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LNG in World Markets

Mozambique LNG to Sound Out Banks; Offtake Deals Nearly Complete

The Area 1 partners are preparing to hold meetings with commercial banks in May to gauge lender appetite for their 12.88-MMt/y Mozambique LNG project as offtake arrangements are nearly complete.

They will seek around $14 billion-$15 billion in debt for the Anadarko-led mega-project, the second liquefaction scheme in Mozambique to seek financing, after 3.4-MMt/y Eni-led Coral South FLNG reached financial close last year.

The bank roadshow is designed to give project partners and their financial advisor, Societe Generale, an idea of lender appetite and debt-pricing. A formal launch to secure the funding is expected toward the end of the third quarter or beginning of the fourth quarter, Poten understands.

A final investment decision (FID) would depend on finalizing sales and purchase agreements for 3.4 MMt/y. Anadarko has signed agreements to sell 5.1 MMt/y and has said it needs to reach the 8.5-MMt/y threshold to be able to proceed with the project.

However, Poten understands it has achieved more than 8.5 MMt/y in offtake agreements for which major details have been finalized. In February Mozambique LNG announced it had executed its first SPA with Electricite de France of 1.2 MMt/y. Other agreements are in the process of becoming binding contracts. For example Japan's Tohoku Electric and Thailand's PTT are among the buyers that have been announced.

Unannounced agreements include another Japanese utility and Chinese state-owned CNOOC, industry sources say. Pricing for the Asian buyers, except Tohoku Electric, are said to be indexed to Brent in the upper 11% range. Tohoku Electric signed an agreement for four cargoes a year at a small discount to the JLC index. CNOOC is said to have agreed to the key terms and the next stage would be proceeding to a binding sales and purchase agreement for 1.5 MMt/y.

The project's first onshore LNG plant will consist of two circa 6-MMt/y trains in Afungi to monetize the Golfinho-Atum field, located entirely in offshore Area 1. Anadarko operates 75-Tcf Area 1 with a 26.5% working interest. Other partners are Mozambique state-owned Empresa Nacional de Hidrocarbonetos (ENH) with 15%, Japan's Mitsui (20%), Indian companies ONGC Videsh (16%), Bharat PetroResources (10%), Oil India (4%) and Thailand's PTT Exploration & Production (8.5%)

ECAs in focus

A sizeable portion of the debt for the Mozambique LNG project, which could cost around $20 billion, is expected to come from export credit agencies (ECAs) both as direct lending and as comprehensive cover for the underlying funding. For $8.2-billion Coral South FLNG, which had Credit Agricole as financial advisor, five ECAs and 15 banks signed an agreement at the end of last May to provide $4.7 billion of debt (See **LNGWM**, Jun '17).

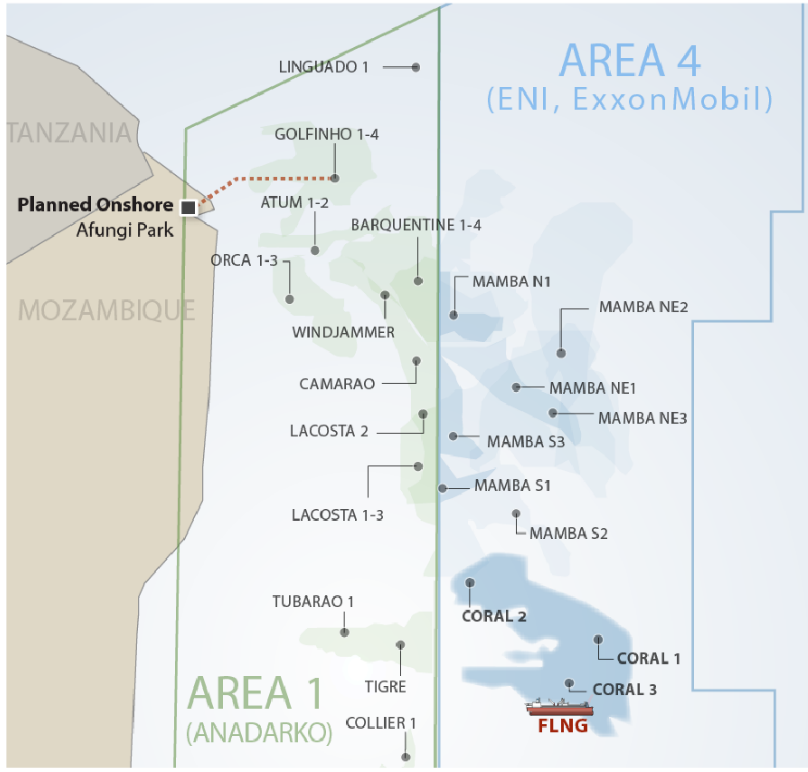
The ECAs acting as pathfinder lenders on Mozambique LNG include the Japan Bank for International Cooperation, Nippon Export and Investment Insurance, Export-Import Bank of China, Italy's Sace and Export-Import Bank of the United States (US Exim).

However, US Exim is in crisis. While its direct loans to liquefaction projects have been large, reaching $3 billion (a $2.2-billion direct loan and $800 million in guarantees) to ExxonMobil-led Papua New Guinea LNG, US Exim it is now unable to authorize transactions over $10 million. It has been without a chairman since US President Donald Trump took office and the last of its board members quit in March.

