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African Refinancing Deal of the Year 2011: NGLII

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The refinancing for ExxonMobil and Nigerian National Petroleum Companys (NNPC) natural gas liquids assets illustrates changes to the terms on offer in oil and gas debt markets. Not so much in the pricing and tenors on offer global pressure on banks funding costs and perceptions of Nigerian political risk constrain these but in the work that lenders need to do in allowing large project companies capital structures to evolve with their business.

The financing covers the unincorporated joint venture that operates a 45,000 barrels per day natural gas liquids and additional oil recovery project on Bonny Island. It separates and processes liquids from gas fields operated by ExxonMobils Mobil Producing Nigeria subsidiary. Exxon owns 51% of the venture, with NNPC owning the remainder. It contributes, like other gas-related ventures in Nigeria, to reducing the flaring that is endemic in the Nigerian oil and gas industry.

The two sponsors closed an expansion financing for the venture in 2004, led by Credit Suisse, and incorporating a mixture of international and local bank debt that benefited from cover from the Overseas Private Investment Corporation (Opic). That $1.275 billion deal broke down into a $575 million loan from Credit Suisse, of which $325 million was Opic-covered, a $50 million loan from United Bank Nigeria, United Bank for Africa and Standard Trust Bank, and $650 million in direct financing from ExxonMobil, in proportion to its shareholding.

The sponsors followed up the 2004 deal with a supplemental $200 million Nigerian bank-led financing in 2008, and refinanced the $200 million deal in 2009 with a $265 million facility led by United Bank for Africa, and featuring Oceanic Bank, Standard Chartered, Skye Bank, Zenith Bank, Bank PHB, Access Bank and Union Bank.

By 2010 much of the original 2004 debt had amortised, in part thanks to a structure that placed restrictions on the sponsors ability to receive distributions and flexibility in marketing the projects output. The sponsors mandated Standard Chartered, which combined local operations with an international oil and gas franchise, as financial adviser on the deal.

Standard Chartered offered to refinance most of the remaining 2004 debt about $320 million of it leaving roughly $60 million outstanding. The remaining outstanding debt is mostly in the hands of institutions that are no longer active enough in project finance to be easily contacted. The size of the outstanding debt, and the low profile of its holders, means that these holdings did not have substantial leverage over the new financing, but had to be accommodated in the new structure.

On top of the refinancing, the sponsors closed $1.1 billion in new seven-year debt, of which $560 million is co-lending from Exxon. The US oil major continues its practice of lending directly to projects and minimising additional debt costs by exploiting its own ultra-low cost of capital. The arrangement has a long pedigree, and no longer tends to discomfort commercial lenders.

The remaining two tranches are a $200 million loan from Nigerian lenders, led by facility agent and local financial adviser United Bank for Africa, which attracted six further mandated lead arrangers: Ecobank, Standard Chartered Nigeria, Stanbic IBCT, Zenith Bank, Access Bank, and Skye Bank. Their participation highlights the continued importance to local lenders of oil and gas project financing, and relationships with the NNPC/Exxon JV, as Nigerias banks emerge from recent industry restructuring.

The final element of the refinancing is $340 million in international bank debt, provided by BNP Paribas, Deutsche, HSBC, ING, Standard Chartered, and SG CIB.

Given the continued risk perceptions of Nigerian oil and gas activities, the size of the uncovered facility is impressive, though lenders also benefit from an operating asset that has performed in line with expectations. The split between the two broadly follows the ventures policy, and government incentives, to incorporate local lending.

The new financing eliminates some restrictions on how the sponsors can dispose of their share of the projects output. For the 2004 deal oil trader Vitol handled NNPCs share of the output, but the Nigerian national oil company has long desired more flexibility in how it disposes its share of the projects output. It now has the ability, if it desires, to serve its local customer base directly.

Ideally, the restrictions of the 2004 deal would have fallen away the further the project moved after completion, but project financings frequently do not anticipate the evolution of project companies into fully-fledged corporates in their own right. However, the deal is a hybrid of project and corporate finance. Lenders are still monetising receivables from NGL sales, but the proceeds of the financing can be spent across the wider Exxon/NNPC joint venture. The expenditures still have to appear on a list of approved projects, but mostly comprise in-fill drilling and are designed to maintain production levels.

The other important change is a loosening of restrictions on additional indebtedness, allowing the sponsors, where prudent, to raise additional debt against the assets. Such language appears more frequently of late in greenfield project financings, but its application to a large emerging markets hydrocarbons project suggests that lenders are learning to view project companies in these markets less as distant outposts of core developed markets sponsors, and more as potentially valuable corporate clients in their own right.

NGL Funding Ltd
STATUS: Signed 13 January 2011
TOTAL DEBT: $1.42 billion
LOCATION: Bonny Island, Nigeria
DESCRIPTION: Receivables-backed refinancing of second phase of natural gas liquids plant
SPONSORS: Nigerian National Petroleum Corporation (49%), ExxonMobil (51%)
NEW DEBT: $1.1 billion, of which $560 million is Exxon co-lending, $200 million is local bank, and $340 million is international bank
MATURITY: Seven years
INTERNATIONAL LEAD ARRANGERS: BNP Paribas, Deutsche, HSBC, ING, Standard Chartered, SG CIB
LOCAL LEAD ARRANGERS: United Bank for Africa; Ecobank; Standard Chartered Nigeria; Stanbic IBCT; Zenith Bank; Access Bank; Skye Bank
FINANCIAL ADVISERS: Standard Chartered, UBA
SPONSOR LEGAL COUNSEL: Latham & Watkins
LENDER LEGAL COUNSEL: Milbank
TECHNICAL CONSULTANT: Shaw Group
RESERVES CONSULTANT: Netherland, Sewell & Associates
NGL MARKET CONSULTANT: Purvin & Gertz
MODEL AUDITOR: Operis