LEVERAGING THE COUNTERPARTY FOR EXTRAORDINARY TERMS
THE PROJECT FINANCING DEALS OF THE YEAR

By George Weltman

WEST
Transaction: $340 million Bilateral Facility to Finance Three Shuttle Tankers on behalf of PAO Sovcomflot
Winner: Sberbank of Russia

EAST
Transaction: $360 million Non-recourse financing of BW Pavilion LNG Carriers
Winners: CIC, Societe Generale, Clifford Capital, DBS Bank, OCBC, SMBC

While remarkable in many respects, the West’s winning transaction stands out as being the first structured ship financing done by a Russian bank, thereby bringing a new pool of capital to Sovcomflot specifically, as it seeks to diversify its funding sources, and to the industry in general. It is also the largest commercial deal done by a single bank without any syndication and has one of the longest tenors done in the space. The lender, Sberbank of Russia, underwrote for its own account a $340 million 14 year project finance bilateral facility for three ice breaking 42,000 DWT crude oil shuttle tankers under construction at Samsung with deliveries in June - October 2016. The vessels were specifically designed to enable year-round shipment of crude oil from an offshore loading terminal in the Gulf of Ob, Kara Sea and will operate on 12 year time charter contracts to Gazprom Neft Group (Gazprom subsidiary) to serve as part of the infrastructure for Noviy Port project (one of the largest onshore oil and gas condensate deposits on the Yamal peninsula in Russia).

In terms of structure, the borrowers are three special purpose companies, ultimately wholly-owned by PAO Sovcomflot. The facility is for up to 14 years and includes pre- and post-delivery term loan financing representing 77% of the contract price of the vessels. The repayment profile is 12 years to nil with a fixed interest rate to align the financing terms with the fixed-rate nature of the underlying time-charters for the vessels. The underwriting is based upon Sovcomflot’s first class reputation and the strength of the cash flows from the time charter contracts with Gazprom Neft. Despite ongoing turbulence in the financial markets and generally challenging international environment, the transaction went smoothly and closed in less than four months.

Risk is contained as well. SCF Group provided a standard marine security package, including vessel’s mortgage, assignment of charter agreements, insurances, shipbuilding contracts, refund guarantees and related contracts rights as well as pledge of shares in the vessels’ SPVs. The loan structure is further supported by parent company guarantees to the borrower SPVs, which is a standard feature for most of SCF’s oil tanker financings.

While the collateral vessels’
earnings will be paid by the charterer into an earnings account with Sberbank, there will be no interim retention payments required. Covenants are at a minimum as well with no minimum liquidity covenant at the borrowers’ level nor minimum security cover ratio applicable. The only financial covenant is a debt service coverage ratio set at comfortable level of 1.1 (vs. project average budget level of more than 1.7). The Charterer benefits from quiet enjoyment provisions, while the lender benefits from ‘step in rights’ and could take over the operation of the vessel if that would be needed to preserve the charter. This is a truly unique transaction as it opens up the Russian commercial bank universe as a potential new market for commercial shipping finance business. The deal, provided by a single commercial institution, is also characterized by its sizable amount, long tenor and competitive built-in fixed pricing. The structure reflects best market practices and doesn’t put excessive covenant compliance burden on the borrowers, such as LTV or minimum liquidity covenants. Finally, the financing will support construction of highly innovative ice breaking shuttle tankers, which will be providing year-round shipment services of crude oil from an offshore loading terminal in Russia’s Arctic.

The East is represented by a $360 million post-delivery non-recourse financing of two LNG carriers owned by BW Pavilion, a joint venture of the BW Group and Pavilion Energy established to own and manage maritime LNG assets. Located in Singapore, Pavilion Energy is a Temasek portfolio company that was incorporated to meet the region’s growing demand for clean and reliable energy by specifically establishing itself as a preferred regional LNG player. The transaction is structured around back-to-back charters to UNIPEC (3 years), China’s largest international trade company and wholly-owned subsidiary of Sinopec Corp. and Pavilion Gas (20 years), the operating arm of the downstream gas business of Pavilion Energy. Due to its non-recourse nature, the lenders agreed to structure the cash flow waterfall in such a way to insure that debt repayment and dry dock costs would not be impacted by the gap between the two charters which could range from six to nine months. Lastly, the balloon (44%) and refinancing risk of the 12-year financing is well-covered by the lengthy charter. And that’s how you do it – project financing at its best.