

Asset-Backed Securities

***Project Financing***

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***Asset-Backed and Project Financing***

- Collateralized debt
- Securitized loans
- Non-recourse project debt
- *Basic question: Why should a company segregate the cash flows from a particular business, and make it self-financing?*

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*Project Financing 3*

## Project Financing

- Stand-alone, non-recourse, multi-stake, "production payment financing"
- Structure?
- Participants?
- Funding sources?
- Risks?



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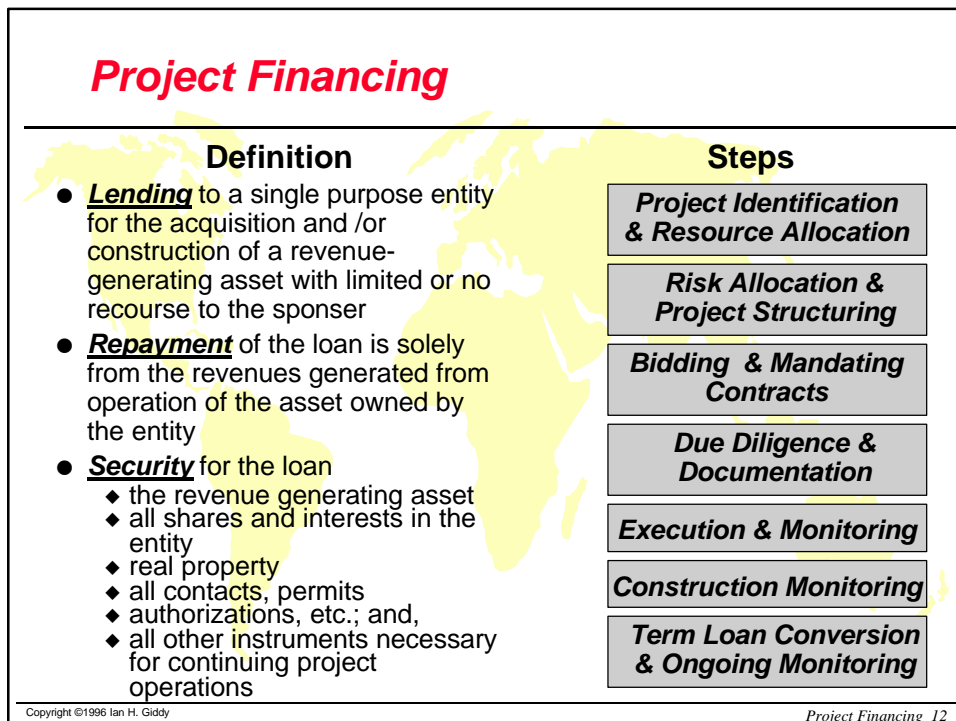
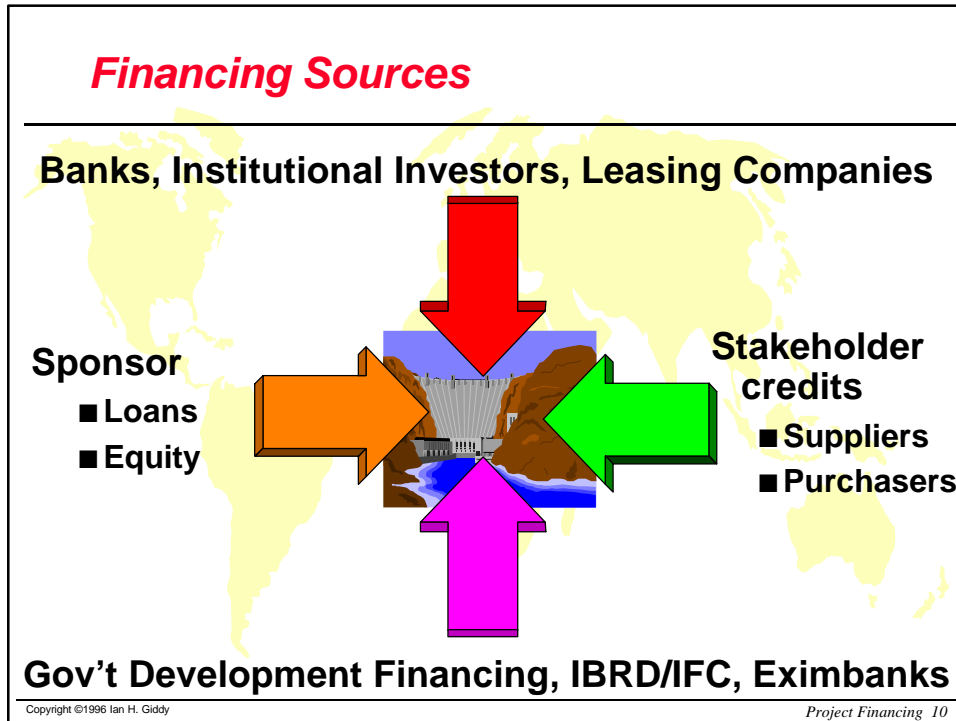
## Project Financing (Summary)

