African Midstream Oil & Gas Deal of the Year 2013: Accugas II

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Investment in Nigerian energy infrastructure is picking up, and one of the countrys first movers in raising project financing came back to market in 2013. Accugas, the gas infrastructure subsidiary of Seven Energy, replaced a June 2010 debt financing of $65 million, which featured very low leverage, with a new $225 million loan.

The new deal, which closed on 27 March 2013, funds an expansion to a gas processing facility and 65km pipeline running through south-west Nigeria. The new facilities include a 40km additional pipeline and second train at the processing plant. The new pipeline will serve the Calabar NIPP power plant in Cross Rivers State in the south-east of the country.

The credits that underlie the financing are two gas sales agreements. The first phase benefited from a 10-year take or pay contract covering the supply of 43.5 million cubic feet per day (cfpd) to the 180MW Ibom power project at $2 per 1,000 cubic feet. The second phase involves a 20-year agreement with Nigeria Delta Powers Calabar Electricity Generation Company for 131 million cfpd (105 million cfpd of that take-or-pay) at $2.65 per 1,000 cfpd.

The pipeline helps Frontier Oil and GoGE, the operators of the Uquo field, monetise their reserves and helps Nigeria develop a domestic gas-fired power sector, after a decade of false starts. It also brings Seven Energy closer to becoming an established, indigenous-owned corporate.

The deals still features very low leverage the $255 million debt financing compares to an overall project cost for the first two Accugas phases of $728 million. Seven met the remainder of the cost with a combination of equity and government contributions.

But the first phase financing featured just two banks Stanbic IBTC and UBA as lead arrangers. The second phase financing featured Stanbic IBTC (documentation, technical and facility agent), FBN Capital (global coordinator, modelling and technical bank), UBA (collateral agent), and First City Monument Bank.

The size of the deal pales next to financings for upstream oil & gas and telecoms operators. But borrowers like Accugas offer lenders exposure to a much more stable revenue stream.

And lenders benefit from additional risk mitigation features. These include a World Bank partial guarantee on the offtakers obligations, a gas sales agreement proceeds deposit account, and a revenue support guarantee from the sponsor. Given this suite of enhancements, Seven will hope in time that Accugas is able to achieve higher leverage and a more standalone credit profile.

Mid- and downstream opportunities for lenders in Nigeria are increasing. Banks still exhibit a

Accugas Ltd

Status

Closed 27 March 2013

Size

$728 million

Description

Refinancing and expansion of 65km pipeline in south-west Nigeria

Equity

$434 million

Sponsor

Seven Energy

Debt

$225 million

Lead arrangers

Stanbic IBTC (account and technical bank); FBN Capital (account bank); UBA (account bank); First City Monument Bank (account and technical bank)

Sponsor legal counsel

SNR Denton (international); Udo Udoma & Belo-Osagie (local)

Lender legal counsel

Clifford Chance (international); Aluko & Oyebode (local)

Market and technical consultant

Royal Haskoning

Owners engineer and project manager

Petrofac

EPC contractor

Oilserve

Operations and maintenance contractor

Frontier Oil

Insurance adviser

marked preference for credits with market risk. In the hydrocarbons sector, Indorama attracted six commercial lenders, as well as a larger number of development finance banks, into its $800 million debt financing for its Eleme fertiliser project, which sells its output at market rates. But that project benefited from considerable sponsor support.

Marsh

Solid midstream projects should start attracting larger bank groups, so long as local lenders get more comfortable with counterparty risk. Most of the scrutiny of the risk mitigation measures that the Nigerian government and World Bank have been developing has been on their impact on power financing. The Accugas financing shows that associated infrastructure will also benefit from these enhancements.

The first phase pipeline is complete, and is in the process of starting deliveries of gas to the Akwa Ibom power plant. Accugas expects the second pipeline to be completed by July 2014.