African Power Deal of the Year 2012: Jorf Lasfar

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At a time when political instability hit several countries in North Africa and commercial lending in the Eurozone was contracting, Abu Dhabi National Energy Company (TAQA) successfully assembled a 16-year $1.4 billion multi-currency financing for the expansion of its Jorf Lasfar imported coal-fired power plant in Morocco. The deal used a combination of Moroccan and European banks, and Japanese and Korean ECAs both firsts for the Moroccan market. The multi-tranche non-recourse expansion funding is the largest international project financing in the country for over a decade.

The sponsor signed the financing documents on 20 June 2012, and the deal is set to meet its conditions precedent and close in late January 2013. The project expands the gross capacity of the Jorf Lasfar power station by 700MW to 2,056MW and includes upgrades to existing coal unloading terminal and handling facilities at the port of Jorf Lasfar. Financing for units 5 & 6 comes 15 years after units 1-4 project reached financial close in 1997.

Although units 5 & 6 will be built alongside TAQAs existing Jorf Lasfar Energy Company (JLEC) power plant, and have the same offtaker, the project company for the expansion is a newly formed subsidiary, Jorf Lasfar Energy Company 5 & 6 (JLEC 5&6), which has a separate power purchase agreement with state utility ONEE (Office National de lElectricite et de lEau Potable). TAQA North Africa will operate and maintain units 5 & 6 and the shared facilities, as it does on JLEC Units 1-4. TAQA has committed about $400 million of equity for the Units 5 & 6 project, with the lenders financing 75% of the total project costs.

The Japan Bank for International Cooperation (JBIC) and Nippon Export and Investment Insurance (NEXI) provided a package that consisted of a $216 million direct buyers credit loan from JBIC and a Eu115.2 million ($144 million) NEXI-covered debt facility to be funded in equal proportion by the three European mandated lead arrangers (MLAs) on the deal, BNP Paribas (BNP), Societe Generale (SG) and Standard Chartered Bank (SCB). The Export-Import Bank of Korea (KEXIM) is providing a Eu156 million direct loan, with another Eu104 million KEXIM-guaranteed facility being funded equally by BNP, SG and SCB.

Along with the two covered ECA facilities, the three European banks are collectively providing Eu81 million of uncovered term debt, including a Eu51 million standby facility. The deal also features Dh5.45 billion ($606.5 million) of debt facilities denominated in Moroccan dirhams, arranged by the Moroccan MLA, Banque Centrale Populaire (BCP). BNP and SG also participated in the local currency facilities through their respective Moroccan affiliates, Banque Marocaine pour le Commerce et lIndustrie (BMCI) and Societe Generale Morocaine de Banques (SGMB), with BCP committing Dh4.2 billion of the total.

The Dirham loan facilities consist of a Dh4.5 billion term loan, a shorter Dh700 million VAT facility, and a Dh250 million working capital facility. Interest rate swaps for both Libor and Euribor, along with Euro/Dollar currency swaps, are being split equally between the three European banks, while BCP is providing Dirham currency swaps.

TAQA began construction of the new units in September 2010, financing the work on-balance-sheet before financial close. TAQA and ONEE signed a protocol agreement for an accelerated expansion for the existing plant in May 2009, after the government made the project an urgent priority.

Electricity demand in Morocco has more than doubled over the past decade, as ONEEs rural electrification program has increased the proportion of the population with access to electricity to nearly 100%. Jorf Lasfar is the largest power plant in the country, and was always meant to feature additional units, so government decided that an expansion to its capacity was the quickest way to boost national power supplies.

Jorf Lasfar Energy Company 5 & 6 SA
STATUS
Signed 20 June 2012
SIZE
$1.6 billion
LOCATION
Jorf Lasfar, Morocco
DESCRIPTION
700MW expansion of the coal-fired Jorf Lasfar power station
SPONSOR
Abu Dhabi National Energy Company PJSC (TAQA)
BORROWER
Jorf Lasfar Energy Company 5 & 6
DEBT
$1.4 billion equivalent (Eu456.2 million + $216.0 million + DH5.45 billion)
MANDATED LEAD ARRANGERS
Banque Centrale Populaire, BNP Paribas, Societe Generale, Standard Chartered Bank
ECAS
JBIC, NEXI and KEXIM
LEGAL ADVISERS TO THE LENDERS
Linklaters (international)
Kettani Law Firm (local)
LEGAL ADVISER TO THE SPONSOR
Allen & Overy
SPONSOR FINANCIAL ADVISER
BNP Paribas
EPC CONTRACTORS
Mitsui, Daewoo Engineering & Construction

Majid Iraqui, the chief executive of JLEC 5&6, JLEC, and TAQA North Africa, remarked: The Jorf Lasfar power station is a key part of Moroccos national economic infrastructure, with JLEC generating approximately 40% of Moroccos national electricity production. Units 5 & 6 will increase Moroccos installed power generation capacity by approximately 10%.

The sponsor launched a request for financing proposals in July 2011, and despite a very strong response from the bank market, TAQA chose to put together a small bank club to avoid lengthy negotiations. Complicating the RFP was that years Eurozone volatility, and the Arab Spring uprisings across northern Africa in 2011, which sparked concerns over regional political risk.

Many banks that it invited to submit offers suffered ratings downgrades in 2011, including MLAs SG and BNP, which experienced downgrades in 2011 and 2012. According to TAQA, this did not have an effect on the financing process and final terms. The deals pricing is understood to be very competitive for the region.

David OHanian, TAQAs director of global power initiatives and business development, commented: TAQA was successful in arranging such a landmark financing, despite very challenging financial market conditions and a complex project structure, due to the exceptional performance of the existing Units 1-4, TAQAs strategic relationships with the Japanese and Korean ECAs and Moroccan and European commercial banks, and a recognition by all parties involved of the national importance to Morocco of the successful implementation of the project and its financing.