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?
**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
**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**
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**

<table>
<thead>
<tr>
<th>Category</th>
<th>Nature</th>
<th>Remedy</th>
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<tbody>
<tr>
<td>Political</td>
<td>Nationalization</td>
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<td>Taxes &amp; the like</td>
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<td>Technical</td>
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<td>Repairability</td>
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<td>Construction</td>
<td>Delays</td>
<td>Use top experts</td>
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<td>Overruns</td>
<td>Performance bonds</td>
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<td>Repairability</td>
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<tr>
<td>Legal</td>
<td>Access to control in default</td>
<td>Security interests</td>
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<td>Fire, injury, etc liability</td>
<td>Default defn</td>
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<td>Rail links</td>
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**Sample Structure**

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Sponsors / Shareholders -> SINGLE PURPOSE PROJECT COMPANY

Equipment Supplier  
Warranties and Supply Agents 
Turnkey Construction

Contractor

Feed Stock (e.g., fuel) Supplier
Long Term Agreement

Operator
Operations & Maintenance Mgmt

Purchaser

Offtake (e.g., power purchase) Agreement

Arranging Bank

SYNDICATE

Banks

Other Project Participants:
- Currency and Interest Rate Hedge Providers
- Multilaterals and EDA’s
- Legal Counsel
- Technical Consultants
```
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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**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

Korea Gas
LNG payments

Security Trustee
Debt service payments

Mobil QM
(Mobil Corp.)

Contractors

Joint venture agreement
30%
70%

Qatargas
(State of Qatar)

Ras Laffan
Liquified Natural Gas

Korea Gas
LNG payments

Security Trustee
Debt service payments

Bondholders

Banks

Export Credit Agencies

Debt service payments
Residual payments
Contract payments
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.

[Diagram showing flow of ownership and financial obligations]

- Major Latin American Oil Producer
- Oil
- Purchase agreement
- Oil Trading Co, Cayman Islands
- Notes
- Investors
- Debt interest and principal
- Highly rated US oil buyer
- US$ payments
- Trust
**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 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

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**West Java Power Project**

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PD Dayalistrik Pratama

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<td>Guarantee</td>
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<tr>
<td>US$ Interest and principal on loan</td>
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<td>Guarantee of interest and principal</td>
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<td>Purchase agreement</td>
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<td>Guarantee</td>
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<td>Rupiah payments for electricity</td>
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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