Nuevo Pemex IPP - Mexico

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The closing this June of a cogeneration IPP in Mexico is significant as the first IPP outside of the auspices of Mexico's Comisión Federal de Electricidad (CFE) - but is also the first of nine planned by the country's state-owned petrochemicals company, Pemex.

Inevitably, the financing of this first project will influence how the subsequent plants are funded - and Pemex is unlikely to want an exact repeat of the financing of this plant.

The project

The project [Transactions Database] was first tendered towards the end of 2008, after a change in the law in Mexico to allow Pemex to procure IPPs. Pemex offered the winning developer a 20-year 'service contract' as allowed under the new law, by which it would supply the IPP with gas and water, and offtake power and steam.

The cogen plant will be built on the site of Nuevo Pemex, the gas processing complex owned and operated by Pemex Gas and Basic Petrochemicals (PGPB, Pemex internal rating C+) near the city of Villahermosa, in the municipality of Centro, in Tabasco State.

As a relatively efficient power project - selling steam as well as power - the project will also accrue carbon credits, which under the terms of the agreement will go to Pemex. This was a significant part of Pemex's motivation for the project.

This facility is the first of a planned series of nine similar cogeneration projects to be developed to provide electricity to Pemex and add more than 3,000MW of capacity to Pemex's captive generation portfolio.

Record interest - but just two bids

A record number of potential developers - 32 - bought bid documents for the project, and were asked to submit fully-financed bids with EPC contractors. However, the tail end of 2008 was a far from ideal time to be seeking finance, and instead a group of six banks started negotiations to put together a staple-type finance package for the deal.

The staple financing, however, did not succeed but Mexico's public works bank, Banobras, did assure the project of its financing - of around half of the debt that the project would need.

Despite the record interest in the deal, only two bids were eventually entered for the project. Both bids were from consortia headed up by the local arms of Spanish companies:

- Abengoa México with Abener Energía
- Dragados Proyectos Industriales de México, with ACS and Cobra

The bids came in in the summer of 2009, and the project was awarded in relatively short order - by the end of August - to the Abengoa and Abener team. Abener and Abengoa México both belong to Abeinsa, the engineering and industrial construction business group of Abengoa.

Financing

The sponsors immediately set to work on working on a finance package with lead MLA Banco Santander, and Banobras - and brought another sponsor on board in the shape of GE Energy Financial Services, which took a 40 per cent interest in the project.

The project cost was put at US$640 million, of which the developer sought to borrow US$460 million. Banobras was prepared to provide around half of that debt portion, leaving less than US$250 million for Santander to rustle up in the commercial bank market.

However, challenging debt market conditions meant that the deal was a long way from closing. According to sources which worked on the deal, the sponsors took some time to reconcile themselves to what the banks wanted - in terms of pricing and tenor.

The solution which was eventually agreed was priced relatively highly, and was on a mini-perm structure - but even so, the deal shed some banks during the bookbuilding process as banks and sponsors struggled to find common ground.

Nevertheless, when agreement was reached, Banobras was scaled back to US$200 million, with six commercial banks plus Export Development Canada (EDC) taking equal tickets of US$37 million each. The banks lined up as follows:

- Banco Santander - joint bookrunner
- Banco Espirito Santo - joint bookrunner
- Crédit Agricole - joint bookrunner
- HSBC - joint bookrunner
- Export Development Canada - MLA
- La Caixa - MLA
- Scotiabank - MLA

The loan runs for four years beyond the two-and-a-half-year construction period, giving it a total tenor of 6.5 years. Construction is due to complete in September 2012, with the loan term coming up in December 2016.

There is a mechanism in the finance facility to extend the package - but, due to the margins on the loan, the sponsors are likely to seek another way out post-construction, with a bond solution seen as a front-runner.

The term loan is priced at Libor +412bp initially, rising to a final margin of Libor +562bp. Lenders were paid fees of 200bp. Average DSCR is set at 1.4x, with a minimum of 1.3x. The bullet at maturity will be around 80 per cent of the principal.

Abener Energía and Abengoa México invested US$108 million and the GE unit invested US$72 million of the US$180 million equity piece.

Advisory roles were filled by Mayer Brown, with partner Christopher Erckert - who took the deal with him when he moved from Vinson & Elkins - working for the lenders, and by Shearman & Sterling, with partners Howard Steinberg and Cynthia Urda Kassis advising the sponsors.

Conclusions

It was perhaps unfortunate for Pemex that it launched this pathfinder deal at such a turbulent time for the world's financial markets - and it must be glad that it is now procuring the next project on a 'public works' basis, through CFE.

The project took a long time to reach financial close - but, mini-perm tenor notwithstanding, it showed that there is a range of quality international banks ready to do business on Pemex's power generation projects.

Once the plant is built, the sponsors will no doubt look to refinance the debt - which will give Pemex a good indication of whether or not it is worthwhile using project finance for the remaining seven plants in its pipeline.

Banobras, the state-owned public works bank, played a large part in getting this pathfinder deal financed - but it is far from certain to want to finance a whole string of Pemex projects.

Another issue to consider is that Pemex managed to attract just two bidders for this project - so it will have to make future projects more attractive to developers, in order to keep the pipeline moving.

The key, however, will be if the financial markets can continue their current recovery. In that case, Pemex will be more inclined to continue its captive IPP programme - and more developers will be inclined to take on the projects.