

# YahSat Advanced Satellite Communications PPP

---

**Robert Lovell**

**16/02/2009**

The Middle East's first hybrid government and commercial satellite system, YahSat, successfully closed in the second half of 2008 and stands as an innovative project that achieved many firsts in the region.

Financed on a limited-recourse basis, the private joint stock company fully-owned by Mubadala Development Company (the investment arm of the Government of Abu Dhabi) was incorporated in 2007 and secured finance from a group of 14 international and domestic banks in a challenging market.

## The Project

The Al Yah Satellite Communications Company PJSC (YahSat) is the United Arab Emirates' (UAE) first nationally-owned satellite operator and is a wholly-owned subsidiary of Mubadala.

The project involves the development, launch and operation of secure satellite communications services to the UAE Armed Forces and commercial applications. It is understood that 60 per cent of the capacity will be used for government/military use.

The satellite system includes the establishment, operation and maintenance of two geostationary satellites, ground control stations and military ground terminals.

In May 2007 the UAE selected as preferred bidder a consortium including:

- EADS Astrium
- Thales
- Alenia Space

In August 2007, Yahsat gave the go-ahead for the consortium to construct its hybrid satellites system. The entire manufacturing stage will take place in Europe and will take 36 months to be completed.

In January 2008, Yahsat signed a letter of intent with Arianespace to launch the Yahsat 1A communications satellite. Mubadala then partnered with Arianespace and International Launch Services (ILS) to launch the first two satellites on a Proton Breeze M vehicle.

The first satellite, Yahsat 1A, will be launched in Q4 2010 at 52.5° East. Yahsat 1B will follow in H1 2011. The satellite control will be operated from its gateway in Abu Dhabi.

It will be integrated with the UAE Armed Forces' legacy communications systems and is expected to become a significant

part of the defence system in the UAE. It also has the potential to serve other countries in the Gulf region.

Despite the fact that the satellites will be fitted with communications capacity for commercial purposes, the limited-recourse financing is raised solely on the basis of revenues payable by the UAE Armed Forces under the capacity services contract and is ring-fenced from the commercial business.

#### Innovative Features

The YahSat project is the first limited-recourse satellite project finance in the Middle East and is the first ever limited-recourse satellite financing in the GCC (Gulf Co-operation Council) region.

It is also the first greenfield defence satellite project financed on a limited-recourse basis since [Skynet V](#) in the UK - originally financed in 2003. Paradigm Secure Communications - a subsidiary of EADS - reached financial close on the £2.5 billion Skynet V PFI contract with the UK's MoD. The project went onto win [Deal of Year](#) at IJ's 2003 Awards Dinner.

YahSat is among the largest comparable transactions in the Middle East in 2008 and includes US\$1.2 billion debt provided on a limited-recourse basis - without any completion guarantee - exclusively through the commercial bank market.

The transaction structure also delivers on one of the key objectives of Mubadala and YahSat - that is innovatively preserving the operational and financial flexibility of the commercial business by ring fencing it from the borrower and the limited-recourse financing.

Satellite insurance is also highly specialised and launching the satellites represents a very specific risk. Therefore, while the military aspect of the project meant that some of the risk was covered by the UAE Armed Forces, getting the right insurance was key to making the deal happen. The insurers - Willis as broker to the sponsor and Marsh advising the banks - had sector experience, having both worked on the UK's Skynet deal in 2003. Despite this, a particularly high level of due diligence was still required.

#### Financing

Mubadala and YahSat raised the required financing and entered into a long-term capacity services contract with the UAE Armed Forces for the delivery of dedicated secure communications capacity.

YahSat secured and maintained a group of 14 banks on a take-and-hold basis in a tight financing environment. Signing of the commitment letter took place during summer 2008 and signing of the finance documents occurred on 9 September 2008.

The total project cost is US\$1.894 billion and the overall cost of the satellite system is expected to be as much as US\$2.5 billion.

The total senior debt is US\$1.2 billion with equity of US\$245 million (equity and subordinated shareholder loans) in respect of the project financed by the lenders.

