Qatargas 4: Qatar completes US$30bn LNG series

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Qatargas 4 is the last of the Qatar's massive Qatargas series of integrated gas and LNG development projects worth a total of US$30 billion. With the US$6 billion project, the tiny Arab state has reaches the conclusion of its highly-successful LNG programme, which also includes the equally giant RasGas series of projects

The project financing documents for QG4 as it is known were signed on 26 July, and first drawdown on the US$4.2 billion deal followed on 3 August. A general syndication for the US$2.8 billion commercial debt component will follow in September.

The project and sponsors

As with the other Qatargas and RasGas projects (at least at their inception), Qatar Petroleum (QP) has a 70 per cent stake in QG4 alongside one of the world 'super-majors' - in this case Royal Dutch Shell.

The project will produce 7.8 million tonnes of LNG per year from a joint share of two giant LNG liquefaction trains currently under construction at Ras Laffan Industrial City in Qatar. The other half of production will be owned by Qatargas 3, which is owned by QP, ConocoPhillips and Mitsui, and achieved its own financial close (involving US$4 billion of debt) in December 2005.

Like the previous Qatargas projects, QG4 includes upstream development in Qatar's North Field as well as liquefaction. When complete, it will bring the total production capacity on the Qatargas plot of land at Ras Laffan to 40.8 million tonnes per year.

It is the first of Qatar's LNG projects to involve Shell as a sponsor, following ExxonMobil's role in the RasGas series plus 15.6 million tonne per year Qatargas II (worth US$8.5 billion) and ConocoPhillips' lead position on QG3.

The financing package had been due to close by the end of 2006, but was delayed as QP and Shell examined their options for offtake of LNG volumes from the project. Along this road, they signed a heads of agreement with Marubeni for 1 million tonnes a year of offtake volumes, with provision for the Japanese trading house to take a small equity stake along the lines of that which Mitsui took on QG3.

As it happened though, in early July Shell signed a sales and purchase agreement (SPA) taking of the QG4 LNG - indicating that the bulk of it would go to El Paso's Elba Island terminal near Savannah in the eastern US state of Georgia. The agreement does however incorporate important provisions on 'optionality', whereby Shell can decide to divert shipments elsewhere if it can secure higher prices.

The financing

As a result of Shell's deliberations on its offtake options, a financing package that had been basically ready and waiting to close since well before Christmas was delayed and delayed, requiring the 30 lead arrangers that had been mandated to extend their financing commitments until 31 July this year.

The financing package as envisaged was also changed. A US$1.3 billion bond financing element included in the initial request for proposals (RFP) issued by project financial adviser RBS in July last year was dropped for the time being in favour of the commercial banks taking on a full US$2.8 billion of debt, with general syndication to follow.

So, for signing on 26 July and first draw down on 3 August, the final financing structure was as follows:

- US$2.8 billion commercial bank loan
- US$1.2 billion sponsor loan from Shell
- US$225 million in letters of credit

With or without the bond the deal follows the successful formula used by QP in QG II and QG3 plus other recent deals it has been involved in.

Covenants on the financing are said to have been very light given that there was always the possibility of a bond'. However the provision of sponsor loan guarantees made commercial debt pricing about as tight as can be, starting at LIBOR plus 30bp pre-completion and rising to 60bp by the end of the 15 and a half year term.

The banking group consisted of the now-customary Qatari club, with 30 banks in on the MLA level - including Europe Arab Bank, which came after the Intesa Sanpaolo merger. For the full list, see table below.

Calyon acted as the documentation bank, facility agent and intercreditor agent. Citigroup is the security trustee and account bank.

Syndication will follow in September, led by the following banks:

- Apicorp (regional bookrunner)
- Barclays Capital (international bookrunner)
- Qatar National Bank (QNB - regional bookrunner)
- RBS (international bookrunner)

RBS was financial adviser on the deal, as it was to QP and Exxon on QG II and RasGas II/3.

On the legal side, White & Case represented the sponsors, led by its London Energy, Infrastructure, Project and Asset Finance practice head Philip Stopford, alongside fellow partners David Baker and Craig Nethercott.

Skadden Arps represented the lenders.

Conclusions

Qatargas 4's project financing marks the culmination and conclusion (for the time being) of Qatar's highly successful financing programme for development of its North Field gas resources for export to markets in Europe, Asia and the United States.

White & Case's Philip Stopford says: 'The Qatargas series has really pushed back the boundaries of LNG financings, not just in terms of the scale of the four deals, but also in terms of their complexity and innovation. Qatargas II was the largest-ever energy financing in its own right and also the first LNG project to be funded right through the LNG chain; Qatargas 3 was the first LNG financing based entirely on sales to the US alone.'

The project at a glance

Project Name	Qatargas 4

Location	Ras Laffan Industrial City and the North Field, Qatar
Description	An integrated project to produce 1.4 billion cubic feet of gas per day and 7.8 million tonnes of LNG per year for export primarily to the Elba Island terminal in the south eastern US state of Georgia
Sponsors	Qatar Petroleum (QP): 70 per cent Royal Dutch Shell: 30 per cent
Operator	Qatar Liquefied Gas Company Limited (4)
EPC Contractor	Technip/Chiyoda
Project Duration (Including construction)	15.5 years
Construction Stage	2.5-3 years
Gas sale and purchase agreement	Royal Dutch Shell (7.8 million tonnes of LNG per year)
Total Project Value	US$6 billion
Total equity	US$1.8 billion
Equity Breakdown	QP: US$1.26 billion Shell: US$540 million
Total senior debt	US$4.2 billion
Senior debt breakdown	US$2.8 billion commercial bank loan US$1.2 billion sponsor loan from Shell US$225 million letters of credit
Commercial debt pricing (guaranteed by sponsors)	Pre-completion: LIBOR plus 30bp Years 4-7: LIBOR plus 50bp Years 8-12: LIBOR plus 55bp Years 13-15.5: LIBOR plus 60bp
Debt:equity ratio	70:30
Mandated lead arrangers	Arab Banking Corporation Apicorp (regional bookrunner) Banco Santander Bank of Tokyo Mitsubishi UFJ Barclays Capital (international bookrunner) Bayerische Landesbank BBVA BNP Paribas Caja Madrid Calyon (documentation bank, facility agent and intercreditor agent) Citigroup (security trustee and accounts bank) Commercial Bank of Qatar Dexia DnB NOR Europe Arab Bank Export Development Canada (EDC) Fortis HVB Intesa Sanpaolo KfW Lehman Brothers Lloyds TSB Mizuho Natixis QNB (regional bookrunner) Société Générale Standard Chartered SMBC RBS (international bookrunner) WestLB
Legal Adviser to sponsor	White & Case
Financial Adviser to sponsor	RBS
Legal adviser to banks	Skadden Arps
Date of financial close	3 August 2007