- Stand-alone, non-recourse "production payment financing"
- Sponsor's vehicle company structures *multi-stake finance*
- Sources: govt development financing, IBRD/IFC, sponsor loans, supplier credits, customer credits, institutional investors, banks, lease financing, equity
- Risks: resource quantity, input costs, technical, timing, pre-completion, demand, operating, force majeure, political
- Risk sharing and mitigation



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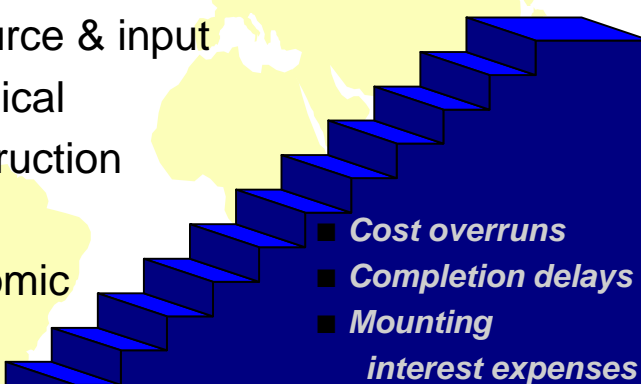
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## ***Benefits of Project Financing***

- Limitation of Equity Investment to Project's Economic Requirement - *Enhanced Returns*
- Risk Sharing and Diversification
- Accounting Treatment Preserves Corporate Borrowing Capacity
- Access to Long Term Financing
- Tax Benefits
- Political Risk Mitigation

## ***The Risks***

- Political
  - Resource & input
  - Technical
  - Construction
  - Legal
  - Economic
- 
- *Cost overruns*
  - *Completion delays*
  - *Mounting interest expenses*

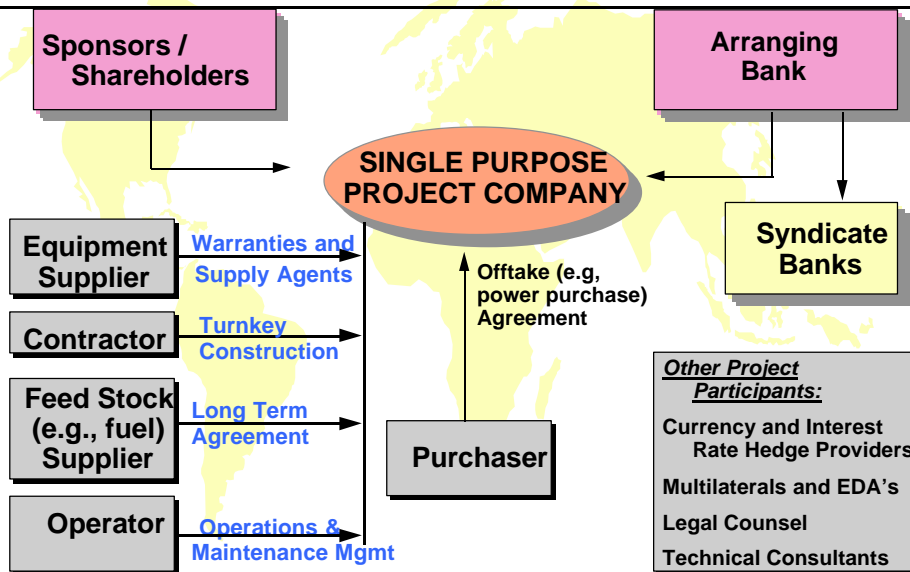
### Eurotunnel: The Risks and the Remedies

