DEAL ANALYSIS: Foundation Wind Energy

06/06/2012

Although only the third Pakistani wind project to reach financial close after Zorlu Enerji Pakistan followed by FFC Wind Energy (sponsored by Fauji Fertilizer Company) the financing for the Foundation Wind Energy I and II (FWE I and II) projects demonstrates significant innovation on the part of the Asian Development Bank (ADB) and the Islamic Development Bank (IDB). By acting as partial credit guarantor for the IDB, which is taking 100% of the credit exposure, the ADB was able to participate in its first fully shariah-compliant project financing.

The deal broadens the lending base for Islamic wind developers and its structure provides a template to be repeated as the number of license applications in Pakistans sponsor-friendly wind tariff regime continues to grow.

Sponsored by Fauji Foundation, Tapal Group, and the Islamic Infrastructure Fund (which is backed by the ADB and IDB and was introduced to the deal by them), the shareholder structure on each project is slightly different. Fauji is lead sponsor for both projects and is joined by minority shareholder IIF (35%) on Foundation Wind Energy I (formerly called Beacon Energy). Foundation Wind Energy II (formerly called Green Power) also features IIF (25%) along with Tapal Group (20%), which sold its original majority stake in the project to Fauji in 2010, and which now holds 55%.

The two 50MW projects are located in the Gharo wind corridor in Sindh province, 54 km south-east of Karachi. The sites are within 6km of each other and are being simultaneously built by the same engineering, procurement and construction contractor Descon to benefit from economies of scale. Nevertheless the two projects are still legally, economically, and contractually distinct and will not rely on each others cash flows.

The projects are being built under a date- certain, lump-sum, fixed-price EPC contract with Descon and turbine supplier Nordex, which is supplying 40 tried and tested Nacelle N 100 2.5MW HCV turbines. Dispatch from both projects to the national grid will be through a 132kV line to be built and operated by the National Transmission and Despatch Company (NTDC), Pakistans national grid operator.

The deal also benefits from a 20-year take-or-pay power purchase agreement (PPA) that each project company signed with NTDC, through its Central Power Purchasing Agency. The government of Pakistan is guaranteeing the PPA.

The projected levelised tariff for the farms, which is dollar denominated, is expected to be $0.15 per kWh, which compares favourably with $0.190.23 per kWh, the incremental cost of furnace oil or diesel- based power generation.

Financed on a 75/25 debt to equity ratio, the total combined cost of the projects is $270 million ($135 million total project cost for each project, with $111 million total EPC costs for each). The $204 million of dollar equivalent debt for the projects, comprising both dollar- and rupee- denominated facilities, features two Islamic structures an ijarah (lease) and a musharaka tranche (a partnership structure with profit-sharing elements).

The musharaka, denominated in rupees, was lead arranged by National Bank of Pakistan with participation from Faysal Bank, United Bank, Allied Bank and Meezan Bank (also shariah advisor) and comprises around one-third of the debt.

Under the ijarah, which is dollar- denominated, the IDB will advance money to each project company during construction for developing and procuring certain project assets. During operations, each project company will pay rent to IDB for the use of those assets with the amount equivalent to principal plus interest payments under a conventional loan.

ADBs partial credit guarantee will cover any non-payment by the project company to IDB, which includes initial disbursements by IDB, plus rental payments and other additional associated costs. ADBs guarantee will cover half of the amount of IDBs financing to the project company. On the remainder, IDB will take full project risk. Both partial credit guarantees have a tenor of 12 years and match the tenor of the IDB financing.

The dollar debt is priced at 460bp over six- month Libor and the rupee debt at 295bp over six-month Kibor. In a renewables regime unique to Pakistan the cost of the debt is passed through to the tariff, which fluctuates in line with any changes in the currency exchange rate and six-month interbank rates. The tariff system also offers the sponsors a guaranteed return on investment of 17%, as long as the plant performs as expected, with the Pakistan government providing a wind risk guarantee.

Future similar deals in Pakistan are a certainty. As the wind regime stands the only substantial risk for developers and lenders is Pakistan government risk something local developers and lenders are comfortable with. And with around 30GW of capacity in Pakistans southern wind corridor, high oil prices and another five 50MW wind projects looking to reach financial close this year (albeit largely with multilateral or Chinese bank debt), a broadening of the lending base for Pakistan wind is very timely.

Foundation Wind Energy I and II
STATUS; Financial close 22 May 2012
DESCRIPTION: Islamic financing for development of two 50MW wind farms in Pakistan
SPONSORS: Fauji Foundation, Topal Group, Islamic Infrastructure Fund
MULTILATERAL LENDERS: Asian Development Bank; Islamic Development Bank
DOMESTIC LENDERS: National Bank of Pakistan; Faysal Bank, United Bank, Allied bank Meezan Bank
SHARIAH ADVISOR: Meezan Bank
LENDER LEGAL COUNSEL: Shearman & Sterling (international); Haidermota & Co (local)
BORROWER LEGAL COUNSEL: Orr Dignam & Co
LENDERS TECHNICAL ADVISER :Sgurr Energy
BORROWER FINANCIAL ADVISER: Bridgefactor