PP11 gas-fired refinancing, Saudi Arabia

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01/04/2016

Saudi Electric Company (SEC) and Engie took advantage of favourable market conditions to refinance almost $1.14 billion of debt for its gas-fired PP11 power plant in Saudi Arabia.

Engie and SEC originally reached financial close on the PP11 project in 2010, raising some $1.55 billion of debt. The refinancing brings down the margin on parts of the project’s debt by as much as 150bp, and slightly lengthens the tenor while paying a special distribution to equity holders.

The amount of step-ups in the debt price were reduced from four to three while the length of the debt tail after the expiry of the project's power purchase agreement (PPA) was trimmed from three to two years.

Thirteen international and local lenders took part in the new facility, which refinances three of the four original tranches, denominated in US dollars and Saudi Riyals. The PP11 refinancing reached financial close in early March 2016, *IJGlobal* revealed at the time, but further details have surfaced since.

The project

PP11 is a 1,730MW combined cycle gas-fired power plant located near Dhuruma, which began commercial operations in March 2013. SEC is offtaking production from PP11 under a 20-year power purchase agreement that runs to March 2033.

The shareholding of PP11’s project company Dhuruma Electricity Company, breakdowns as follows:

- SEC – 50%
- Engie – 20%
- Sojitz – 15%
- Al Jomaih – 15%

Conventional tranche

SEC, Engie and the lenders signed and closed on $1,138.4 billion of 15-year debt on 1 March 2016. The debt refinanced three of the four tranches on PP11 at the time of its original financial close in 2010, one conventional and two Islamic.

The conventional tranche totalled some $507.4 million raised from eight banks, each of which fulfilled a mandated lead arranger role. The tranche including the following lenders and their contributions:

- Mizuho (offshore account back) - $142 million
- SMBC (global facility agent) - $142 million
- Export Development Canada - $65 million
- KfW IPEX - $52.4 million

- SMTB - $50 million
- MUTB - $40 million
- Société Générale (Export-Import Bank facility agent) - $15 million
- Standard Chartered (replacement international facility agent) - $1 million

The conventional tranche is priced at around 100bp over Libor, stepping up to 190bp after seven years and finally to 250bp after 12 years.

Standard Chartered took a sizeable ticket at the time of PP11's financial close, according to a source, but sold most of its debt in the secondary market and reduced its contribution to a much smaller amount. The bank remained on the deal due to a hedge that is in place although several of the banks on the original deal – including Credit Agricole; CIC; and Intesa San Paolo – did not maintain their interests in the refinancing.

Islamic tranches

The Istisna Ijara and Wakala Ijara Islamic tranches are denominated in Saudi Riyals and total $631 million equivalent. The final split between the two Islamic tranches was not disclosed although previous reports suggesting they amounted to $650 million put the split at $400 million and $250 million, respectively.

As in the conventional portion, all of the banks in the Islamic tranches fulfilled a mandated lead arranger role. They included:

- Banque Saudi Fransi (Istisna-Ijara investment agent) - $128.8 million
- Samba Financial Group - $128.8 million
- SABB – HSBC - $128.8 million
- National Commercial Bank (Al Ahli) (Wakala-Ijara Agent) - $122.3 million
- Al Inma Bank - $122.3 million

Pricing on the Islamic tranches was reduced to 135bp over Saibor, stepping up to 210bps at seven years and 250bp at 12 years.

The refinancing maintains its 85% cash-sweep on the three tranches after 10 years of operation – occurring around March 2023. All three tranches also maintain their balloon payments of 20% at maturity.

The fourth tranche – originally a direct loan of $350 million provided by the Export Import Bank of the United States – was not refinanced due to its already competitive pricing, one source said. At the time of the refinancing, the US Exim tranche had around $317 million outstanding with an 11-year tenor remaining. There is no cash sweep on this tranche.

PP11's sponsors had hoped to close the refinancing by the end of last year although it eventually overran into 2016, closing just a fortnight after ratings agency Standard & Poor's downgraded Saudi Arabia's credit rating by two notches to A-.

Advisers

Engie and Clifford Chance advised the sponsors. White & Case advised the lenders.