Category	Nature	Remedy
Political	Nationalization Govt interference Taxes & the like	Legal Treaty ratified
Technical	Process Effect on completion Repairability	Use existing technology
Construction	Delays Overruns Repairability	Use top experts Performance bonds
Legal	Access to control in default Fire, injury, etc liability	Security interests Default defn
Economic	Price competition Rail links	Market studies

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### Sample Structure



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## ***Asset-Backed and Project Financing***

- Collateralized debt
- Securitized loans
- Non-recourse project debt -- future payments rather than assets are the collateral in the SPV
- *Basic question: When is an asset worth more to investors outside the company than inside it?*

## ***Case Studies***

- Ras Laffan Qatar/Korea
- YPF Argentina/Oil Trading Corp
- West Java Power Project

### Questions:

- ◆ Who is the issuer?
- ◆ What assets does it have?
- ◆ What are the risks, and how are they handled?

## ***Ras Laffan***

- Who is the issuer?
  - ◆ Ras Laffan LNG Co. Ltd. (Qatar)
  - ◆ But Security Trustee (IBJ) plays unusually major role
- What assets does it have?
  - ◆ Natural gas reserves;
  - ◆ LNG take-or-pay Sale and Purchase Agreement with Korea Gas;
  - ◆ Security Trust Agreement; Project Coordination Agreement; loan refund agreement, etc.

