THE PROJECT FINANCING DEALS OF THE YEAR

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**WEST**
Transaction: Sovcomflot’s $260 million 13-year Project Finance Bilateral Facility
Winner: VTB Bank

**EAST**
Transaction: Oryx LNG Carrier $42.75 million Refinancing for Oman Shipping Company, Mitsui OSK Lines and Itochu Corporation
Winners: Sumitomo Mitsui Banking Corporation Europe (“SMBCE”), Development Bank of Japan (“DBJ”)

**From Russia With Love**
The winning transaction from the West, a $260 million 13-year term loan, was structured solely by VTB Bank and represents perhaps one of the largest bilateral deals underwritten by a single commercial bank with one of the longest tenors in the commercial space.

Owned by SCF Tankers, an indirect subsidiary of PAO Sovcomflot, the borrower is the owner of a Yamal LNG tanker, constructed at DSME, Korea and delivered in March 2017. Specifically designed to enable year-round shipment of LNG from the LNG terminal in Sabbetta, Kara Sea (Arctic region), the vessel will operate on 30-year time charter to the Yamal LNG project with project completion guarantees provided by the project sponsors (Novatek, Total and CNPC).

Providing up to 13 years pre- and post-delivery, the term loan finances 80% of the contract price of the vessel with a repayment profile which fully amortizes the loan over 16 years. The interest rate is fixed at a level allowing SCF Group to recoup its equity investment at a double-digit rate of return.

The deal is well characterized by its sizable amount, all provided by a single financial institution, long tenor, competitive fixed-rate pricing and covenant-lite structure.

In addition, the bank’s standard security package includes a first mortgage on the vessel, assignments of charter agreements and guarantees, insurances, shipbuilding contracts, refund guarantees and related contracts rights, as well as a pledge of the shares in the SPV owner. The structure is further supported by a guarantee from SCF Tankers.

In terms of covenants, charter hire will be paid into an earnings account with VTB with
Further monthly retention payments to provide for quarterly debt service. There is neither a minimum liquidity covenant at the borrower’s level nor minimum security cover ratio applicable; and the only financial covenant is DSCR set at a comfortable level of 1.1. The charter provides the charterer with quiet enjoyment and the lender with “step-in rights” allowing it to preserve the charter in the event of default.

As evidenced by this second transaction between the two, VTB Bank is clearly a strong financial partner to Sovcomflot and allows the latter to fulfil its strategy of diversifying its sources of capital and attract new lenders. This borrower friendly transaction continues to position Russia as a potential new source of commercial shipping finance. The deal is well characterized by its sizable amount, all provided by a single financial institution, long tenor, competitive fixed-rate pricing and covenant-lite structure.

**Risky Business**

In the award-winning project financing transaction from the East, much has to be taken on faith. SMBCE and DBJ provided a $47.25 million non-recourse, secured loan facility to refinance the balance of the original debt facility provided to Oryx LNG Carrier for the construction and acquisition of a 147,500 cbm LNG carrier built in Japan in 2005. The new loan has a term of 7.5 years (matching the remaining tenor of the existing charter with Itochu) and is secured by a customary non-recourse shipping security package. Oryx is a special purpose company whose sponsors are Oman Shipping Company (“OSC”), Mitsui O.S.K. Lines (“MOL”) and Itochu.

The vessel is chartered to Oman Charter Company, an entity controlled by OSC but without credit support, and sub-chartered to Itochu under a 20-year time charter. Unlike a typical limited recourse deal, the sub-charter with Itochu is not assigned to the lenders meaning that Oman Charter and Itochu can renegotiate or terminate the sub-charter without consent from the lenders. As a result, the lenders could not rely on the Itochu charter as a source of high quality long-term cash flow. Instead, the lenders needed to take comfort from a wider range of factors, such as the growth in LNG trade, the importance of LNG and LNG shipping to Oman, the strategic nature of LNG exports from Oman to Japan, and also the value of the vessel compared to the facility size etc. In a usual limited recourse deal, these elements are of some importance but not critical since the lenders fully rely on the ultimate charterer’s credit, which was not possible in this case.