Jubail Refinery - Saudi Arabia

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The debt financing behind the US$14 billion Jubail Refinery project in Saudi Arabia is perhaps 2010's most complex deal, melding an international project finance package with the local bond and lending market.

Combining export credit agencies (ECAs), commercial lenders, development banks and a sukuk bond component the deal sought finance during the harsh financial conditions of 2009 to sign off on the debt in June 2010 and close in late October [Transactions Database].

Sponsors Saudi Aramco (62.5 per cent) and Total (37.5 per cent) launched the joint venture company Saudi Aramco & Total Refining & Petrochemical Company (Satorp) in 2008, mandating Credit Agricole CIB as financial advisor soon after.

Banque Saudi Fransi also acted as financial advisor to Satorp, together with Allen & Overy, with Linklaters and Abdulaziz H. Fahad acting as legal adviser to the lenders.

The Project

The refinery itself is being built in the Jubail Industrial zone near the Persian Gulf and will be supplied by pipeline from two giant offshore fields, Manifa and Safaniya.

It will have a capacity of 400,000 barrels of crude oil per day, or roughly 20 million metric tons a year. The new facility will help to meet the growing demand for refined products in the Middle East and Asia when it comes on stream in late 2012/2013.

Both the Manifa and Safaniya fields that will supply the facility were discovered in the 1950s. Manifa will be developed for the first time during the refinery's construction. Its estimated 11 billion barrels of reserves make it one of the world's largest still-undeveloped deposits. Safaniya, with reserves estimated at 19 billion barrels in 2004, currently supplies mostly bitumen and heavy fuel oil for industry and bunker fuel for the shipping sector.

With its high sulphur content and unusually high proportion of heavy residues, the crude oil from these fields cannot be used directly. It must first undergo a complex process, called deep conversion, which requires sophisticated, capital-intensive installations.

To support full conversion, the sponsors will equip the Jubail refinery with a comprehensive palette of units to process heavy crude oil. They will include a distillate hydrocracker (DHC), a fluid catalytic cracker (FCC) and a delayed coker.

The Financing

The project was financed by 40 separate institutions across 19 facilities. The US$8.5 billion project finance facility included US$4 billion from Saudi Arabia's Public Investment Fund (PIF) and both covered and direct ECA tranches. A total US$$3.5 billion came from commercial lenders and Islamic institutions, with senior sponsor loans of US$1 billion.

The senior loan facilities on the deal hold a tenor of 16 years with pricing on the debt set between LIBOR plus 125bps and 185bps. Commitments came in totalling over US$13.5 billion.

The full list of international MLAs are:

- Credit Agricole CIB
- Société Générale
- Kfw - IPEX Bank
- Deutsche Bank
- HSBC
- Bank of Tokyo-Mitsubishi UFJ
- Mizuho Corporate Bank

- Standard Chartered
- Sumitomo Mitsui Banking Corporation
- Export Development Canada
- Arab Bank
- Barclays
- Citibank
- JP Morgan
- Royal Bank of Scotland
- Arab Petroleum Investments Corporation
- Gulf International Bank

The Saudi Arabian MLAs are:

- Banque Saudi Fransi
- Riyad Bank
- Samba Financial Group
- Arab National Bank
- Saudi British Bank
- National Commercial Bank
- Al Rajhi Bank
- Alinma Bank
- Saudi Hollandi Bank
- Islamic Development Bank
- Bank Al-Jazira
- Saudi Investment Bank

The following export credit agencies also acted on the deal:

- Korea Export Insurance Corporation (KEIC)
- Compañía Española de Seguros de Crédito a la Exportación (CESCE)
- Export-Import Bank of Korea (K-EXIM)
- Compagnie Française d'Assurance pour le Commerce Extérieur (COFACE)
- Japan Bank for International Cooperation (JBIC)
- NipponExport and Investment Insurance (NEXI)
- Euler Hermes Kreditversicherungs-AG (Hermes)

Combining such diverse financing institutions presented a challenge for the sponsors and financial advisers but Andy Pheasant, Managing Director within Structured Finance Advisory at Credit Agricole CIB, heading up the bank's advisory team on Jubail, sees the ECA component as key.

Pheasant said: "The strategy of approaching ECAs and the development banks first of all meant that a number of issues could be dealt with by the time that the commercial banks and Islamic institutions were approached with an updated information memorandum.

"Through this phased approach all of the senior lenders could be integrated into the financing. Although there were 19 different facilities all lenders had committed on the basis of a single very detailed Common Terms Agreement (CTA), thus facilitating the subsequent documentation challenge.

"The major challenge in securing the required level of financing was having sufficient eligible procurement to ensure that all of the tied ECA financing that had been assumed in the finance plan could be obtained once the construction contracts had been awarded."

"This resulted in seven ECAs becoming part of the financing, as we had to make sure that all of the eligible procurement from main EPC contractors down to individual suppliers and service providers had been utilised as much as possible by the appropriate ECAs, thus maximising the support it allowed the ECAs to provide to Satorp.

"In addition this was the first time since the 1990's that lenders had taken greenfield refining risk. It was crucial to clearly demonstrate the competitive advantage and viability of Satorp even under downside scenarios"

Significantly, Jubail is also the largest deal to feature both US Dollar and Saudi Riyal debt side-by-side which ensured the availability of a significant amount of financial liquidity to fund the project.

“Satorp was also able to utilise the liquidity from Saudi banks to fund some of the ECA tranches which were denominated in Saudi Riyals to facilitate the participation of Saudi banks. This was one of the first occasions when Saudi banks have participated in export credit facilities,” continued Pheasant.

The future

Despite financial close having been reached late last year, the project funding remains far from finished. A sukuk bond is yet to be issued in support of the project and an Initial Public Offering (IPO) will also be set before construction is complete on the project.

This will constitute a 25 per cent stake in the project, which will reduce Saudi Aramco’s equity interest from 62.5 per cent to 37.5 per cent on a par with Total’s.

Another Saudi Aramco refinery project is also set to be launched to market over the coming 18 months. The Yanbu project [Projects Database] has been beset by delays following the departure of co-sponsor ConocoPhillips from the project last year, however Aramco initially expected to finance the deal hot on the heels of Jubail following a simillar template.

It will be interesting to note the long-term effect Jubail has on how downstream assets are financed in Saudi Arabia. Due to the sheer size of these transactions foreign lending is often an imperative, but the strong and willing local market is also able to compete on pricing and the market should see more deals combining traditional project finance and Islamic debt structures in the future.