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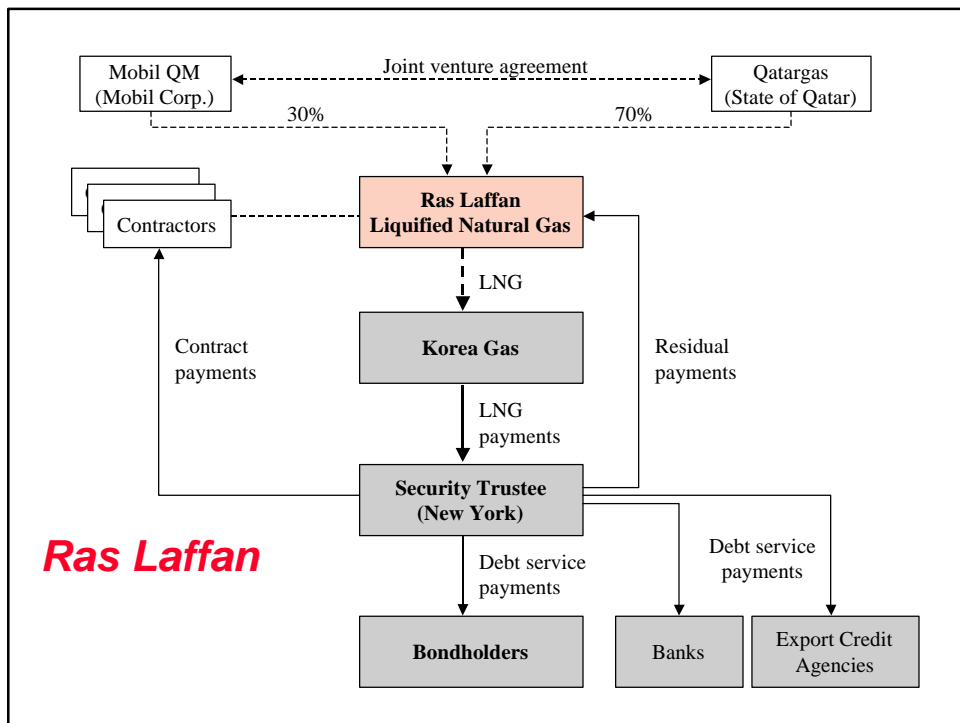
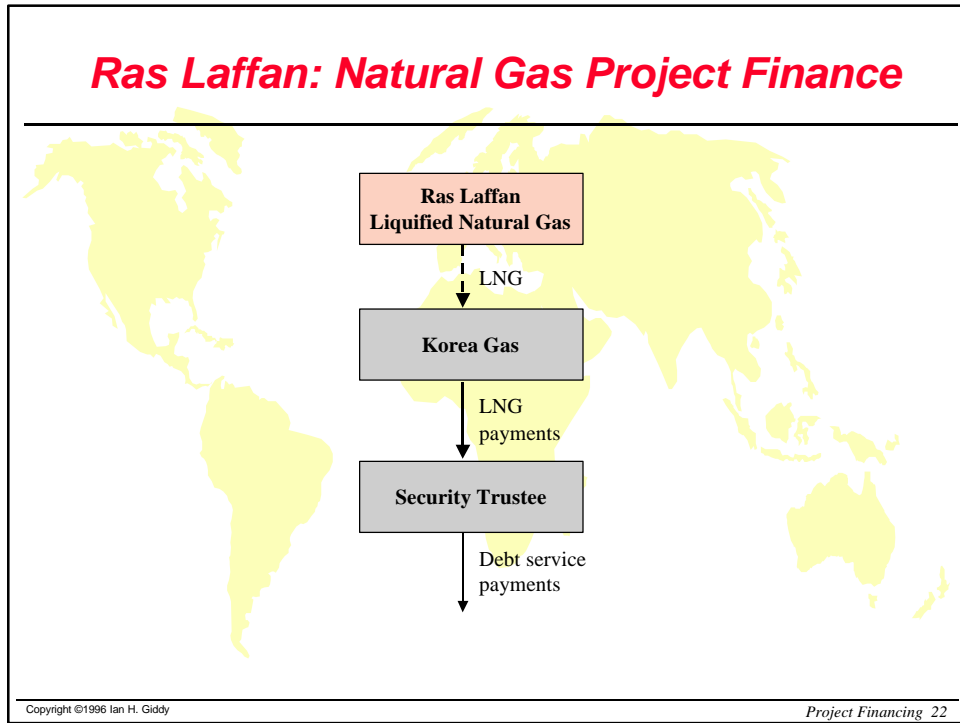
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## ***Ras Laffan***

- What are the risks, and how are they handled?
  - ◆ Qatar/regional interference
  - ◆ Qatar legal system
  - ◆ Default on Agreements
  - ◆ Completion/timing
  - ◆ Operating
  - ◆ Economic (LNG market)

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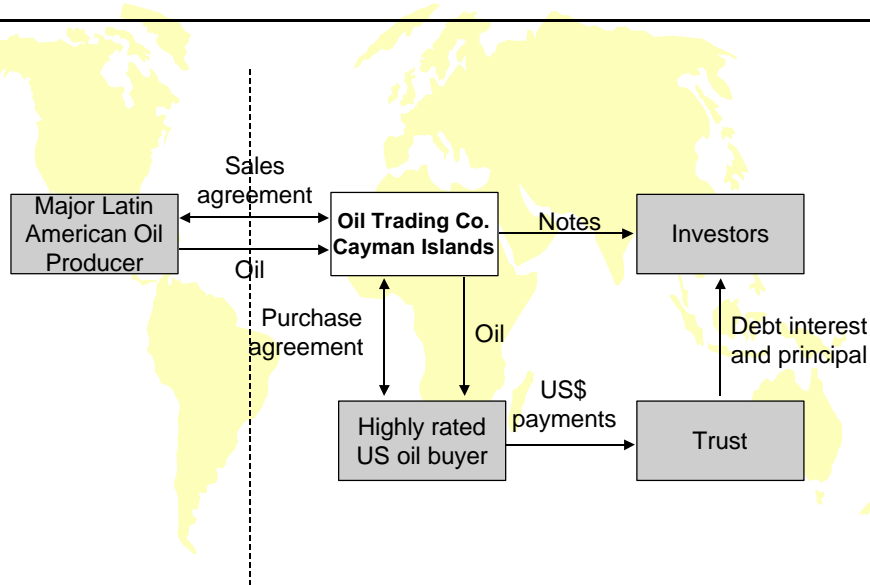
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### YPF Argentina/Oil Trading Corp

