Middle Eastern Transport Deal of the Year 2013: Etihad Rail

06/03/2014

Governments across the Middle East have stepped up construction and expansion activity in the rail sector. Improved transport networks will be key to allowing these governments to reduce their dependence on oil exports. International sponsors and lenders are working closely with these governments to expand freight and passenger rail capacities.

The United Arab Emirates is currently procuring in phases an $11 billion new rail network. It will connect the main natural resources hubs of the United Arab Emirates and eventually extend to other Gulf Cooperation Council countries as well. Abu Dhabis state-run railway developer and operator Etihad Rail signed an initial $1.28 billion financing for the first phase in January 2013.

This first phase comprises 264km of track from Shah and Habshan to Ruwais in the UAE. The rail line will be used to transport granulated sulphur from Abu Dhabi National Oil Company s oil and gas fields in Shah and Habshan to Ruwais, from where it will be exported.

In phase two it will extend through Abu Dhabis western region, and connect with the UAEs other emirates. It will also in later phases connect UAE to Oman and Saudi Arabia, forming part of the wider 2177km GCC railway.

Construction on the first phase is already underway, and procurement for the other two phases will follow in the near future. Once completed, a joint venture between Etihad Rail and German state-owned rail company Deutsche Bahn will take-over operation and maintenance of the railway.

The procurement timetable for Etihad Rails first phase suffered from the political uncertainty that hit the wider Middle-East region in 2010. So while the tender came to market in early 2010, the projects financing only launched two years after that.

Etihad Rails financing structure is more akin to a corporate finance deal. That choice was unsurprising, since the majority of Gulf infrastructure projects outside the energy sector come with hefty government support. In this instance, the project benefited from a guarantee from a cash-rich government owned entity rather than a direct sovereign wrap.

Etihad Rail Company PJSC

Status
Closed 8 January 2013
Size
US$1.28 billion
Description
266km first phase of a UAE rail network,
carrying sulphur from
Sponsors
Governments of Abu Dhabi and UAE federal government
Debt
US$1,280 million
Mandated Lead Arrangers
Bank of Tokyo-Mitsubishi UFJ, National Bank of Abu Dhabi, Abu Dhabi Commercial Bank, HSBC
Financial adviser to Borrower
UBS
Borrower legal counsel
Allen & Overy
Lender legal counsel
Clifford Chance
ADNOC legal counsel
Al Tamimi
Project Management
Parsons and Aecom
Engineering services consultant
Atkins

Abu Dhabi National Oil Company (ADNOC) provides a guarantee that gives it step-in rights, and is effectively the first phases offtaker, as producer of the export-bound sulphur.. The ADNOC wrap made the deals credit profile much more benign. The four banks may also look at financing the other phases of the project, though those may have a different risk profile.

Financing for the first phase took the form of a $1.28 billion 5-year term loan from four banks Abu Dhabi Commercial Bank, HSBC, Bank of Tokyo-Mitsubishi UFJ and National Bank of Abu Dhabi, the last of which was facility agent.

A private sector consortium of Saipem, Tecnimont and Dosal Engineering holds the civil and track works contract, while Electro-motive Diesel is providing seven locomotives custom-built for desert conditions, CSR corporation is supplying 240 covered hopper wagons, and PCL Strescon is supplying sleepers for stage one.

Stage two of the project will connect Mussafah, Khalifa and Jebel Ali Ports and extend to the UAEs borders with Saudi Arabia and Oman. Subsequent phases of Etihad Rail will link the remaining regions of the UAE to a wider GCC railway network. The eventual 2,177km of track will run through UAE to Saudi Arabia from Ghweifat City in the west and connect to Oman through Al Ain in the east.

While the project largely focusses on shifting freight transportation from road to rail, future plans include adding passenger rail capacity as well and other Middle Eastern countries will watch that progress closely.