

Perfect chemistry: Sadara petrochemicals

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WHAT WE SAID THEN: “Among this mammoth financings’ ground-breaking features was the largest ever (and second only) Middle Eastern sukuk bond, the largest ever direct loan from US Exim, and the participation of Spanish ECA FIEM on a project financing for the first time.”

Downstream project financings were all the rage in Gulf states for a few years. Greenfield developments got bigger and more integrated, even after the global financial crisis, until they peaked with the \$20 billion Sadara petrochemicals development.

By the time Sadara was financed, there had been more than 10 years of successive refinery and petrochemicals deals in Saudi Arabia. And developments undertaken in partnership with US companies were nothing new, as 2004’s \$1 billion Jubail Chevron Phillips deal demonstrated. But Sadara was larger and more complex than any downstream deal from the preceding decade.

The deal turned out to be a swansong. It was the last in a so-called super-cycle of Saudi petchem projects. The build-up of downstream industries was part of a long-term plan to diversify the Saudi economy and lessen its dependence on oil sales. Under a new regime since 2015, the Saudi government is now switching focus to other industries, such as renewables.

Sadara also marked something of a blow-out for US Exim. The ECA has spent the last couple of years lacking a quorum on its board of directors, meaning it has not been able to authorise loans of more than \$10 million. Signing off on a direct loan of \$4.7 billion for a single project in Saudi Arabia must seem like a strange dream to Scott Schloegel, the only surviving US Exim board member from when Sadara closed in 2013.

US Exim wasn’t alone in its enthusiasm for Sadara. Everyone piled in. Alongside seven ECAs, a bank club of 31 participated in the deal.

Saudi Aramco (65% equity) and Dow Chemical (35%) were the sponsors of the project, which is broken down into 26 separate commercial units.

That level of complexity was a boon for lawyers and contractors alike. Among the companies undertaking specific construction or engineering contracts for the project were: Fluor; Jacobs Engineering; ABB; Foster Wheeler; Linde; Tecnicas Reunidas; and Maire Tecnimont.

The Sadara financing comprised \$2.2 billion of uncovered commercial bank debt, a \$2 billion sukuk bond issue, a \$1.3 billion loan from Saudi Arabia’s Public Investment Fund, and \$7 billion in contributions from ECAs. Aramco had planned to issue \$1.4 billion in bond debt, but the sukuk proved so popular (it was 2.6x oversubscribed) the sponsor increased that component by a third.

Most of the participating ECAs provided cover for bank loans, including UK Export Finance (\$700 million), Euler Hermes of Germany (\$425 million), Coface of France (\$70 million) and K-Sure of Korea (\$500 million).

Korea’s Kexim was the only ECA besides US Ex-Im to provide a direct loan, with a \$320 million facility.

The strength of the sponsors, implicit support from the Saudi state in the event of default, and predicted annual revenues of some \$10 billion helped push pricing below market rates: the international US-dollar bank tranche had a pre-completion margin of 125bp over Libor, rising to 185bp; the Islamic piece, denominated in Saudi riyals, is priced at the equivalent of 75bp, and then steps to 135bp before maturity; the 15.75-year sukuk carries a pricing of 95bp over six-month SAIBOR.

The sponsors provided completion guarantees obligating them to repay bondholders in full if the plant was not complete by 31 December 2020. But there was little danger of that.

The project was completed in September 2017, and in doing so became the largest chemicals facility constructed in a single phase anywhere in the world.

Sadara Chemical Company

Financial close: 28 June 2013

Size: \$19.3 billion

Description: Construction of at least 26 chemical manufacturing units in Jubail City in Al Sharqiya, Saudi Arabia.

Sponsors: Saudi Aramco (65%), Dow Chemical (35%)

Debt: \$2 billion sukuk, \$2.2 billion uncovered commercial bank debt, \$1.3 billion PIF piece and \$7 billion in export credit funding.

ECAs: US Ex-Im; UK Export Finance; Euler-Hermes; FIEM; Coface; K-Sure; Kexim

Bond arrangers: Deutsche Bank; Riyadh Bank; Bank Al Bilad

Commercial lenders: 31 local, regional and international banks

Advisers: RBS; Riyadh Bank; Shearman & Sterling; Hatem Abbas Ghazzawi (Dow); White & Case; the Law Offices of Waleed N Al-Nuwaier (Aramco); Allen & Overy; Zeyad S Khoshaim Law Firm; Milbank Tweed Hadley & McCloy; Law of Abdulaziz H Al Fahad; Nexant; Daelim; Fluor; Jacobs Engineering; ABB; Foster Wheeler; Linde; Tecnicas Reunidas;

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