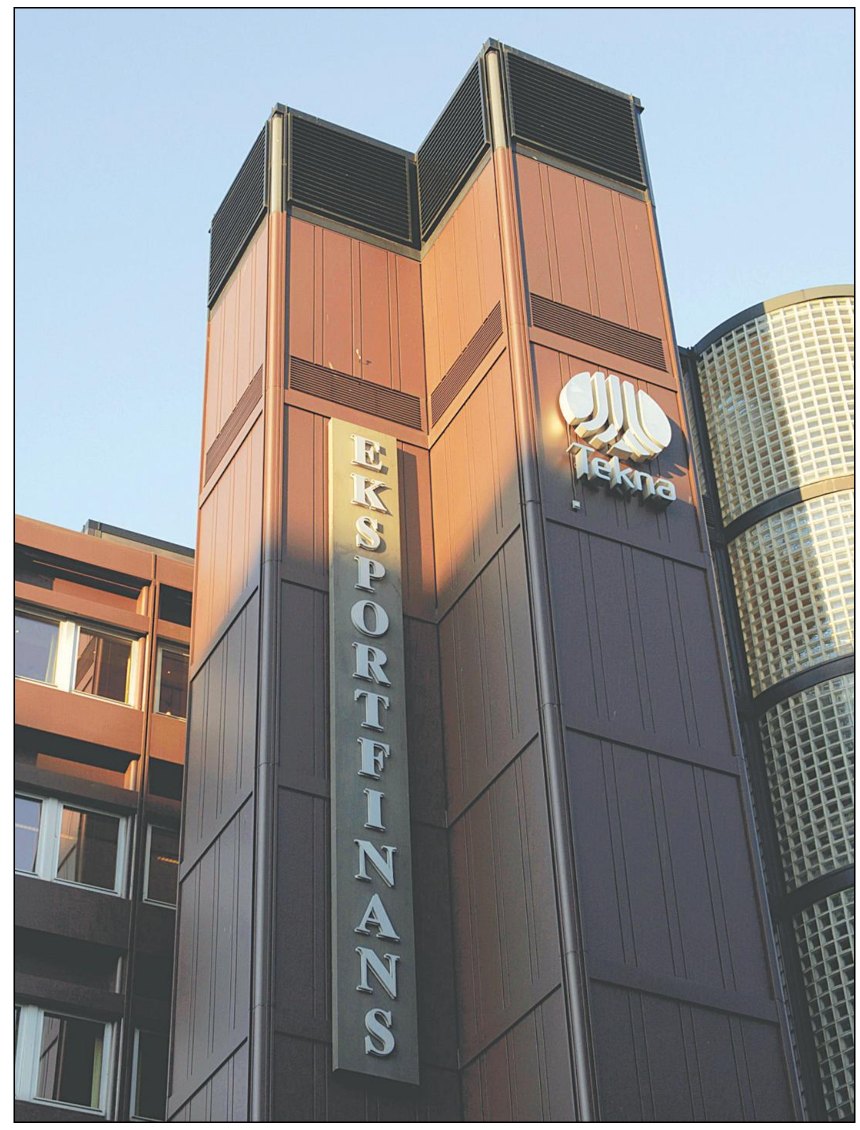
Norway to wind down offshore credit agency



Regulatory change: Eksportfinans has been a lynchpin in several marquee deals. Bloomberg

Eksportfinans to immediately commence preparations for a controlled run-off, which will most likely take several years

Barry Parker – New York

THROUGHOUT the transport and energy businesses, 'big ticket' capital items have benefited from the various flavours of support by export credit agencies, or ECAs, which have played an integral role in financing.

As the prices of the latest-generation drillships had reached upward of $800bn in the peak market of 2007 into early 2008, ECA participation in the form of loans and/or guarantees of repayment provided an important piece of finance packages.

The financing crisis of late 2008 brought about diving oil prices and a halt in ordering of expensive oil exploration rigs. Rising oil prices, and sparks of economic recovery, have fuelled rig ordering throughout 2011, especially in the first half of the year, but the financing landscape is much different.

One dramatic change has been the Norwegian government's recent decision to wind down Eksportfinans, which has been a lynchpin in several marquee deals in the sector. The agency, owned 15% by Norway's government, with a group of Scandinavian banks owning the balance, would act alongside commercial lenders, adding debt finance which in effect financed Norwegian inputs to technologically complex drilling rigs built in Far Eastern yards.

