a competitor to senior debt.

Probably the most exacting part of the acquisition financing was its context. PetroRig III was being extricated from the extremely messy bankruptcy of a Scandinavian rig operator, PetroMENA, which placed added pressure on Grupo R and adviser BBVA to execute a fast and reliable financing plan. That the buyer was able to conserve its charter with Mexico's state oil company, Pemex, and finance the asset through a complex, tax-driven holding company structure, only adds to the achievement.

PetroRig III is a sixth-generation ultra-deepwater semi-submersible mobile offshore drilling unit based on a Friede & Goldman ExD design. The rig, which operates at water depths of 2,300m and drill to depths of 12,200m, was under construction at the Sembcorp-owned Jurong Shipyard in Singapore. Grupo R bought the vessel from Norsk Tiltmann, the bankruptcy for three PetroMENA-owned special purpose vehicles in late 2009.

Following the bankruptcy auction, the buyer had to make payment instalments to the shipyard and the trustee, meaning that the sponsor had to move fast to line up funding. It was fortunate that the acquisition coincided with the flowering of the bond market for energy and infrastructure assets, which started in November 2009. Jefferies, which has moved aggressively into the sector picked up the bond mandate.

The size of the bond was determined by the size of the bank debt, which was in turn determined by the likely revenues under the charter with Pemex. The Mexican counterparty offers much less generous terms than its Brazilian counterpart, Petrobras, a fixed day rate of \$475,000 for the first two years, and a market-based rate after that. The boost to senior lender coverages from the subordination of the bond leads to the bank debt being paid down by 2013 under the issuer base case.

The aggressive timing of the deal had one other key benefit. While the forecasts of the day rate on offer from year four had decreased since the charter was signed, as low oil prices and a softening in the market for deepwater vessels took hold, the bank deal was signed on 10 March, long before the Deepwater Horizon disaster made the economics of deepwater drilling still more precarious.

The lead arranger of the bank debt pitched the deal to potential lenders on the basis of the deals charter being novated to the new owner, and they responded enthusiastically. The debt was syndicated post-close to ten other banks, and 2.5x oversubscribed, a strong vindication of BBVAs willingness to stick its neck out and underwrite the deal. Banco Espirito Santo, Natixis, NIBC, SG, UniCredit and WestLB took bookrunner titles, CIC and SMBC took lead arranger titles, and ITF was a senior lead arranger.

The banks, with their \$225 million commitment, are a small part of the wider \$660 million capital structure, and the least worried about the residual value of the vessel at the end of the charter. Bondholders, on the other hand, are being paid handsomely to assume this risk, and the seven-year debt was rated B3/B- (Moody's/ S&P). The Garza family-controlled Grupo R gains control of an ultra-modern vessel under charter to a prized client for an equity commitment of roughly \$175 million.

Subsequent deals such as Schahins Lancer recapitalisation and the Odebrecht Norbe bonds are more likely to have an influence on the rig finance market, if only because Petrobras has a much more ambitious drilling programme, and project finance bankers will take much more note of that segment.

The PetroRig deal stands out more for how it coped with a difficult context than how likely it is to spark imitators. Rig operators, though, have increasingly looked to the US high-yield finance market, when it is open, rather than the murky Scandinavian bond market or even the shipping finance-type structures that are common in rig finance. The Grupo R deals influence, then, could be selective, but far-reaching.

Rubicon Drilling Services

Status: Bonds closed 24 February, bank debt closed 10 March, funded 30 April 2010

Size: \$660 million

Location: Mexico

Description: Acquisition of semi-submersible ultra-deepwater drill-ship

Sponsor: Grupo R

Debt: \$225 million non-recourse bank loan and \$260 million bond tranche

Lead arranger and financial adviser: BBVA

Bank bookrunners: Banco Espirito Santo, Natixis, NIBC, SG, UniCredit and WestLB

Bank mandated lead arrangers: CIC and SMBC

Senior lead arranger: ITF

Bond arranger: Jefferies

Lender legal adviser and sponsor bond counsel: Clifford Chance

Sponsor legal counsel: In-house

Market consultant: ODS Petrodata

Independent engineer: GL Noble Denton

Insurance adviser: AON

Bond counsel: White & Case

EPC contractor: Jurong Shipyards

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