Rio Grande LNG Obtains Financing, Signals Early July FID

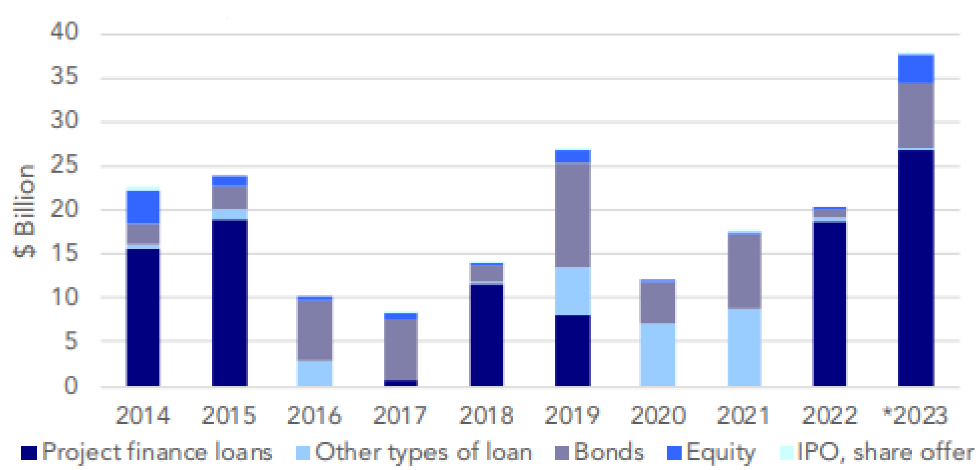
NextDecade has pushed back a final investment decision (FID) on Phase 1 of its Rio Grande LNG export project in Texas until early July as the Houston company works on the final details of financial agreements with a lender group that includes Asian, European, Middle Eastern and North American banks.

The 17.5-MMt/y project has received binding commitments from a syndicate of lenders in an amount sufficient, that when combined with expected project equity funding, will allow FID on the first three out of five liquefaction trains at the Port of Brownsville site.

NextDecade previously told the market that the company would reach FID before the end of 2Q 2023 but said on June 29 that it had pushed back its target date due to the observance of holidays around the world. The Muslim world began celebrating Eid al-Adha on June 28 while US banks will be closed in observance of the Fourth of July holiday.

The US LNG export project, which will be the third to reach FID this year, comes roughly two weeks after NextDecade signed supply and investment deals with French energy giant TotalEnergies and US private equity firm Global Infrastructure Partners (GIP).

US Project Funding



**Through to June 30, 2023. Some financings have not closed so amounts could change*
Includes externally raised equity

Under the deal, GIP would become a majority investor in the 17.5-MMt/y Phase 1 of Rio Grande LNG while TotalEnergies would acquire a 16.67% stake. Both GIP and TotalEnergies have options to invest in Phase 2 of Rio Grande LNG, which will include Train 4 and Train 5 as well as a planned carbon capture and sequestration (CCS) project at the Port of Brownsville site.

Closing in on $12 billion of debt

NextDecade and its financial advisors, MUFG and Macquarie, are nearing financial close on what is understood to be $12 billion of debt. Banks are keen to provide loans to the project because it has diverse investment-grade offtake customers from Europe and Asia, offtake and equity investment by portfolio player TotalEnergies, is using Bechtel as an EPC contractor and has support from other big equity partners. In addition to TotalEnergies and GIP, partners coming into the project at an equity level are understood to be Singapore-based GIC and Abu Dhabi's Mubadala Capital.

The tenor of the debt is understood to be at seven years, which is typical for US projects, with a margin of 225 bps, which is low for a newcomer to the industry. Sempra's Port Arthur LNG got margins of 200 bps pre-completion and 225 bps post-completion, while Plaquemines Phase 1 and Phase 2 were around 200 bps.

Houston-based NextDecade holds $11.2 billion worth of engineering, procurement and construction (EPC) contracts with project builder Bechtel with a price that remains valid until mid-July. If the project reaches FID soon, initial production is expected to begin in 2027. In a June 14, 2023 decision, commissioners with the Port of Brownsville voted to extend the deadline for NextDecade's consent and estoppel agreement until July 20, 2023.

Financing costs, owners' costs and contingencies and other charges need to be added to EPC costs to encompass the full project cost. The project sponsors are seeking $12 billion in debt and if the debt/equity ratio falls in a typical range of 65:35, this suggests that equity could be around $6.3 billion. TotalEnergies' 16.67% share of the $6.3 billion in equity would require the company to pay around $1 billion.

However, this is just a back-of-envelope calculation, and the debt/equity ratio has not yet been disclosed. Also, project developers will look to optimize debt and equity as they prepare to reach financial close, and amounts tend to shift around.

If estimated debt and externally raised equity is included in the tally, US LNG export project funding has jumped over $35 billion which is its highest ever level (see Chart). The 2023 total also includes funding for Phase 1 of Sempra's 13.5-MMt/y Port Arthur LNG and Venture Global's 6.7-MMt/y Plaquemines Phase 2 which both reached financial close in March.

TotalEnergies stock deal

As part of its deal with NextDecade, TotalEnergies has also agreed to acquire 17.5% of the company's common stock in three tranches valued at a total purchase price of $219.4 million, which is an average price of approximately $4.86 per share.

The first tranche, which was valued at $40 million, was sold on June 13 and gave TotalEnergies ownership of 5.1% of NextDecade's common stock. The second tranche of $110 million will be issued and sold at the same price after FID on Phase 1. The third tranche will be issued and sold in an amount such that the combined stock purchases equal 17.5% of the outstanding common stock of NextDecade after the closing of the third tranche.

The issuance and sale of the common stock in the third tranche is subject to approval by NextDecade shareholders. Based on current estimates, NextDecade expects to sell approximately 45.1 million shares of common stock to TotalEnergies.

Rio Grande boost to TotalEnergies' US portfolio

As part of the NextDecade deal, TotalEnergies entered into a sales and purchase agreement (SPA) to buy 5.4 MMt/y of LNG for 20 years on a free on board (FOB) basis indexed to Henry Hub. Negotiations for the SPA are understood to have concluded at 113% of Henry Hub and a liquefaction fee in the $2.20s/MMBtu range, a price hike from the original level at slightly over $2/MMBtu.

NextDecade was said to be seeking a price increase on liquefaction fees from its customers to ensure banks that the economics of the project work. In addition to TotalEnergies, most of the project's other customers are understood to have accepted the price hike on the condition that remaining buyers also agree.

Subsequent US projects will also need to secure higher prices to meet the rise in construction and financing costs. The deal between NextDecade and TotalEnergies is the second-largest SPA in the US LNG industry, only slightly below the 5.5-MMt/y SPA announced in July 2015 between Cheniere Energy's Sabine Pass export terminal and portfolio player BG, which was later bought by Shell. TotalEnergies, Mitsui & Co. and Japan LNG Investment LLC signed an April 2022 heads of agreement with Sempra for a combined 6.75 MMt/y from the Phase 2 expansion of Cameron LNG in Louisiana, but the deal still needs to be finalized and offtake volumes will be divided among the shareholders.

Meanwhile, a request for a rehearing on remand by environmentalists opposed to the Rio Grande LNG project was denied on June 22 because the Federal Energy Regulatory Commission did not reply within the allotted 30-day period. This meant the request to reconsider an April 20 decision to lift a court-ordered remand of permits for the plant was deemed to have been denied.