High-profile examples from recent years abound. In December, 2010, the Norwegian agency joined a club of lenders, contributing $160m towards a $1bn, 18-lender debt package on two drillships, to be delivered in the first quarter of 2012 from Daewoo to a joint venture of two Brazilian energy services giants, Odebrecht and Delba. The highly complex vessels, ODN 1 (to be named *Norbe X*) and ODN 2, set to enter into lengthy contracts with Petrobras, will include "Norwegian deliveries to Daewoo by Norwegian exporters such as Aker Solutions, National Oilwell Norway, Kongsberg Maritime and ABB".

Another Norwegian institution, GIEK — the Norwegian Guarantee Institute for Export Credits — provides guarantees on the repayment of the export credit debt. A different Brazilian owner with a long-term charter to Petrobras, Etesco, will be taking delivery of a Samsung-built drillship, *Etesco VIII*, early next year.

Ten-year debt financing of $650m for the drillship, costing $820m overall, came from a group of banks that included multiple Asian and European lenders.

Financing discussions on two drillships said to cost about $850m each, already delivered to Odebrecht, *Norbe VIII* and *Norbe IX* — both working for Petrobras — were conducted in the aftermath of the Lehman Brothers collapse in September, 2008, with a closing in mid-2009.

The eventual $1.3bn deal, which included 12 lenders, also saw the combination of Eksportfinans/GIEK and a Korean agency, the Korean Export Import Bank.

Long-term charters in Brazil and elsewhere support long loan tenors, sometimes reaching 12 years, with a construction phase followed by an amortisation phase tied to a charter.

In another highly complex deal arranged around the same time by Citibank, Eksportfinans, complemented by finance from another Korean counterpart KEIC, joined an $850m financing for *Stena DrillMax Ice*, nearing its delivery from Samsung and likely to work in the Arctic.

The Norwegian ECA's contribution of $250m went towards equipment supplied by a list of vendors that included Norwegian equipment on the drillship supplied by, among others, National Oilwell Norway, Kongsberg Maritime, Rolls-Royce Marine, Norsafe, ABB Marine, Tamrotor and Hernis.

Songa Drilling's Songa Eclipse platform, delivered from Jurong and now starting work for Total in Angola, sources $200m of Eksportfinans credit out of total debt of $951m.

Other Norwegian owners benefiting from Eksportfinans include Seadrill, Sevan Drilling, Aker Drilling (now Transocean) and floating production, storage and offloading vessel owners Sevan Marine and BW Offshore.

Smaller vessels benefiting have included anchor handlers built for Siem, platform supply vessels built for Solstad and Farstad, and a seismic vessel built for Sanco Shipping — exports serving outside Norwegian waters.

The decision to shut the ECA was not based on any portfolio weakness, but rather, on difficulties in meeting requisite capital requirements.

An official pronouncement from Norwegian Prime Minister Jens Stoltenberg said: "The government intends to establish a state-funded scheme for export credit financing for the Norwegian export industry. The purpose is to provide financing that will ensure competitive conditions for Norwegian exporters."

For deals in place, it will be business as usual. Eksportfinans was telling its existing borrowers: "Eksportfinans' portfolio of existing loans will be managed by the company in the years to come. The company will immediately commence preparations for a controlled run-off, which will most likely take several years."

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Norwegian Prime Minister Jens Stoltenberg

A top executive at one borrower told Lloyds List that this due diligence suggests that existing loans will be unaffected by the new arrangements.

The government said an interim programme would be issuing new credit, with a preliminary allocation of NKr30bn ($5.2bn). The government release added that it would put a permanent financing scheme in place by mid-2012 which would absorb any interim deals, but in the meantime Eksportfinans would serve as a caretaker for maintaining the existing balance sheet.

Eksportfinans executive vice-president Elise Lindbaek said: "The NKr30bn is a preliminary limit; Eksportfinans has not had an upper limit."

Standard & Poor's analyst Per Tornqvist, in an online presentation, told listeners: "The driver for this process [the decision to wind down Eksportfinans] is a change in EU regulations." The essence of the change is that banks had previously enjoyed lowered requisite capitalisation when they were owned by other banks. Mr Tornqvist said that "suddenly, the [exposure] limits were reduced substantially, and Eksportfinans' business model is highly reliant on it being able to leverage [capitalisation] positions with other banks."

Essentially, with new capital requirements, including rules aimed at institutions where large exposures are concentrated, Eksportfinans' capitalisation would not be adequate for handling the big loans typically seen in the offshore energy sector.

