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## North American Refinancing Deal of the Year 2006

# Sabine Pass: Twin tracked

Cheniere Energy completed two refinancings for its Sabine Pass liquefied natural gas terminal in 2006. In doing so it demonstrated the keen interest in such assets in both the bank and high-yield bond markets. It also used its success in signing up capacity contracts to leverage the assets and raise additional funds for development.

Cheniere Energy developed the first greenfield LNG receiving terminal in the United States since 1981, when Lake Charles was built, and closed a year later. The Sabine Pass facility was the subject of a $1.027 billion construction financing in February 2005. At close, the terminal had a design capacity of 2.6 billion cubic feet per day, and in September 2004 had signed a terminal use contract with Total for 1 billion cubic feet per day.

The cashflows from this contract were sufficient to support the debt for the first phase of the project. But as the deal went into syndication, through bookrunners HSBC and SG, Cheniere signed up Chevron to take a firm 700 million cubic feet per day, which it later increased to 1 billion. The arrangers were able to use the news to bring in additional commitments, and increased the size of the loan from $714 million to $822 million.

But the first financing did not bring Cheniere the full financial benefits of the second contract. The sponsor raised $300 million in equity the previous December, and closed a $600 million subordinated loan from Credit Suisse in August 2005 to fund its equity. But the B loan did not come as cheaply as project finance debt, and did not provide sufficient funding for an expansion.

Cheniere received clearance from the Federal Energy Regulatory Commission in July 2006, a year after it was submitted, for an expansion to 4 billion cubic feet per day. The new expansion does not come with any additional terminal use contracts, excepting 1.5 billion cubic feet contracted to another Cheniere subsidiary.

But the Chevron contract is already sufficient to support the debt necessary to build the second phase. So even before the approval came through, and with contractor Bechtel still at the project site, the developer approached the two lead banks to refinance the construction loan and provide additional debt to support the expansion.

The scarcity of quality LNG assets allowed Cheniere to realise significantly better terms from banks. It did not have to contribute any additional equity, so that leverage on the assets now stands at 86%. The sponsor also did not have to sign a fixed-price engineering, procurement and construction contract for the expansion, thus lowering the costs of the project.

The $1.5 billion debt facility, with the same joint lead arrangers and bookrunners as the first, closed on 21 July, the day after the FERC approval. The new loan breaks down into $961.9 million earmarked for the first phase and $538.1 million for the second. The loan was repayable in 19 semi-annual installments with a mortgage style amortization, and a balloon payment due at maturity in 2015. The loan has a commitmment fee of 50bp, and is priced at between 87.5bp and 112.5bp, a saving of between 37.5bp and 50bp over the original. Not all of the participants in the original loan signed up for the expanded package, but the remainder were comfortable writing larger tickets.

The package, when combined with a swap that fixed Libor at 5.26%, allowed the sponsor to complete construction at the terminal, located in Cameron Parish, Louisiana, and unaffected by 2005's hurricanes. It was the largest oil and gas deal to close in the US, although project financings in this sector, particularly in LNG, have been infrequent.

**Cheniere demonstrates the importance of maintaining financial flexibility – and the importance of good supply contracts.**

Cheniere's remaining financial burden was the Credit Suisse-provided B loan, which carried a margin of 275bp over Libor, and was swapped into fixed ratee for an effective interest rate of 7.25%. This rate, while not as usurious as those of many of the B loans that struggling utilities closed earlier in the decade, was still a burden on the cashflows of Cheniere, since it swept all available cash toward prepaying the loan rather than allowing the corporate parent to redeploy it.

Thus, late in October, Cheniere appointed Credit Suisse to refinance both its earlier B loan and the project finance debt in the high yield market. While project finance banks would not countenance the addition of the $600 million holding company debt to the senior debt, the high yield market was comfortable with such a credit profile.

The high-yield bond market can demonstrate lumpy liquidity, the more so since the leveraged loan market has taken over the role it used to have in financing riskier infrastructure assets. But it can be competitive. The issue, which CS priced on November, consisted of $550 million of 7.25% senior secured notes due 2013 and $1.482 billion of 7.50% senior secured notes due 2016.

A simple comparison of the rate on the bonds and the project debt demonstrates that Cheniere did not receive a huge pricing benefit from the bond refinancing. But the $2.032 proceeds not only allowed Cheniere to complete the project's construction, but it also enabled it to free up some cash to spend on its other development prospects.

Cheniere is the only independent LNG terminal operator of any size in the US. Most other operators are either oil and gas majors or utilities, which have the means and resources both to finance terminals and to find the gas to supply them. Cheniere demonstrates the importance of maintaining financial flexibility – and the importance of good supply contracts – in staying competitive with the larger players. ■

### Sabine Pass LNG

**Status:** Bank refi closed 21 July, bonds closed 9 November 2006
**Size:** $2 billion
**Location:** Cameron Parish, Lousiana
**Description:** Two stage refinancing of LNG receiving terminal with 4 billion cubic feet per day capacity.
**Sponsor:** Cheniere Energy
**Debt bookrunners:** HSBC, SG
**Bond bookrunner:** Credit Suisse
**Sponsor legal counsel:** Andrews Kurth (bank and bonds)
**Lender legal counsel:** Milbank Tweed
**Underwriter legal counsel:** Latham & Watkins