If US Exim does not begin operating fully, any gap left in Mozambique LNG's funding plan could presumably involve more direct lending from other ECAs or lenders. China Exim, for example, extended a loan worth $6 billion to Russia's arctic Yamal LNG project, and compatriot China Development Bank also provided $6 billion to the project, which reached financial close in 2016.

ECA use is typically determined by the nationality of the sponsors, EPC contractors, equipment and materials providers, and possibly LNG offtakers. Instead of Mozambique risk, an ECA-covered tranche carries the risk of the ECA itself. ECAs, which are typically from OECD countries with high credit ratings, mitigate risk in emerging market transactions and can also provide extra liquidity needed in multibillion-dollar deals.

Mozambique Area 1 and 4



Credit enhancement for ENH

Fundraising for the Mozambique LNG project is unlikely to be affected by Mozambique's ongoing debt crisis. It bodes well for Mozambique LNG that the country's first ever liquefaction project, Coral South FLNG, was able to raise financing last year despite the debt crisis. Coral South FLNG had the added complication of being the first floating liquefaction scheme to use project finance. Coral South FLNG, as a floating project, could be considered to have less country risk as the vessel could be potentially taken elsewhere, although this would not be easy to do.

Limited recourse project finance affords lenders special protections and in developing countries there is typically a provision for offshore debt servicing. In classic liquefaction project finance, lenders will be drawn by the uplift from the credit strength of the offtakers and the risk reduction offered by the ECA participation.

Sponsors will provide a completion guarantee for the Mozambique LNG project. For ENH's portion of this, the ECAs require credit enhancement, which will be provided as a government guarantee. Despite Mozambique's debt load, the guarantee has not been viewed onerously by the donor community because Mozambique needs the LNG projects to get back on its feet. It can service its debt only through monetization of its gas reserves. On conclusion of its Article IV consultations with Mozambique in March, the International Monetary Fund (IMF) acknowledged a large government guarantee may need to be issued in the short t erm in favor of ENH to ensure that the Anadarko LNG investment can move forward.

It noted that as ENH would be liable for 15% of this debt, the guarantee required by the consortium of ECAs and commercial banks assembled to provide this financing could amount to about $2.25 billion. Together with the equity borrowing from the partners of about $1.5 billion, that would increase the publicly guaranteed debt stock.

The guarantee could only be called in the extremely unlikely event the project was not completed or if there were extraordinarily lengthy delays in project completion. But it should be stressed that no government guarantee would be needed for ENH's equity share for Area 1 because this would be financed by the Anadarko-led consortium with repayments coming out of LNG revenues during the first years of the project's operation. So ENH's interest would be carried.

ENH also holds a 10% share in the Area 4 projects and, while no government guarantee has been required for the debt financing, that 10% share would increase publicly guaranteed debt because it represents borrowing from external partners. The ENH shares in both Area 1 and Area 4 have been included in the IMF's debt sustainability analysis without increasing gross financing needs because the debt service will be out of the projects' revenues – from ENH's share in profits.

The government guarantee for ENH is important because it furthers commercial alignment between the government and project partners. It incentivizes all parties to solve any delays in order to avoid project lenders calling on the guarantees.

In addition to the debt roadshow, ENH will also do a roadshow to raise around $2 billion of equity needed for the Mozambique LNG project. The structure for the equity instrument would need to fit within the project structure, so the process is being led by Societe Generale in partnership with London-based Lions' Head Global Partners, which specializes in infrastructure investment in African and international capital markets.

Area 4 partners eye making FID in 2018 or 2019

The Area 4 partners want to make a final investment decision (FID) in 2018 or 2019 on their LNG export project, which will monetize part of the Mamba reserves located entirely in 85-Tcf Area 4. This is also expected to consist of two 6-MMt/trains (See **LNGWM**, Nov '17). Given the structuring work that was carried on Coral South FLNG, the partners, and their financial advisor Credit Agricole, should be able to move quickly on a project financing on the land-based liquefaction plant. It is possible that a formal approach to commercial banks for funding could be made this year.

The two groups' initial development of land-based liquefaction projects will use reserves of either Area 1 or Area 4, while overlapping reserves (those that straddle the boundary between Area 1 and Area 4) will be developed later by both Area 1 and Area 4 participants. Eni and Anadarko signed the unitization and operating agreement for the straddling reserves in December 2015. However, since Exxon Mobil took a stake in Area 4 last year, it has been looking to renegotiate aspects of this agreement, Poten understands.

ExxonMobil now owns a 35.7% interest in Eni East Africa – to be renamed Mozambique Rovuma Venture – with partners Eni (35.7%) and CNPC (28.6%). Mozambique Rovuma Venture owns 70% in Area 4, with the remainder held by ENH (10%), Kogas (10%) and Portugal's Galp Energia (10%).

The Decree Law – signed in 2014 covering Mozambique's Rovuma Basin reserves – allows Area 1 and Area 4 participants to develop 12 Tcf of reserves outside the reserves that straddle the boundary between Area 1 and Area 4.