Thin Air

- Future-flow financings – locking out the sovereign
  - Ras Laffan
- Intangible financings – telling rights from wrongs
  - Trade payments, Bowie Bonds
Project Financing

Stand-alone, non-recourse, multi-stake, "production payment financing"

Structure?
Participants?
Funding sources?
Risks?

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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**Project Financing**

**Definition**
- **Lending** to a single purpose entity for the acquisition and/or construction of a revenue-generating asset with limited or no recourse to the sponsor.
- **Repayment** of the loan is solely from the revenues generated from operation of the asset owned by the entity.
- **Security** for the loan:
  - the revenue generating asset
  - all shares and interests in the entity
  - real property
  - all contacts, permits
  - authorizations, etc.; and,
  - all other instruments necessary for continuing project operations.

**Steps**
- **Project Identification & Resource Allocation**
- **Risk Allocation & Project Structuring**
- **Bidding & Mandating Contracts**
- **Due Diligence & Documentation**
- **Execution & Monitoring**
- **Construction Monitoring**
- **Term Loan Conversion & Ongoing Monitoring**

---

**Financing Sources**

<table>
<thead>
<tr>
<th>Sponsor</th>
<th>Stakeholder credits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loans</td>
<td>Suppliers</td>
</tr>
<tr>
<td>Equity</td>
<td>Purchasers</td>
</tr>
</tbody>
</table>

**Gov’t Development Financing, IBRD/IFC, Eximbanks**
**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

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## Eurotunnel: The Risks and the Remedies

<table>
<thead>
<tr>
<th>Category</th>
<th>Nature</th>
<th>Remedy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Political</td>
<td>Nationalization</td>
<td>Legal</td>
</tr>
<tr>
<td></td>
<td>Govt interference</td>
<td>Treaty ratified</td>
</tr>
<tr>
<td>Technical</td>
<td>Process</td>
<td>Use existing technology</td>
</tr>
<tr>
<td></td>
<td>Effect on completion</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Repairability</td>
<td></td>
</tr>
<tr>
<td>Construction</td>
<td>Delays</td>
<td>Use top experts</td>
</tr>
<tr>
<td></td>
<td>Overruns</td>
<td>Performance bonds</td>
</tr>
<tr>
<td></td>
<td>Repairability</td>
<td></td>
</tr>
<tr>
<td>Legal</td>
<td>Access to control in default</td>
<td>Security interests</td>
</tr>
<tr>
<td></td>
<td>Fire, injury, etc liability</td>
<td>Default defn</td>
</tr>
<tr>
<td>Economic</td>
<td>Price competition</td>
<td>Market studies</td>
</tr>
<tr>
<td></td>
<td>Rail links</td>
<td></td>
</tr>
</tbody>
</table>

### Sample Structure

- **Sponsors / Shareholders**
  - Equipment Supplier
  - Contractor
  - Feed Stock (e.g., fuel) Supplier
  - Operator
- **SINGLE PURPOSE PROJECT COMPANY**
  - Warranties and Supply Agents
  - Turnkey Construction
  - Long Term Agreement
  - Operations & Maintenance Mgmt
- **Purchaser**
- **Arranging Bank**
- **Syndicate Banks**
  - Currency and Interest Rate Hedge Providers
  - Multilaterals and EDA’s
  - Legal Counsel
  - Technical Consultants

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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?

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

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YPF/Oil Trading Corp.

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.
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)

Ras Laffan: Natural Gas Project Finance

- Ras Laffan
  - Liquified Natural Gas
    - LNG

- Korea Gas
  - LNG payments

- Security Trustee
  - Debt service payments
Ras Laffan

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

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**West Java Power Project**

- **PD Dayalistrik Pratama**
  - Supplier, Contractor, Operator Agreements
  - Guarantee
  - Purchase agreement
  - PLN Indonesia
    - Govt of Indonesia

- **SPV**
  - US$ payments on term loan
  - US$ Interest and principal on loan
  - Rupiah payments for electricity

- **Investors**
  - Guarantee of interest and principal

- **ASIA Ltd**

---

**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

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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

Other Future Flow and Intangible Securitizations
- Credit card voucher receivables
- Remittance receivables
- Export receivables
- Airline ticket receivables
- Net international telephone settlement receivables
Thin Air

- Future-flow financings – locking out the sovereign
  - Ras Laffan
- Intangible financings – telling rights from wrongs
  - Trade payments, Bowie Bonds

Trade Payment Rights
Bowie Rights

- What does the SPV really own?
- Where's the money?
- What's it worth?

