

Greater EQUATE - Kuwait's largest project financing

Ben Cobley

24/07/2006

Greater EQUATE is the largest project financing in Kuwaiti history, having attracted US\$2.5 billion for a US\$3 billion petrochemicals project to expand the existing EQUATE complex at Shuaiba Industrial City.

The project will include an expansion of the existing polyethylene plant by 223,000 tonnes a year (0.223mtpa), plus the construction of a new 0.85mtpa ethane cracker, a 0.6mtpa ethylene glycol plant, a 0.5mtpa ethyl-benzene unit and a 0.45mtpa styrene monomer unit.

It is being carried out by three project companies with slightly differing shareholdings, led by the EQUATE Petrochemical Company (which manages the existing facility).

The project financing raised a total of US\$2.5 billion from 33 MLAs and was substantially oversubscribed due to the confidence engendered by the success of the original EQUATE financing in 1996, the strength of the lead sponsors and the predominately brownfield nature of the development.

The parties

Greater EQUATE is being undertaken by three project companies led by the EQUATE Petrochemical Company, which is a joint venture between the following companies:

- Union Carbide - a subsidiary of Dow Chemical (42.5 per cent)
- The Petrochemical Industries Company (PIC) - a subsidiary of state-owned The Kuwait Petroleum Corporation - (42.5 per cent)
- The Boubyan Petrochemical Company (BPC - 9 per cent)
- The Qurain Petrochemical Industries Company (QPIC)- previously subject to an IPO in Kuwait (6 per cent)

EQUATE is managing the overall project and is implementing the polyethylene expansion project and the utilities and infrastructure expansion project.

The two other project companies are:

- The Kuwait Olefins Company (TKOC), which will implement the Olefins II project
- The Kuwait Styrene Company (TKSC), which will manage the styrene project.

TKOC's shareholders are the same as those in EQUATE: Dow (42.5 per cent); PIC (42.5 per cent); BPC (9 per cent) and QPIC (6 per cent).

TKSC's shareholders are: Dow (42.5 per cent) and a company named KARO (57.5 per cent), which is 80 per cent-owned

by PIC and 20 per cent by QPIC. KARO is also developing an aromatics project at Shuaiba.

A Société Générale team led by Olivier Musset provided financial advice to the sponsors. Meanwhile an Ashurst team led by Huw Thomas advised PIC on the deal. Cleary Gottlieb advised Dow, Linklaters the project companies (with Fiona Hobbs in the lead role) and Norton Rose (led by John Inglis) was appointed by the sponsors to represent the lenders.

Fluor and Technip Italy are the EPC contractors.

The financing

The estimated total cost of Greater EQUATE is estimated at around US\$3 billion, so the US\$2.5 billion 14-year term loan - in a single commercial tranche - should fund around 80 per cent of the costs.

Complications relating to the different project companies were overcome in quite a straightforward fashion, as Ashurst partner Huw Thomas explains:

'The fact that you have a series of project companies that are separate legal entities means there is a danger that you could get bogged down arguing over the allocation of liability, indemnities and such like in the relatively large number of project arrangements that need to be put in place. In fact, because of the pragmatic approach of the sponsors and, helped by the fact that there was a single project financing, this process was well controlled and relatively painless.'

With the banks obviously extremely keen, the financing process went smoothly and was completed roughly to timetable, with pricing predictably tight at LIBOR plus 50bp, rising to 70bp.

33 MLAs participated overall, as follows:

- ABN AMRO
- Arab Bank
- Arab Banking Corporation
- Arab Petroleum Investments Corporation
- Banca Intesa
- Banca Nazionale del Lavoro
- BBVA
- Banco Santander Central Hispano
- Bank of Tokyo-Mitsubishi
- Bayerische Landesbank
- BNP Paribas
- Calyon
- Citibank
- DZ Bank
- Deutsche Zentral-Genossenschaftsbank
- Export Development Canada
- Gulf International Bank
- HSBC
- Hypo Public Finance Bank
- ING
- KfW
- Mashreqbank
- Mizuho
- Natexis
- National Bank of Greece
- National Bank of Kuwait (facility agent)
- Qatar National Bank

- RBS
- Sanpaolo IMI
- Société Générale
- Standard Chartered
- SMBC (documentation bank)
- WestLB

EQUATE is the borrower for the facilities and will on-lend the funds necessary for the financing of TKOC's and TKSC's projects. In this way, TKOC and TKSC can benefit from the cash flows provided via EQUATE's existing petrochemicals complex

Also, several guarantees have been given to the banks by TKOC and TKSC, guaranteeing the repayment of the outstanding amount of any money received by them from EQUATE under the relevant on-loan agreement.

Conclusion

Despite being the largest project financing in Kuwaiti history, Greater EQUATE was a relatively straightforward deal to get through. Despite relative turmoil in the political system in the country at the moment, it has also led to high hopes that there will be plenty more projects to follow - including IPPs and an aromatics project affiliated to EQUATE.

Project table

Project Name	Greater EQUATE
Location	Shuaiba Industrial Area Kuwait
Description	The expansion of the existing EQUATE polyethylene plant by 223,000 tonnes per year, plus the construction of a new 0.85mtpa ethane cracker, a 0.6mtpa ethylene glycol plant, a 0.5mtpa ethyl-benzene unit and a 0.45mtpa styrene monomer unit.
Sponsors	See text
Operator	EQUATE Petrochemical Company
Project Duration (Including construction)	14 years
Total Project Value	approx. US\$3 billion
Total equity	approx. US\$500 million
Total debt	US\$2.5 billion
Debt pricing	LIBOR + 50bp to completion LIBOR + 70bp
Debt:equity ratio	Approx: 80:20

Mandated lead arrangers	ABN AMRO Arab Bank Arab Banking Corporation Arab Petroleum Investments Corporation Banca Intesa Banca Nazionale del Lavoro BBVA Banco Santander Central Hispano Bank of Tokyo-Mitsubishi Bayerische Landesbank BNP Paribas Calyon Citibank DZ Bank Deutsche Zentral-Genossenschaftsbank Export Development Canada Gulf International Bank HSBC Hypo Public Finance Bank ING KfW Mashreqbank Mizuho Natexis National Bank of Greece National Bank of Kuwait (facility agent) Qatar National Bank RBS Sanpaolo Société Générale Standard Chartered SMBC (documentation bank) WestLB
Legal Advisers to sponsors	Ashurst (PIC) Cleary Gottlieb (Dow Chemical) Linklaters (project companies)
Legal adviser to banks	Norton Rose
Financial Adviser to sponsor	Société Générale
Date of financial close	14/6/06

Thank you for printing this article from IJGlobal.

As the leading online publication serving the infrastructure investment market, IJGlobal is read daily by decision-makers within investment banks, international law firms, advisory firms, institutional investors and governments.

If you have been given this article by a subscriber, you can contact us through www.ijglobal.com/sign-in, or call our London office on +44 (0)20 7779 8870 to discuss our subscription options.