Looking forward, Mr Tornqvist noted that the Norwegian government is a strong borrower, and "clearly has the possibility to borrow money under good conditions and on-lend that to Norwegian exporting companies".

He said that as long as such lending follows Organisation for Economic Co-operation and Development rules, "it could do so without formally being a bank, and that this may be a cheaper path, over time, than having to fully recapitalise Eksportfinans.

It also avoids the likely painful discussion with the two dozen bank stakeholders (dominated by DNB, Nordea and Danske Bank) about a big top-up of their capital investment in Eksportfinans, at a time that capital is in short supply all around. ■

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Pacific Drilling's New York listing confirms offshore strength

PACIFIC Drilling, originally backed by the Ofer family's Quantum Pacific Group and then launched in over-the-counter trading in Oslo, in April this year, has now been listed in New York, *writes Barry Parker in New York*.

Its recent prospectus provides insights into the workings of the Norwegian export credit body Eksportfinans and its interplay with commercial banking lenders.

The company's timing of both the drilling market and the equity markets (which found stability in late November, two weeks after the listing) has been fortuitous.

In its recent presentation at Dahlman Rose's Ultimate Oil Service and Drilling event in New York, chief executive Chris Beckett explained the company's mantra of "building a company from the ground up" while avoiding "the challenges of a legacy fleet".

The first drillship, *Pacific Bora*, began work in August this year for Chevron, in Nigeria, for three years firm at $475,000 per day with additional charterer's options.

Investors' responses to the massive Norwegian offer (where some $600m was raised, still leaving Ofer interests with control of more than 70% of the equity) and the smaller New York offering (which netted $46m), indicate that Pacific's positioning as a pure play ultra deepwater company has struck a responsive chord with investors.

By Mr Beckett's reckoning, using net asset value calculations, each rig in Pacific Drilling's fleet of four drillships already out of the yard could be valued at $715m, with two newbuildings at Samsung valued at $650m each.

Samsung has granted an option, expiring at the end of January 2012, and as yet undeclared, on a seventh drillship.

Mr Beckett suggested that implied values for active ultra deepwater rigs, based on recent transactions, exceeds $900m each. Indeed, a recent implied price analysis by Morgan Stanley of Transocean's purchase of Aker Drilling values two Generation-6 semi-submersibles currently on the water working for the acquired company, Aker Barents and Aker Spitsbergen, at $990m each.

Export credit debt has played a vital role in the $1.8bn project-style loan facility underpinning the first of Pacific's four drillships, comprising $800m split between the South Korean export credit agency ($450m) and Norway's Eksportfinans ($350m).

Commercial debt of $1bn came in from nine banks, spearheaded by DNB and Crédit Agricole. With the first four drillships costing $3.1bn in the aggregate, $1.3bn of equity came in from Quantum Pacific to anchor the deal.

The initial debt is spread over four term facilities (one for each of the four original drillships), each, in turn, divided into three tranches — the commercial bank money, the Eksportfinans portion and the Korean ECA slice. Because the deal was struck prior to the drillships having contracts in place, the drawdowns have been conditioned upon the owners gaining (and the lenders approving of) contract coverage. By the end of November, contracts with top tier oil companies were in place on all four units (three of which can drill down to 12,000 ft water depths and 40,000 ft drilling depths).

Aker Spitsbergen could be worth $990m, according to Morgan Stanley analysis. Bloomberg

Unlike the 10-year contracts on the Odebrecht ships, Pacific Drilling's contracts are of shorter durations. One Petrobras deal, on *Pacific Mistral*, has a term of three years at $458,000 per day. With shorter charters, the tenors on the debt — not tied to specific charters, initially — are correspondingly less than the 10 and 12-year terms on the Brazilian borrower's commercial and ECA debt, where the Petrobras commitments underpin the lenders' security packages.

The bank debt, with a margin above the London interbank offered rate initially at 4%, matures at the end of the third quarter of 2015, while the Eksportfinans debt, guaranteed by GIEK and priced at the Commercial Interest Reference Rate (a currency-specific rate posted by the Organisation for Economic Co-operation and Development), matures at the end of the third quarter of 2019.

The CIRR rates have been at historical lows throughout 2011.

Eksportfinans, which is about to be wound down due to capital inadequacies in spite of the base of solid transactions, has stressed that existing financings, of drillships and other offshore assets, will remain in place.

Going forward, financiers and borrowers will be watching and assessing the impact on large financings for high specification floating equipment capable of drilling at water depths of 10,000 ft and greater. ■

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