EMEA IWPP Deal of the Year 2005

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Shuaibah: The shape of deals to come

Saudi Arabia's first IWPP to finance from what will initially be a programme of four IWPP projects, the $2.5 billion 900MW, 880,000 m3/d Shuaibah IWPP has set a range of benchmarks (pricing and risk allocation) for the developing Saudi project market.

The multi-sourced financing comprises a $875 million 20-year commercial uncovered loan – the longest tenor in Saudi to date; a $500 million six-year equity bridge; a $210 million Islamic tranche; a $455 million Kexim loan; a $400 million Hermes guaranteed loan; and a $72 million standby facility and $18 million standby equity bridge for any cost overruns.

Lead arranged by ABN Amro, Saudi Hollandi, Riyad Bank and Arab Bank, with Al Rajhi as lead arranger on the Islamic tranche, the deal came in twice oversubscribed and initial bank takes were scaled back.
The attraction was the 100bp-plus pricing which proved irresistible for banks working in a region where margins have been pressured down to all-time lows. Both the 20-year commercial debt and the $210 million Islamic tranche priced at 120bp over Libor pre-completion, falling to 115bp from completion to year seven, and then rising on a step-up to 170bp. The 17.5-year Hermes tranche priced at a flat 40bp.

The all-in pricing was also sweetened for the Saudi banks – none of which normally lend at project finance flavour margins – with 20bp extra on the fees: 105bp for Saudi banks and 85bp for internationals on the commercial tranche and 20bp on the Hermes tranche.

A number of banks – Arab Banking Corporation, Banque Saudi Fransi, Bayerische Landesbank, KBC Bank, Natexis, HSH Nordbank, NordLB, Samba Financial Group, Saudi British Bank/HSBC, SG, Standard Chartered, SMBC and WestLB – committed to both the conventional and Hermes tranches despite the lower fees on the ECA tranche.

National Commercial Bank and Riyad Bank both joined Al Rajhi in the Islamic tranche with takes of $50 million, $25 million and $135 million respectively. The equity bridge was arranged by Gulf International Bank and Mizuho Corporate Bank.

Shuaibah is the first deal to close from an IWPP programme begun in 2002 that features a number of incentives for developers including reduction of required statutory reserve rate, industrial activities privileges and nominal rents under site leases: the government programme is run via WEC – a limited liability company joint owned by Saline Water Conversion Corporation (SWCC) and Saudi Electricity Company (SEC).

The project is a light crude oil-fired plant located 110km south of Jeddah on the Kingdom's west coast and is intended to supply potable water and power to the west coast cities of Jeddah, Mecca and Taif.
The project is backed by a full offtake power and water purchase agreement (PWPA) – signed in Riyadh in November 2005 – between WEC and the project company, Shuaibah Water and Electricity Company.

The project is part government sponsored with SEC and the Saudi governmental investment fund, PIF, owning 40% of the project company. The remaining 60% is owned by a consortium of Tenaga Nasional Berhad, Khazanah Nasional Berhad, Malakoff Berhad, of Malaysia, Arabian Company for Water and Power Development (ACWA Power) and Mada Company for Industrial & Commercial Investment Limited.

The project offers lenders and sponsors the following comforts: a 20-year PWPA; a conventional tariff structure divided into capacity and output charge elements; supply of light crude oil fuel by WEC on an energy conversion basis; credit support provided by Ministry of Finance for each invoice under the PWPA, and for termination payments; termination payments sized to repay outstanding debt and equity (including an equity return) depending on the cause and timing of termination; and a supporting risk allocation in line with GCC regional precedent.

The closing of Shuaibah has already had a major impact on the future market for Saudi IWPP projects and deals in other sectors (the contractual documents to which the Government is a party, may spill over into public procurement in other sectors).

It has established the contractual and financing parameters under which the remaining three IWPPs from the 2002 programme – Shuqaiq, Raz Azzour and Jubail – will finance. The deal has created guidelines for traditional key areas of IPP/IWPP negotiation – credit support, termination payments, governing law and dispute resolution.

The second IWPP is already out to market. The request for proposals (RFP) for the 850MW, 47mg/d scheme has been pitched to 13 pre-qualifying teams: ACWA Power, AES Oasis, GIC, Itochu, Mitsubishi, Mitsui, National Power, Saudi Oger, Reliance Energy, Iberdrola/Gulf Power, Pendekar Power, Sumitomo and Suez. Bids are expected back by 30 July.

Shuaibah IWPP
Status: Signed 21 December 2005
Description: Development of the first IWPP in Saudi Arabia
Size: $2.45 billion
Sponsors: Tenaga, Malakoff, Khazanah, ACWA Power, Mada, SEC, PIF
Sponsor financial advisory: Standard Chartered, Riyad Bank
Offaker financial advisory: HSBC
Lead arrangers: ABN Amro, Saudi Hollandi, Riyad Bank, Arab Bank
Islamic lead arranger: Al Rajhi
Equity bridge arrangers: GIB, Mizuho
ECAs: Kexim, Hermes
Legal counsel to lenders: Milbank Tweed Hadley & McCloy (international), The Alliance of Abbas F. Ghazzawi (local)
Sponsor legal counsel: Trowers & Hamlins, Allen & Overy
Off-taker legal counsel: Clifford Chance, Al Jaddan Law Firm as to legal matters
EPC contractors: Siemens, Doosan Heavy Industries
Operator: Sogex
Technical consultancy: Fichtner

