

Will exports continue to drive Laos power development?

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Financings for large-scale power projects in Laos have compensated for limited big-ticket opportunities in Thailand, and bankers difficulties in competing for similar-sized projects in China and Burma. Laos is now, after the Philippines and Indonesia, one of the most promising independent power project (IPP) markets in Asia.

EdL: Generation next

The Lao Peoples Democratic Republic, like its neighbours Vietnam and China, is a nominally communist country that is open to foreign investment and the development of capital markets. In 2011 the country launched the Lao Securities Exchange, on which two stocks are traded. The first is Banque Pour Le Commerce Extérieur Lao (BCEL), with a free float of 15%, while the second is Electricité du Laos Generation, majority owned by Electricité du Laos, with a 25% float.

The presence of EdL-Gen as an anchor listing for the exchange is unsurprising, since electricity sales account for a huge chunk of Laos foreign exchange earnings. The listing, led by BCEL Krungthai, attracted solid support, particularly from investors familiar with the sector. Ratchaburi, a listed Thai power producer, paid \$43.3 million for a 9.345% stake in EdL-Gen.

The links between EdL-Gen and its 75% owner Electricité du Laos, which remains under the ownership of the Lao ministry of finance, remain strong. EdL-Gens 387MW portfolio sells power to EdL under 30-year power purchase agreements. EdL-Gen has signed loan agreements with EdL that mirror the \$188 million in debt that EdL has taken out against the assets that EdL-Gen is buying.

But EdL-Gen is set to become the vehicle for ownership not just of the generation assets that EdL develops in-house, but also the stakes that it holds in independent power projects in the country. The restructuring comes as Thai, European, Chinese and Malay developers all compete for prime assets in the Laos power market.

New entrants

EdL-Gens list of mirror debt agreements indicated what kinds of lenders have supported the countrys power industry to date. The Asian Development Bank accounts for \$42.4 million, and Japans Overseas Economic Cooperation Fund \$26.29 million have both supported low-income Asian economies. But alongside local contractor Vientiane Automation and Solution Engineering (owed \$9.5 million) are two loans from Chinese state-linked contractors, with Norinco owed \$93.6 million, and CWE, with \$16.8 million.

The Chinese loans, each with an interest rate of 2%, highlight the interest of Chinese firms in construction work in Laos, especially when they come with a full government guarantee. EdL-Gen, perhaps mindful of the interest rates on offer for projects with plentiful government support, has indicated that it will only buy generation assets, whether stakes in IPPs or internal EdL developments, after construction is complete.

Chinese developer Sinohydro is in talks with EdL about a power purchase agreement for the Nam Ou project, a \$2 billion

seven-dam complex on the Mekong tributary of the same name with a total estimated capacity of 1,156MW. The project already has a debt commitment from China Development Bank, which signed in April, and has been under evaluation since 2007. EdL would hold its traditional 15% stake in the plant, while Sinohydro would own the remainder.

Laos has been highly effective at balancing the competing interests of its neighbours and international developers. EdL complains that a shortage of internal resources means that 71% of the countrys generation capacity is in the hand of independent power producers, though a small number of large IPPs, possibly beyond the technical capabilities of EdL, skew this proportion. In any case, Lao projects have attracted capital from China, Malaysia, Vietnam, Japan, Thailand, India and France.

The long shadow of NT2

The benchmark for international project lenders and developers remains the Nam Theun 2 financing. The high degree of scrutiny that it attracted from non-governmental organisations was the spur to put in place environmental and social risk monitoring. This level of compliance, whether foreign developers and lenders like or not, appears to have become the norm for projects in Laos.

The \$1.25 billion financing for the 1,070MW project attracted 27 lenders when it signed in 2005. International lenders, which provided \$326 million in covered debt, included ANZ, Bank of Tokyo-Mitsubishi, BNP Paribas, Calyon, Fortis, ING, KBC Bank, SG and Standard Chartered, while seven Thai lenders also participated: Bangkok Bank, Bank of Ayudhya, Kasikornbank, Krung Thai Bank, Siam Commercial Bank, Thai Military Bank and Siam City Bank, which between them provided Bt20 billion (about \$500 million at then prevailing rates).

This lender composition reflected the fact that the sponsor group included EdF International, EGCO, Lao Holdings State Enterprise and Italian-Thai Development, while the offtakers were Electricity Generating Authority of Thailand and Electricité du Laos. The European Investment Bank (\$55 million) World Bank, Asian Development Bank (both \$20 million) and AFD (\$6 million) lent the Lao government its equity contribution, and insisted that it spend the dividends on socially beneficial ends.

Such multilateral-driven initiatives have a patchy history, as was demonstrated when the government of Chad threw of the restrictions of a similar equity loan for the Chad-Cameroon pipeline and spent the proceeds on an arms-buying spree. But Laos, say market observers, has lived up to its obligations handsomely. One lawyer familiar with the market even wonders whether the disclosure obligations on Lao IPPs are not more than many sponsors would tolerate.

The Nam Theun 2 financing may also have scared Thai lenders from signing up to the Equator Principles, since international lenders to the project attracted even more unfavourable criticism if they were Equator signatories. To date, no Thai bank has signed up to the principles, even though most Thai banks have been enthusiastic lenders to the renewables sector. I get the impression that senior management at the banks is fairly conservative, and they cant see much domestic benefit from signing up, says one market observer.

