Latin American Upstream Oil & Gas Deal of the Year 2012: SBM Baleia Azul

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The financing for SBMs Cidade de Anchieta was the first time that bond investors had been asked to finance a floating production storage and offloading vessel. The deal is a long-overdue chance to match the stable and predictable cashflows that operators typically enjoy to the needs of bond investors.

FPSO operators are highly dependent on revenues from charters with a small number of national and international oil companies operating in unconventional locations. Operators do not have enormous leverage over their customers, and financings for FPSOs tend to be highly derivative of the credit of their charter agreement.

Banks have precious few other opportunities to gain exposure to cash-rich oil majors, and tend to jealously guard the business of financing FPSOs accordingly. But recent issues for drill-ships under charter to Brazils national oil company Petrobras highlighted bond market enthusiasm for oil services assets.

SBM, a Dutch-headquartered specialist operator, chose one of its older vessels as a candidate for its first bond financing. The hull of the Cidade de Anchieta dates back to the 1970s, its existence as an FPSO to 1985, and its work for Petrobras to 1999, when it was known as the FPSO Espadarte.

The vessels last charter was for use at Petrobras Espadarte field, and after the end of that charter, SBM reconfigured it for use at Petrobras Baleia Azul field, 120km off Brazils coast in 370m depth of water. The charter, which started in September 2012, after the ship arrived at the field in June 2012, lasts for 18 years. Keppel performed both conversions at its shipyard in Singapore.

SBM decided that the first financing for an FPSO would take place in the US private placement market rather than the slightly deeper 144A, which might have offered pricing benefits but would have required a much more intensive investor education effort.

It mandated long-standing FPSO lender BTMU to lead the financing, joined by Rabobank, which had recently hired a private placement group in London and has been looking to increase its presence in offshore oil services, ABM Amro, a relationship lender that relied upon TD Securities to distribute its share of the financing in the US, all as placement agents, and Mizuho as co-placement agent.

While the financing is highly derivative of the credit of Petrobras, bondholders will be exposed to availability risk, and so had to get comfortable with the track record of the operator. Given SBM's 16-year history in Brazil and the robust performance of SBMs fleet, including a 99% uptime rate for the Espadarte chapter, the underwriters could tell a convincing story to potential investors about operational risk.

The bonds are designed to amortise completely before the end of the charter because at the end of the 18-year term the vessel will have no residual value and will be scrapped. The vessel will also have little value in the event that its charter is terminated, because an FPSO and its topside equipment are designed for use at a specific field.

The bespoke nature of FPSOs is what gives the oil companies that charter them such enormous leverage over operators. Bondholders can take comfort in the vast amounts of equipment that Petrobras will require to exploit its pre-salt deposits, and the depositing of charter revenues in an account pledged to them. Lenders also benefit from a pledge of shares, and a mortgage over the vessel.

The $500 million 15-year bond issue priced for a coupon of 5.5% before the vessel was even accepted by Petrobras, necessitating a slight pause between pricing and close. Complementing the bonds is a $250 million sponsor subordinated loan from SBM. The bonds received ratings of Baa2 from Moodys and BBB from Fitch, with the triple-B flat rating suggesting that agencies are comfortable with FPSOs operational risk.

Investors in the issue could point to recent bond financings for Odebrecht- and Quieroz Galvao-sponsored drill ships as comparables. Those bonds, which featured some minimal remaining construction risk at issue, often tightened considerably relative to Petrobras corporate debt financing, offering some opportunities to arbitrage-focused investors.

The next challenge for the bookrunners to market a more widely-distributed bond financing for operational FPSOs. Banks certainly have enough in the way of exposure on their books, and were, until 2008, comfortable financing vessels at double-digit margins. Sponsors like SBM are not alone in adjusting to new pricing realities, but bonds now offer a very credible alternative to pricier bank financing.

SBM Baleia Azul Sarl
STATUS
Closed 31 October 2012
SIZE
$750 million
DESCRIPTION
Acquisition and conversion of FPSO under charter to Petrobras
SPONSOR
SBM Offshore
SUBORDINATED SPONSOR DEBT
$250 million
SENIOR DEBT
$500 million bond issue
PLACEMENT AGENTS
Mitsubishi UFJ, Mizuho, Rabobank and ABN/TD
MATURITY
2027
COUPON
5.5%
MARKET CONSULTANT
Kennedy Marr
TECHNICAL DUE DILIGENCE
Okeanos
INVESTORS INSURANCE ADVISER
AON Benfield
SPONSOR LEGAL COUNSEL
Milbank
INVESTORS LEGAL COUNSEL
Linklaters (international); Souza, Cescon, Barrieu & Flesch (Brazilian)