



HOW WE ASSISTED A CONSORTIUM IN DEVELOPING A FINANCING PLAN FOR A MULTI-BILLION DOLLAR UPSTREAM OIL PROJECT

Client's Goals & Issues

Our client, a consortium of international and state-owned oil companies, was pursuing the development of a large-scale, multi-billion dollar upstream oil project in an emerging market. The consortium wanted to analyze financing options, in particular the possibility of financing the project on a limited recourse basis. The transaction would be one of the largest project financings in the host country, and raised many issues such as: the sub-investment grade rating of host country, the high degree of perceived political risk, structuring security arrangements sufficient to attract lenders, the technologically challenging development plan, unpredictability of cash flows, and a demanding fiscal regime. The consortium's primary goal was to develop a viable project financing plan for the project, assess the project's borrowing capacity and identify likely lenders and financing terms.

Taylor-DeJongh's Role

TDJ's team focused its work on four key areas:

- Identifying likely financing sources
- Advising on the financing structure and plan
- Assessing the project's borrowing capacity
- Analyzing the impact of competing financings in the local market

Financing Sources — The Taylor-DeJongh team focused a large part of its efforts on developing an understanding of the most likely lenders to the project. This work included developing a project briefing memorandum, and marketing materials and undertaking one-on-one meetings with possible lenders. This process involved direct discussions with over 50 institutions, including a full spectrum of export credit agencies, commercial and investment banks, insurance companies and bilateral and multilateral agencies, given the emerging

market nature of the project. TDJ also explored the possibility of a high-yield bond offering with underwriters experienced in the region.

The team's work included assessing overall borrowing capacity for the country and for the greenfield oil and gas sector specifically, possible capacity of each potential lender and indicative terms for pricing, tenor, repayment, security required, and so forth. A key part of Taylor-DeJongh's effort focused on exploring tied and untied financing possibilities with various ECAs, based on procurement-led financing vs. a natural resource driven financing.

Financing Structure and Plan — Our team advised the client on the following deal structuring elements and financing plan:

Deal Structuring

- Fundamental terms and conditions required for a limited recourse debt raise;
- Structures that would maximize the level of leverage possible;
- Required pre-completion guarantees;
- Risk allocation;
- Political risk mitigation required by lenders;
- Shareholder responsibilities and required undertakings within the consortium and by the host government;
- Security arrangements;
- Credit enhancement mechanisms.

Financing Plan

- Strategies for arranging underwriting and syndication from financing sources;
- Plan to approach lenders and rating agencies as necessary;
- Strategies for arranging syndication of financing;
- Development of overall timeline and action plan to arrange financing.

Borrowing Capacity — The Taylor-DeJongh team spent extensive time working with the client and its technical staff to understand the costs and timing associated with the multi-year, multi-billion dollar development plan. With this information, the TDJ team developed a detailed financial model that was used to estimate the cash flow available to service debt, and as a result, the borrowing capacity of the project. Instrumental to this assessment was the incorporation of the financing assumptions gained from one-on-one discussions with the

lending community. The modeling exercise included sensitivity analyses and constant interaction with the consortium's finance staff.

Competing Financings — Of particular interest to the client was gaining an understanding of the numerous competing financings occurring in the host country's oil & gas sector. The nation was undergoing a rapid expansion of its oil & gas production and thus TDJ spent time delineating the various local and, in some cases, regional financings currently or expected in the export credit or bank market. This work involved assessing possible adverse effects of such financings on the capital potentially available to the consortium's project.

Effect on Client's Business

TDJ's work allowed the client to better understand not only the viability of the project financing plan given the debt market's appetite, but also the level of shareholder and host government support needed, and the key risks, financing terms and security issues that would need to be addressed in advance. The feedback from the debt markets was instrumental in helping the client refine their development and project financing plan.