Bowie Rights: Copyrights is Wrong

<table>
<thead>
<tr>
<th>Transaction Name</th>
<th>DCM Rating</th>
<th>Number of Copyrights</th>
<th>Collateral Type</th>
<th>Placement Agent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jonas/Tintoretto Entertainment Company LLC (David Bowie)</td>
<td>A</td>
<td>287</td>
<td>Publishing Rights and Recording Rights</td>
<td>Pullman Group</td>
</tr>
<tr>
<td>Edward Holland LP</td>
<td>A</td>
<td>312</td>
<td>Writer's Share of Publishing Rights and Performance Royalties</td>
<td>Pullman Group</td>
</tr>
<tr>
<td>Lament Dobar LP</td>
<td>A</td>
<td>312</td>
<td>Writer's Share of Publishing Rights and Performance Royalties</td>
<td>Pullman Group</td>
</tr>
<tr>
<td>Brian Holland LP</td>
<td>A</td>
<td>312</td>
<td>Writer's Share of Publishing Rights and Performance Royalties</td>
<td>Pullman Group</td>
</tr>
<tr>
<td>Nick-O-lot, LLC (Asstford and Simpson)</td>
<td>BB</td>
<td>247</td>
<td>Publishing Rights, Recording Rights and Performance Royalties</td>
<td>Pullman Group</td>
</tr>
<tr>
<td>James Brown, LLC</td>
<td>A</td>
<td>750</td>
<td>Publishing Rights, Recording Rights and Performance Royalties</td>
<td>Pullman Group</td>
</tr>
</tbody>
</table>


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**Bowie Rights: Where's the Money?**

<table>
<thead>
<tr>
<th>Sources of Revenue</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Publishing Royalties</strong></td>
<td>The owner of the copyright in the musical composition receives income from licensing, sale or performance use of the copyrighted songs (from record companies and other users). Royalties received include a portion payable to the songwriter, as well as a portion payable to the publisher.</td>
</tr>
<tr>
<td><strong>Mechanical Royalties</strong></td>
<td>Money paid by record companies to publishers for the right to use songs on records, regardless of whether they are originals or cover versions.</td>
</tr>
<tr>
<td><strong>Performance Royalties</strong></td>
<td>Payments from broadcast and public performances are collected by performing rights societies such as ASCAP, BMI or SESAC and their foreign affiliates from radio and television (among many other users) that broadcast or use songs owned or licensed by members of their society. Royalties are distributed to writers and publishers under formulas established by each society that determine the appropriate distribution to each writer and publisher.</td>
</tr>
<tr>
<td><strong>Synchronization Royalties</strong></td>
<td>Songwriters and copyright owners receive payments when a song they own and/or they have synchronized to a film or videotape, regardless of who performs the song. Royalties are based on negotiated agreements between the copyright owner and the licensee.</td>
</tr>
<tr>
<td><strong>Artist Royalties</strong></td>
<td>Artists receive payments under their contracts with record companies based on record sales. The royalties are for the recording artist, not the songwriter or publisher.</td>
</tr>
</tbody>
</table>

**Bowie Rights: What's it Worth?**

DCR looks to the historical revenue generating ability of the assets to develop a base case assumption. DCR then creates different cash flow scenarios for the transaction. For example, if the historical numbers reveal that earnings have been very stable over a number of years, DCR might assume 0% growth in the revenues over the life of the transaction. Should the historical cash flows show signs of variability, DCR might stress these numbers more heavily by implementing a negative growth assumption. If the annual cash flows are inadequate to repay the bonds, then the note holders will look toward the recovery proceeds from the liquidation of the music catalog. A portfolio is valued by applying a multiple to its most recent earnings or an average of the last five years' earnings.

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Securitization of a DBS Land property

DBS Land sells 6BR to SPV, Clover, for S$835m

Clover issues S$878m of debt: 66% to public, 34% to DBS Land

Senior Bonds: 10 year, 6%, plus “share of gain if building is sold”

- **ABS or Corporate Debt?**

  **KEY ISSUES:**
  - WHAT ARE THE ASSETS BEING TRANSFERRED?
  - ARE THEY IDENTIFIABLE FINANCIAL CLAIMS ON SPECIFIC BORROWERS?
  - IS THE POOL AMENABLE TO STATISTICAL AND HISTORICAL ANALYSIS?
  - IS ITS VALUE DEPENDENT ON THE SUCCESS OF THE SPONSOR’S BUSINESS?
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