Asia-Pacific Petrochemicals Deal of the Year 2011: Jurong Aromatics

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The $2.35 billion Jurong Aromatics financing has much lower levels of sponsor support than is typical in petrochemicals projects. It also demonstrates the ability of Korean export finance to help projects attract a solid bank following, even ones with a complicated backstory like Jurongs. The financing is also notable for featuring a substantial subordinated debt tranche.

The developer of the project is Chemone, a joint venture between the Indian Goradia and Sridjaja families. The project differs from most recent petrochemicals financings in that its main driver is not an oil major or a national oil company looking for a downstream outlet. It also, as originally conceived, lacked a deep-pocketed sponsor, meaning that the project was unable to combat the problems it faced coming to market in the aftermath of the 2008 crisis.

It was relaunched, and closed successfully in May 2011, by exploiting demand from Asian buyers, particularly manufacturers of textiles and polymers. Of the final eight-strong group of sponsors, five are offtakers. Shefford Investments, the vehicle for the Sridjaja familys 9.5% stake in the project, is the only pure provider of development equity.

Leading the remaining sponsors is SK Group, which has 35% of the equity, and is also engineering, procurement and construction contractor and offtaker. The next largest stake, at 25%, is in the hands of Jiangsu Sanfangxiang Group, a Chinese polyester producer (through holding company Sanhai International Development). Arovin, the vehicle for the Goradia familys 10.5% stake, markets chemicals, as does Glencore, which holds a 10% stake through Singfuel Investment. UVM, a holding company for Thai chemicals interests, owns 5.1%, while Singapores Economic Development Board owns 5%, and Essar, the projects other EPC contractor, owns a final 4.9%, through Kadmos Holdings.

The outsize presence of SK persuaded Korean export credit agencies to cover or provide 74% of the $1.557 billion in senior debt, all of it with a 15.5-year tenor. Kexim, is providing a $340 million direct facility, and covering another $278 million, while K-Sure is covering a $618 million piece. The uncovered debt consists of a five-year working capital facility of $115 million, a 10-year commercial A tranche of $156 million and a 15.5-year commercial B tranche of $50 million, as well as the 9.75-year subordinated tranche.

The mandated lead arrangers of the bank-funded senior debt were ANZ, BNP Paribas, DNB, Import-Export Bank of Korea, ING, Intesa San Paolo, KfW-IPEX, Korea Development Bank, Natixis, Royal Bank of Scotland, Standard Chartered Bank, and DZ Bank, with BBVA participating. The subdebt providers were BP, also a project offtaker, Icon Capital, and Standard Chartered. The subordinated tranche has a flexible repayment date and can be repaid in kind.

The base case project cost of $2.2 billion includes a $200 million contingency, a $75 million funded debt service reserve, and a standby contingent letter of credit from the sponsors of $75 million. The debt complements $888 million in equity and subdebt, giving a senior debt-to-equity ratio under the base case of 62:38 and an initial loan life coverage ratio of 2.07x. The subordinated debt and all the senior debt but the working capital revolver and A tranche use a targeted but flexible repayment schedule married to a cumulative repayment schedule, under which cash sweeps compensate for periods when revenue generation is weak.

Beyond their roles as offtaker or construction contractor, and their commitments to the standy letter of credit, the sponsors are not providing any further financial support to the project. The generous contingencies, and EPC contracts that are much more tightly documented than is common in petrochemicals, provide additional enhancement. The pricing on the debt came in at 215bp over Libor for the covered facilities, 270bp for the working capital debt, 325bp for the shorter commercial A tranche and 425bp for the longer B tranche.

The project will produce 662,000 tonnes per year (tpy) of diesel, 647,000 tpy of light naphtha, 283,000 tpy of LPG, and 99,000 tpy of other petroleum products, as well as 800,000 tpy of paraxylene, 438,000 tpy of benzene and 200,000 tpy of orthoxylene. The project is designed to be in the top quartile of producers in terms of costs, though the offtake contracts will allow it to run at higher levels of utilisation than uncontracted competitors. The construction period on the project is 3.5 years.

The financing ties together several important regional offtake markets India, China and Korea and benefits from Singapores reputation as one of the best places in Asia to assemble a substantial bank club. Few developers would be in a position to ties these strands together, and as such the deal is unlikely to require replication. But the Korean involvement in a high-profile petrochemicals deal, not to mention the targeted repayment schedule, are likely to bode well for other hydrocarbons developers exposed to revenue volatility.

Jurong Aromatics Corporation
STATUS: Closed 19 May 2011
SIZE: $2.35 billion
DESCRIPTION: Condensate splitter and aromatics facility on Jurong Island, Singapore
SPONSORS: SK International Investment Singapore (30%) Sanhai International Development (25%), Arovin (10.5%), Singfuel Investment (10%), Shefford Investments (9.5%), UVM Investment Corporation (5.1%), EDB Investments (5%), Kadmos Holdings (4.9%)
DEBT: $1.6 billion
MANDATED LEAD ARRANGERS: ANZ, BNP Paribas, DNB, Import-Export Bank of Korea, ING, Intesa San Paolo, KfW-IPEX, Korea Development Bank, Natixis, Royal Bank of Scotland, Standard Chartered Bank, DZ Bank
PARTICIPANT: BBVA
SUBORDINATED LENDERS: BP, Icon Capital, Standard Chartered
EXPORT CREDIT AGENCY: K-Sure
FINANCIAL ADVISER TO THE PROJECT: ING Bank
LEGAL ADVISER TO THE PROJECT: Latham & Watkins
LEGAL ADVISER TO THE LENDERS: Milbank
LENDER TECHNICAL ADVISER: Nexant
LENDER INSURANCE ADVISER: Willis
LENDER ENVIRONMENTAL ADVISER: ERM