

Asia-Pacific Power Deal of the Year 2011: Mong Duong 2

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The Mong Duong 2 independent power project financing in Vietnam provides a way forward for the involvement of international lenders in the country's project financings. This involvement will be essential if the country hopes to meet the significant funding requirements it faces for infrastructure investment over the next decade. Lead sponsor AES spent over seven years developing the \$2 billion project, and weathered a number of external macroeconomic shocks, including the devaluation of Vietnam's currency and high inflation, to reach financial close in August 2011.

Mong Duong 2 is the first IPP project to reach financial close in Vietnam since Phu My 3 in 2003, and is a step forward for international investment in the Vietnamese power market, after a prolonged period of inactivity. In addition to being the first coal-fired build-operate-transfer (BOT) project to close in Vietnam, it is also the country's largest ever private sector power project.

Perhaps most significantly, however, Mong Duong 2 represents the first opportunity for the South Korean export credit agencies Kexim and K-sure to participate in the Vietnamese market, through the involvement of Korean firms Doosan Heavy Industries & Construction, as engineering, procurement and construction (EPC) contractor, and POSCO Power, as a project sponsor.

The financing involved the sponsors working through issues surrounding security documentation, payment risks associated with the offtaker, state utility Electricity of Vietnam (EVN), and the mechanics of bringing money into and out of the country. Settling these country-specific issues, not to mention the Korean ECAs' vote of confidence in the Vietnamese power market, should make future financings easier.

The project involves the construction and operation of a 1,240MW coal-fired power plant under a 25-year BOT concession in the northern Quang Ninh province of Vietnam. The plant is comprised of two separate 620MW units, and is the second power plant to be built at the Mong Duong thermal power complex, following the Mong Duong 1 plant, which is being developed by EVN. Construction of the plant started in August 2011, and is scheduled to take four years, with full commercial operation targeted for June 2015.

Alongside the 25-year BOT contract, with the Vietnamese Ministry of Industry and Trade, the project has a 25-year power purchase agreement (PPA) with EVN, and a 25-year coal supply agreement with Vinacomin, the national coal and mineral industries group, which will supply anthracite coal from nearby domestic mines.

The Vietnamese government has provided irrevocable guarantees and undertakings to fully guarantee the payment obligations and financial commitments of the Vietnamese counterparties to the power purchase, coal supply and BOT contracts. To protect the project against fluctuations in exchange rates and coal prices, the PPA is denominated in US dollars and allows for the pass-through of fuel costs.

The project has undergone a number of changes to the makeup of the sponsor group and the identity of the EPC contractor. AES had signed a joint venture agreement to co-sponsor the project with Vinacomin in 2006, but in early 2011 Vinacomin decided to pull out to focus on other deals. The departure of Vinacomin provided an opportunity for

POSCO to take a 30% share in the sponsor group, with China Investment Corporation, which owns 15% of AES, taking the remaining 19%.

According to several sources close to the deal, AES had originally planned to name a Chinese firm EPC contractor, but switched to Doosan following an active expression of support for the project from Kexim. The EPC contract is fixed-sum, date-certain, and turnkey.

Kexim and K-sure each provided political risk insurance on two 18-year project facilities. The projects \$1.461 billion in total debt is spread across two ECA-backed facilities, and a direct loan from KEXIM, each with a tenor of 18 years. Kexim extended a 100% guarantee for a \$280 million facility, while K-sure extended an 80% guarantee for an \$839 million facility, providing an aggregate level of 85% cover to the lenders on the two ECA-backed facilities. In addition, Kexim also provided a direct loan of \$342 million, making it the largest single lender to the project.

The 12 commercial lenders on the \$1.119 billion of ECA-backed facilities were BNP Paribas, Credit Agricole, HSBC, ING, Natixis, Societe Generale, and Sumitomo Mitsui Banking Corporation as bookrunning mandated lead arrangers, Mizuho Corporate Bank, Standard Chartered and UniCredit as mandated lead arrangers, with Credit Industriel et Commercial and DZ Bank as lead arrangers. The bookrunning mandated lead arrangers also provided the project with a 15-year interest rate swap.

Despite the depth of support that Mong Duong 2 attracted, it is unlikely that the next IPP project to close in Vietnam will be a carbon copy. This is primarily due to the fact that the Vietnamese government has made several changes to the risk allocation and government guarantee regime of the BOT framework. These changes are now being used for upcoming transactions such as the Nghi Son 2 IPP, so there is still a degree of uncertainty about how the solutions from Mong Duong 2 might be adapted to conform with the new framework.

Nevertheless, until one of these new projects reaches financial close the structuring and risk allocation precedents set by Mong Duong 2 will serve as a benchmark for international lenders in the Vietnamese market.

AES-VCM Mong Duong Power Company Limited

STATUS: Closed 24 August 2011

SIZE: \$1.95 billion

DESCRIPTION: 1240 MW coal-fired power plant located in Vietnam

SPONSORS: AES (51%), POSCO Power (30%), China Investment Corporation (19%)

EQUITY: \$487 million

OFFTAKER: Electricity of Vietnam (EVN)

DEBT: \$1.46 billion

LEAD ARRANGERS: BNP Paribas, Credit Agricole, HSBC, ING, Natixis, Societe Generale, Sumitomo Mitsui Banking Corporation, Mizuho Corporate Bank, Standard Chartered, UniCredit, Credit Industriel et Commercial, DZ Bank

EXPORT CREDIT: KEXIM, K-sure

FINANCIAL ADVISER: HSBC

EPC CONTRACTOR: Doosan Heavy Industries & Construction

SPONSOR LEGAL ADVISERS: Shearman & Sterling (international) Freshfields Bruckhaus Deringer (local)

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