

Al-Waha Petrochemical Company

A Brief Case Study

THE PROJECT AND SPONSORS

This US\$526 million Islamic project financing was originally developed by the Al-Zamil Group of Saudi Arabia to leverage competitive advantage for users of liquid petroleum gas (LPG) in Saudi Arabia, due to the Saudi government's policy of promoting the development of a domestic petrochemical industry. (Domestic consumers of LPG are able to obtain a reliable source of LPG at a price significantly below international prices.)

As a result of a feasibility study conducted by Chem Systems, the Al-Zamil Group decided to pursue the development of a propane dehydrogenation (PDH) plant integrated with a polypropylene (PP) plant and obtained an allocation of propane feedstock from Saudi Aramco. After the formation of Sahara Petrochemicals in May 2004, with a capital of SR1.5 billion (US\$400 million), to act as a holding company for this project and other investments in the Kingdom's petrochemical industry, development of the project was taken up by Sahara in anticipation of the formation of Al-Waha. Recognizing the importance of having an experienced polyolefin industry company involved in the project, the Al-Zamil Group held discussions with a number of potential co-investors.

Ultimately, Basell was selected as the preferred partner. Basell was formed in 2000 as a 50:50 joint venture between BASF and Shell, combining all of the partners' polypropylene and polyethylene plants, together with certain ethylene crackers. Basell is the largest producer of polypropylene globally and the largest producer of polyethylene in Europe. The precursor companies to Basell were the polypropylene producers Targor, 100% owned by BASF at the time of the merger; Montell, 100% owned by Shell; together with Elenac, a 50:50 BASF/Shell joint venture in polyethylene. On the 1st August 2005, Basell was acquired by Access Industries, a privately held, New York-based industrial holding company founded in 1986 with investments worldwide in the oil, aluminum, coal and telecommunications sectors.

The Al-Waha plant is being developed in Al-Jubail Industrial City on the eastern coast of Saudi Arabia on a plot of land leased from the Royal Commission for Jubail & Yanbu.

The concept of the project is to take propane gas and dehydrogenate it to produce a polymer grade propylene stream. The propylene produced will then be used by the PP plant to produce homopolymers, produced by polymerization of propylene alone, and copolymers which include a small percentage of ethylene in the polymer chain. The plant will comprise two principal production units: a 460,000 tpa propane dehydrogenation (PDH) unit and a single polypropylene (PP) unit with a capacity of 450,000 tpa. There will also be various additional facilities for

power supply, waste water treatment and cooling seawater supply. The plant is to be constructed and commissioned over a period of 35 months pursuant to a lump sum turnkey EPC contract with a consortium of Tecnimont and Daelim.

PROJECT COSTS AND FINANCING PLAN

Total project costs: US\$939.2 million

Financing plan

Source	Amount (US\$ m)	%
Equity	328.7	35.0
SIDF loan	106.7	11.4
Bank facilities/PIF loan	503.8	53.6
Total	939.2	100.0

COMMERCIAL BANK FACILITY (ISLAMIC)

Total facility size: US\$526.5 million split as:

- Base facility (to cover base project cost): US\$503.8 million.
- Standby facility (in respect of potential increases to base project costs): US\$22.75 million.
- The sponsors will contribute US\$12.25 million in respect of potential increases to base project costs in addition to the base equity contribution of US\$328.7 million.

ISLAMIC FINANCING STRUCTURE

The Islamic facility has been structured on the basis of:

- Musharakah Mutanakissa and Musharakah alal Musha' (co-ownership arrangement);
- Agad Tarweed (procurement); and
- Ijarah Mawsufah fi al Dimmah (forward lease agreement).

- A co-purchase agreement was signed between the investment agent (on behalf of the participants or banks) and Al-Waha, pursuant to which Al-Waha agreed to take all necessary steps to construct the plant.
- The participants will fund a portion of the costs incurred by Al-Waha under the engineering procurement construction (EPC) contract and will have an ownership interest in the plant equivalent to the amount of funds plus accrued funding costs.
- At the end of the construction period, the participants will lease their ownership interest in assets to Al-Waha for a period of 11 years.
- In the post-completion period, Al-Waha will purchase portions of assets owned by the participants at six-monthly intervals pursuant to a purchase undertaking.

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Al-Waha Petrochemical Company (continued...)

- An account structure was established at the financial close to facilitate the operation of a cash waterfall mechanism. Prior to project completion, the account structure will work so that funds from the sponsors, participants and SIDF/PIF will flow through a disbursement account. Following project completion, the waterfall mechanism will follow the principles of a typical project finance structure, which treats operating costs as the most senior item of expenditure, followed by lease rentals and debt service obligations to the SIDF and PIF.
- the Islamic project finance deal of 2006.
- This is a unique transaction as it was the first private petrochemical project financing in Saudi Arabia to be completely underwritten and financed in a Shariah compliant manner.
- ABC Islamic Bank and Arab Banking Corporation were mandated lead arrangers for this facility, along with Gulf International Bank, Bank Saudi Fransi, Bank Saudi Hollandi, Bank Al-Jazeera and Saudi British Bank.
- The Islamic financing structure was approved by Dr Mohamed Ali Elgari, Sheikh Nizam Yaquby and Dr Muhammad Imran Usmani.

HIGHLIGHTS OF THE DEAL

- The Al-Waha Petrochemicals Company US\$526 million Islamic project financing facility was recognized as



The authors are from
ABC Islamic Bank

TERMSHEET

Al-Waha Petrochemical Company

INSTRUMENT	Musharakah mutanakissa and Musharakah alal musha' (co-ownership arrangement), Aagad tarweed (procurement) and Ijarah mawsufah fi al dimmah (forward lease agreement)
BORROWER	Al-Waha Petrochemical Company
PRINCIPAL ACTIVITIES	Petrochemical production and sales
DATE OF SIGNING	14 th November 2006
ISSUE SIZE	US\$526 million
DATE OF ISSUE	14 th November 2006
MATURITY	14 years
PROFIT MARGIN	From financial close until financial completion date – 2.05% p.a; From financial completion date until the 7 th anniversary of financial close – 1.95% p.a; From the 7 th to the 10 th anniversary of financial close – 2.10% p.a; From the 10 th anniversary of financial close until the final maturity date – 2.25% p.a;
REPAYMENT SCHEDULE	Amortizing
LEAD ARRANGERS AND UNDERWRITERS	ABC Islamic Bank and Arab Banking Corporation, Gulf International Bank, Bank Saudi Fransi, Bank Saudi Hollandi, Bank Al-Jazeera and Saudi British Bank
LENDERS' LEGAL COUNSEL	Norton Rose
PURPOSE OF ISSUE	Construction of petrochemical plant
AUTHORIZED PAID UP CAP	US\$328.7 million
IDENTIFIED ASSETS	Petrochemical plants in Jubail
FINANCIAL ADVISOR	HSBC
SHARIAH ADVISORS	Dr Mohamed Ali Elgari, Sheikh Nizam Yaquby and Dr Muhammad Imran Usmani