The US\$1.2 billion senior debt breakdown is as follows:

- **term loan** tranche - US\$1.02 billion - maturity of 14 years, due in June 2022
- **debt service reserve facility** tranche - US\$80 million - maturity of 14 years
- **standby facility** tranche - US\$100 million - maturity of 14 years

Mubadala provided 100 per cent of the US\$245 million equity.

The project also includes an additional US\$449 million (equity and subordinated shareholder loans) in respect of the ring-

fenced commercial business.

The banks are:

- Abu Dhabi Commercial Bank
- Bank of Tokyo-Mitsubishi UFJ
- BayernLB
- BNP Paribas
- Calyon
- Export Development Canada
- First Gulf Bank
- HSBC
- ING
- Mizuho
- National Bank of Abu Dhabi
- Natixis
- Société Générale
- Standard Chartered Bank

In the final allocations, the upfront margin on the loan starts at 110bp and increases to 140bp in later years. The initial commitment fee was 50bp.

BNP Paribas acted as financial adviser to the sponsor, Allen & Overy was legal adviser, while Willis provided insurance advice.

Freshfields Bruckhaus Deringer was acting as legal adviser to the lenders, Mott MacDonald was technical adviser, while Marsh provided insurance advice.

Conclusion

As a testament to the strength of the sponsor and business model, YahSat received commitments from international and regional banks in excess of US\$1.6 billion for the US\$1.2 billion financing.

Combining an innovative structure and distinct project features, the YahSat scheme stormed through the financing phase at a troubled time, and will remain one of the most significant deals of the second half of 2008.

The project at a glance

Project name	YahSat Advanced Satellite Communications PPP
Location	Abu Dhabi
Description	The project involves the development, launch and operation of secure satellite communications services to the UAE Armed Forces and commercial applications.
Sponsors	Al Yah Satellite Communications Company PJSC
Contractor	<ul style="list-style-type: none"><li>• EADS Astrium</li><li>• Thales</li><li>• Alenia Space</li></ul>
Project duration	14 years
Construction duration	36 months
Total project value	US\$1.894 billion
Total equity	US\$245 million
Equity Breakdown	100 per cent provided by Mubadala
Total senior debt	US\$1.2 billion

Senior debt breakdown	<ul style="list-style-type: none"><li>• Abu Dhabi Commercial Bank</li><li>• Bank of Tokyo-Mitsubishi UFJ</li><li>• BayernLB</li><li>• BNP Paribas</li><li>• Calyon</li><li>• Export Development Canada</li><li>• First Gulf Bank</li><li>• HSBC</li><li>• ING</li><li>• Mizuho</li><li>• National Bank of Abu Dhabi</li><li>• Natixis</li><li>• Société Générale</li><li>• Standard Chartered Bank</li></ul>
Equity - in respect of the ring-fenced commercial business	US\$449 million
Senior debt pricing	110bp and increases to 140bp in the later years
Debt:equity ratio	83:17
Mandated lead arrangers	<ul style="list-style-type: none"><li>• Abu Dhabi Commercial Bank</li><li>• Bank of Tokyo-Mitsubishi UFJ</li><li>• BayernLB</li><li>• BNP Paribas</li><li>• Calyon</li><li>• Export Development Canada</li><li>• First Gulf Bank</li><li>• HSBC</li><li>• ING</li><li>• Mizuho</li><li>• National Bank of Abu Dhabi</li><li>• Natixis</li><li>• Société Générale</li><li>• Standard Chartered Bank</li></ul>
Legal adviser to sponsor	Allen & Overy
Financial adviser to sponsor	BNP Paribas
Insurance adviser to sponsor	Willis
Legal adviser to banks	Freshfields Bruckhaus Deringer
Technical adviser to banks	Mott MacDonald
Insurance adviser to banks	Marsh
Date of financial close	9 September 2008

*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](http://www.ijglobal.com/sign-in), or call our London office on +44 (0)20 7779 8870 to discuss our subscription options.*