Hongsa holds up

Thai banks have already been in the position of compensating for poor appetite from international lenders. The \$600 million debt requirement for the expansion of the Theun Hinboun hydro project from 201MW to 500MW was meant to be split 50/50 between international and Thai lenders as it inched towards close in September 2008. One Lehman bankruptcy later and the debt was rapidly reconfigured so that \$187 million came in dollars from ANZ, BNP Paribas, KBC and Thai Exim, and the remaining debt came as a Bt14 billion loan from Bank of Ayudhya, Export-Import Bank of Thailand, Kasikorn Bank, Siam City Bank and Thanachart Bank.

The Theun Hinboun financing closed on 8 October 2008, and as an expansion to an existing plant was notable for EdL owning a majority stake (60%, alongside GMS and Statkraft, each with 20%), and for suffering from the last major financial crisis this time the Asian one, shortly after it opened in 1998. Theun Hinboun is understood to be looking at a dollar refinancing, but the outsize presence of French and Belgian lenders in the Laos power sector makes it particularly vulnerable to current problems in the eurozone.

The next large greenfield IPP in Laos Hongsas highlighted the ability of Thai lenders to cope with projects that might have given a group of international or multilateral lenders pause. In the case of Hongsas, a 1,878MW lignite-fired mine-mouth power plant, the competition was more between Chinese and Thai lenders dollar lending capabilities. What Thai banks lack in a long-term dollar funding base, they made up for in their knowledge of the Lao market and Hongsas sponsors.

The sponsors for Hongsas are Banpu Power (40%), Ratchaburi Electricity Generating (40%), and Lao Holding State Enterprise (20%). EGAT owns roughly 45% of Ratchaburi (while Banpu owns another 15%), has the most experience in the region of developing and operating mine-mouth lignite projects. Hongsas will use a Chinese-made boiler, and the financing was originally set to include Chinese lenders, such was the appetite of Thai lenders, even for the \$930 million dollar tranche, that using Chinese debt was not necessary.

The deal, which also included Bt63 billion in debt, soaked up commitments from every single active Thai lender: Bangkok Bank (also financial adviser), Siam Commercial Bank, Kasikornbank, Government Savings Bank, Krung Thai Bank, Export-Import Bank of Thailand, Bank of Ayudhya, Siam City Bank, and TMB Bank. The debt had a tenor of 17.5 years, and benefits from the sale of 95% of the projects output to EGAT.

Future forex

EdL expects a large increase both in domestic demand, but from a very low base, and it expects substantial increases in exports of power to its neighbours. So project lenders, whether Thai or international, will be unlikely to have to finance an all-EdL offtake any time soon. For that matter, and despite the lender interest, there is unlikely to be any financings for social infrastructure or transport assets.

Landlocked Laos is blessed with abundant hydroelectric resources, and there is considerable Chinese interest in coal and metals, but as one of the least developed economies in the region, it will lag behind economies like Vietnam and Thailand in attracting a variety of project investors. But power export earnings will be a significant source of foreign exchange earnings, and a significant source of project finance business.

The next substantial Laos financing will involve a combination of Thai and international sponsors and a combination of Thai, offshore and multilateral debt. The \$800 million debt package for the 440MW Nam Ngum 3 project will benefit from an A loan of up to \$200 million from the Asian Development Bank, a \$75 million A loan from the International Finance Corporation. Baht debt, from Kasikornbank, and dollar B loan debt, from ANZ, BNP Paribas, Credit Agricole and Mizuho, will make up the remainder.

The project sponsors are GMS Lao Company (27%), Marubeni Corporation (25%), Ratchaburi Electricity Generating (25%) and Lao Holding State Enterprise (23%). They hold a 27-year concession for a plant to be located in in Vientiane province, and will sell power to EGAT under a power purchase agreement of the same length. The financing waits on approvals from the multilateral lenders, and while it requires an environmental and social impact mitigation plan, it is unlikely to be too controversial.

The other big financing on the edge of the market is more controversial. The 1,280MW Xayaburi project, located in the province of the same name, will use an all-Thai cast of banks, befitting a sponsor group that includes Thai conglomerate Ch Karnchang (50%), PTT (25%), EGCO (12.5%), Bangkok Expressway (7.5%) and PTC&I (5%). Bangkok Bank, Kasikornbank, Krung Thai and Siam Commercial Bank will provide up to \$3 billion equivalent in dollar and Baht debt for the plant.

But the project, located on the lower Mekong River, lies under the jurisdiction of the Mekong River Commission, which represents the interests of Laos, Thailand, Cambodia, and Vietnam, and to a lesser extent China and Burma, which have a lower dependence on the river. Vietnam and Cambodia are against the development, while Laos is in favour and Thailand, despite EGAT being the offtake for 1,220MW of its capacity, is ambivalent.

Laos hopes that another round of studies of the dams impact will bring around its neighbours and bankers familiar with the project hope that it can be closed before year-end. Even if it is delayed, Laos plans to increase its domestic generation capacity from 1,917MW in 2010 to 24,022MW by 2020 promise a solid deal pipeline for all types of regional lenders.

BTMU, SMBC and Mizuho are looking at a JBIC-supported \$700 million debt financing for the 289MW Nam Ngie 1 plant, for which Kanais Electric is lead sponsor. ■

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