By definition, project finance is the financing of long-term infrastructure and industrial projects using non-recourse or limited recourse financial structure, in which project debt and equity are paid back from the cash flows generated by the project. This structure is infrequently used in ship financing, with one of the few exceptions being the private placement market where the transaction is wrapped around a long-term charter to an investment grade counterparty transferring the credit rating to the project itself. This year’s nominations took us to the periphery of the cargos’ water journey although somewhat outside of our mainstream focus.

Citibank has successfully developed a specialist niche financing business for port development and concluded two large deals for which they submitted nominations. The first was for a syndicated project loan financing for Victoria International Container Terminal (“VICT”), whose parent, ICTSI, won the bid for the development of a container terminal in Webb Dock, Port of Melbourne under a 26-year concession lease. The new project, which will be capable of handling 8,000 TEU vessels, will establish VICT as the 3rd terminal operator at the port and will increase capacity by about 1.1 million TEU upon completion at the end of 2017. Partial funding for the AUD804 million project came from an AUD 398 million senior secured debt facility comprising a 7-year commercial tranche (AUD 139.5 million), a 10-year commercial tranche (AUD 113.5 million), a 16-year ECA tranche (AUD 125 million) supported by Finnvera, and a 364-day revolving credit (AUD 20 million). The balance was funded by equity. The sponsor agreed to provide cost overrun and cash deficit support. The other transaction involved a CAN$603 million secured bank loan in support of DP World’s assets at the Ports of Vancouver and Prince Rupert in Canada. The loan proceeds will refinance debt at the Vancouver terminal, refinance inter-company acquisition debt at Port Rupert and finance expansion work at Port Rupert. The loan has a tenor of seven years with a profile that leaves a balloon of 40-50% at maturity, with the balloon risk mitigated by the long term value remaining in the underlying concession.

Back in June, Golar LNG Limited announced that it has entered into a 50/50 joint venture with investment vehicles affiliated with private equity firm Stonepeak Infrastructure Partners (“Stonepeak”). Named Golar Power Ltd (“Golar Power”), the joint venture company will offer integrated LNG based downstream solutions, through the ownership and operation of floating storage and regasification units (“FSRUs”) and associated terminal and power generation infrastructure.

For its initial asset base, Golar LNG will contribute to the joint venture the FSRU currently under construction at Samsung shipyard, two modern 160,000 cbm TFDE LNG carriers suitable for conversion to FSRUs, and the right to invest up to 25% in the Sergipe Power project, which is expected to take FID in the second half of 2016. Golar...
LNG will also grant Golar Power a one year option to acquire from the company a further two LNG carriers for conversion to FSRUs. Upon closing, Golar Power will immediately commence conversion of the first LNG carrier to a FSRU.

Stonepeak will acquire its 50% of Golar Power for $117 million in cash, valuing the joint venture at $234 million. In addition, Stonepeak will subscribe to $100 million in preference shares on closing of the deal and commit to $75 million in additional equity, for a total of approximately $292 million. This, together with an additional $75 million funding commitment from Golar LNG, in the period before Q1 2018, is expected to be sufficient to fully finance the equity portion of the conversion of the two carriers to FSRUs, take delivery of the 2017 new-build FSRU and complete the financing of its share of the Sergipe Power project. Approximately $214 million in ship mortgage debt and $217 million of remaining newbuilding capex on the FSRU will be assumed by Golar Power to complete the financing, thereby improving Golar’s liquidity position.

With LNG prices at a significant discount to oil prices, Golar Power sees a range of potential LNG importers who would benefit from a rapid switch to gas. The first converted vessel is expected to be available within 16 months. There are only three unfixed FSRU newbuildings presently under construction and delivering within the next 28 - 30 months. Golar Power sees well in excess of three employment prospects that could be met within this window. The conversion model allows Golar Power to timely address projects with bespoke requirements at a price that remains competitive with the all-in delivered cost of a newbuild equivalent. As the only company to have successfully converted LNG carriers to FSRUs, Golar expects that this partnership with Stonepeak will once again position it to aggressively exploit this competitive advantage.

The joining together of Golar’s expertise and a financial partner with extensive experience in the energy space makes for a formidable competitor who, at the end of the logistics chain, will deliver power to the grid as a major downstream player. The joining together of Golar’s expertise and a financial partner with extensive experience in the energy space makes for a formidable competitor who, at the end of the logistics chain, will deliver power to the grid as a major downstream player.