# Jurong Aromatics: Targeted template

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A ten-strong group of commercial lenders led by ING Bank and Royal Bank of Scotland signed the $1.557 billion debt financing for the Jurong Aromatics project on 13 April. The financing is notable for eschewing sponsor support during construction and for repayment and reserve structures that increase lender comfort in a project operating in a notoriously cyclical market. The deal is a restructured version of a financing that was initially launched to market in the depths of the financial crisis.

The Jurong Aromatics project involves the construction of a condensate splitter and aromatics manufacturing facility with an annual capacity of 2.5 million tonnes of transport fuels and 1.5 million tonnes of aromatics, particularly benzene and paraxylene, per year. It will be located on Jurong Island, located south-west of Singapore.

The two original developers of the plant were Shefford Investments, owned by the Sridjaja family, and Arovin, owned by Vijay Goradia, who founded the Vinmar group. Both developers had experience in the chemicals business, though neither had a track record in big-ticket petrochemicals project development or the balance sheet capacity of an oil major.

In addition to Arovin and Shefford, with 10.5% and 9.5% shareholdings, respectively, the sponsors are SK International (30%), Jiangsu Sanfangxiang (25%), Glencore (10%), UVM (5.1%), Economic Development Board of Singapore (5%) and Essar Projects (4.9%). The sponsor group comprises Korea, Chinese, Singaporean, and Indian interests, not to mention commodities trading powerhouse Glencore, which is in the middle of an initial public offering.

SKs equity stake went up from 10% to 30% in 2009, but it has been involved since 2007, as have Glencore and Jiangsu Sanfangxiang. Not all of the names that have been attached to the project in the last four years made it to financial close. Kuwaits National Industries Group Holding pondered an equity investment in Jurong but did not eventually commit.

Working with such a diverse sponsor group encouraged a higher degree of contractual rigour, as the projects lead financial adviser, ING Banks Bruce Macfarlane, puts it. Frequent changes to the composition of this group proved a test of lenders endurance. Jurongs feedstock supplier and offtaker (at market prices), BP, was at the centre of the Deepwater Horizon disaster. BP is one of three participants, and the only named one, in a $260 million subordinated loan to the project.

But Korea dominates the senior debt package, which consists of a $618 million 15.5-year KSure-covered loan, a $278 million 15.5-year Kexim-covered loan, a $340 million 15.5-year direct Kexim loan, a $155 million ten-year uncovered commercial bank loan, a $50 million 15.5-year uncovered commercial loan and a $115 million five-year working capital facility. The sponsors originally planned on only getting cover for 50% of the debt, and only working with Kexim, but with the addition of K-Sure (formerly KEIC), 80% of the debt is covered.

Pricing on the loan was higher than the sponsors had originally hoped. In 2007 it might have been possible to close an uncovered tranche at 160-200bp over Libor, and a covered tranche at 60bp. Final pricing is 215bp over Libor for the covered facilities, 270bp for the working capital debt, 325bp for the shorter (10 years) uncovered loan and 425bp for the longer (15.5 years) uncovered tranche.

Even before the crunch, the sponsors had to settle for contributing all their equity up-front, and gearing of nearer 60%

than the 75% for which they had originally looked. The financing also features a 12-month debt service reserve, up from an originally-planned six months. With cash sweeps, which direct cash towards the loans with the longest tenors, the debts average life could be nearer 13.5 years. The base case loan life coverage ratio is still a healthy 2x.

The debt features a flexible amortisation schedule, capturing the benefit of strong margins for lenders through a cash sweep and accelerated repayment schedule but requiring the borrower to only meet a minimum cumulative repayment schedule during periods of weak margins. Unlike a fixed repayment schedule with deferrals of principal repayments, this scheme captures first the benefit of stronger margins to make prepayments rather than deferring payments and relying on improvements in margins in the future for the borrower to catch up.

This flexibility in repayments, coupled with the beefed-up reserves, means that the project could survive an extended period (2-3 years) of very poor petrochemical margins. Given the absence of sponsor price support and completion guarantees, such structural enhancements are vital. The reserve is designed to cope with short, sharp price shocks such as those of 2008-9, while the target repayment can cope with longer periods of less severe, but weak, margins.

The lenders on the deal are ING and RBS as coordinators, bookrunners and mandated lead arrangers, Intesa Sanpaolo, Korea Development Bank, Standard Chartered, ANZ, BNP Paribas, DnB NOR and Natixis as mandated lead arrangers and DZ Bank as arranger. The banks committed in November 2010, as part of a club-style best-efforts syndications process, but could not sign before year-end, as planned, because of such complexities as the subordinated debt facility.

It features a pair of lump sum turnkey (LSTK) date-certain engineering, procurement and construction contracts. The use of LSTK EPC contracts had become very unfashionable as commodity and skilled labour prices increased through 2007/8, because contractors charged ever-increasing premiums for taking on the cost escalation risk, but in this respect the crisis moved in the sponsors favour.

The project involved coordination between two contractors  SK E&C for the main processing plant, using UOP technology, with Essar Projects building the storage and ancillary facilities. The plant is set to come online in 2014.

**Jurong Aromatics**
Status: Closed 13 April 2011
Size: $2.6 billion
Location: Jurong, Singapore
Description: Condensate splitter and aromatics manufacturing facility.
Sponsors: SK International (30%), Jiangsu Sanfangxiang (25%), Arovin (10.5%) Glencore (10%), Shefford Investments (9.5%), UVM (5.1%), EDBS (5%) and Essar (4.9%)
Debt: $1.557 billion.
Financial advisers: ING Capital, RBS
Lenders: ING, RBS, Intesa Sanpaolo, Korea Development Bank, Standard Chartered, ANZ, BNP Paribas, DnB NOR, Natixis and DZ Bank.
EPC contractors: SK, Essar
Project manager: WorleyParsons
Technical and market consultant: Nexen
Environmental consultant: ERM
Insurance adviser: Willis
Model auditor: PKF
Legal counsel: Latham & Watkins (borrower), Milbank, Tweed, Hadley & McCloy (lenders)