- Who is the issuer?
  - ◆ Oil Trading Corp, Cayman Is. SPV
- What assets does it have?
  - ◆ No oil, just purchase and sale agreements
- What are the risks, and how are they handled?
  - ◆ Seller: Political, production
  - ◆ Buyer: Credit, legal
  - ◆ Economic

### YPF/Oil Trading Corp.



## **West Java Power Project**

- Who is the issuer?
  - ◆ Pratama SPV
- What assets does it have?
  - ◆ Loan to Dayalistrik Pratama
- What are the risks, and how are they handled?
  - ◆ Political; Engineering; Coal supply; Default on Purchase Agreement; Economic

## **West Java Project Financing**

Project stage:

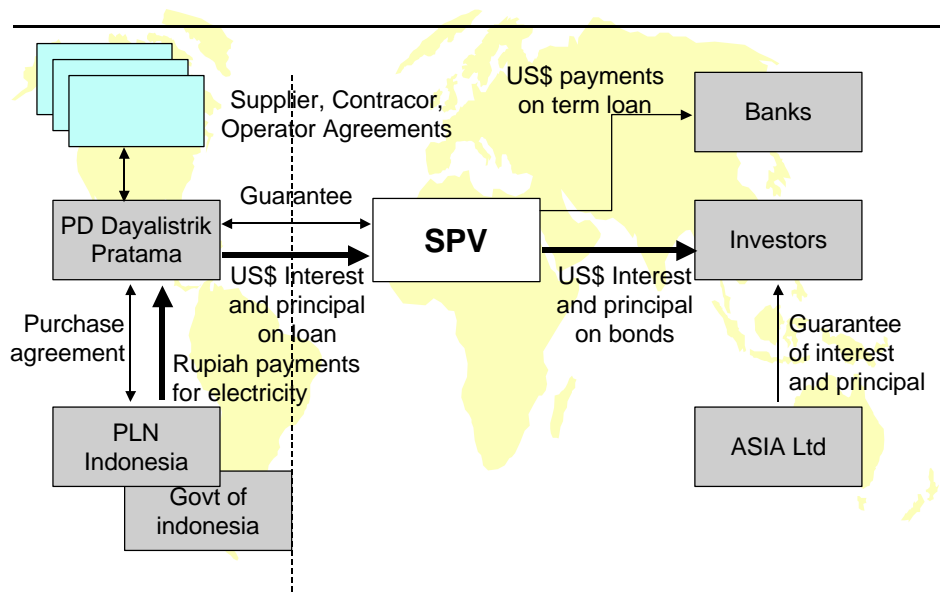
- Uncompleted coal-fired power plant, generating power
- Has multi-year power purchase agreement with utility
- Currently has bank financing
- Sponsors seeking to extend financing and reduce cost by tapping the debt securities market

### West Java Project Financing

**Proposal:**

- Sponsor issues “infrastructure revenue bonds” to refinance bank loans
- Bonds to be issued with 19 year maturities - longer than the term on the bank loans
- May have fixed rate; distributed in US, Euro or domestic bond market
- Int. and principal secured by contract revenues
- May have 100% guarantee from monoline insurance company

### West Java Power Project



## Summary

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- *Basic question: Why should a company segregate the cash flows from a particular business, and make it self-financing?*

## Other Future Flow Securitizations

- Credit card voucher receivables
- Remittance receivables
- Export receivables
- Airline ticket receivables
- Net international telephone settlement receivables

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