



IFN Indonesia Forum 2013

Sadara Project Sukuk Structure

15 April 2013

Shibeer Ahmed
Partner
White & Case LLP

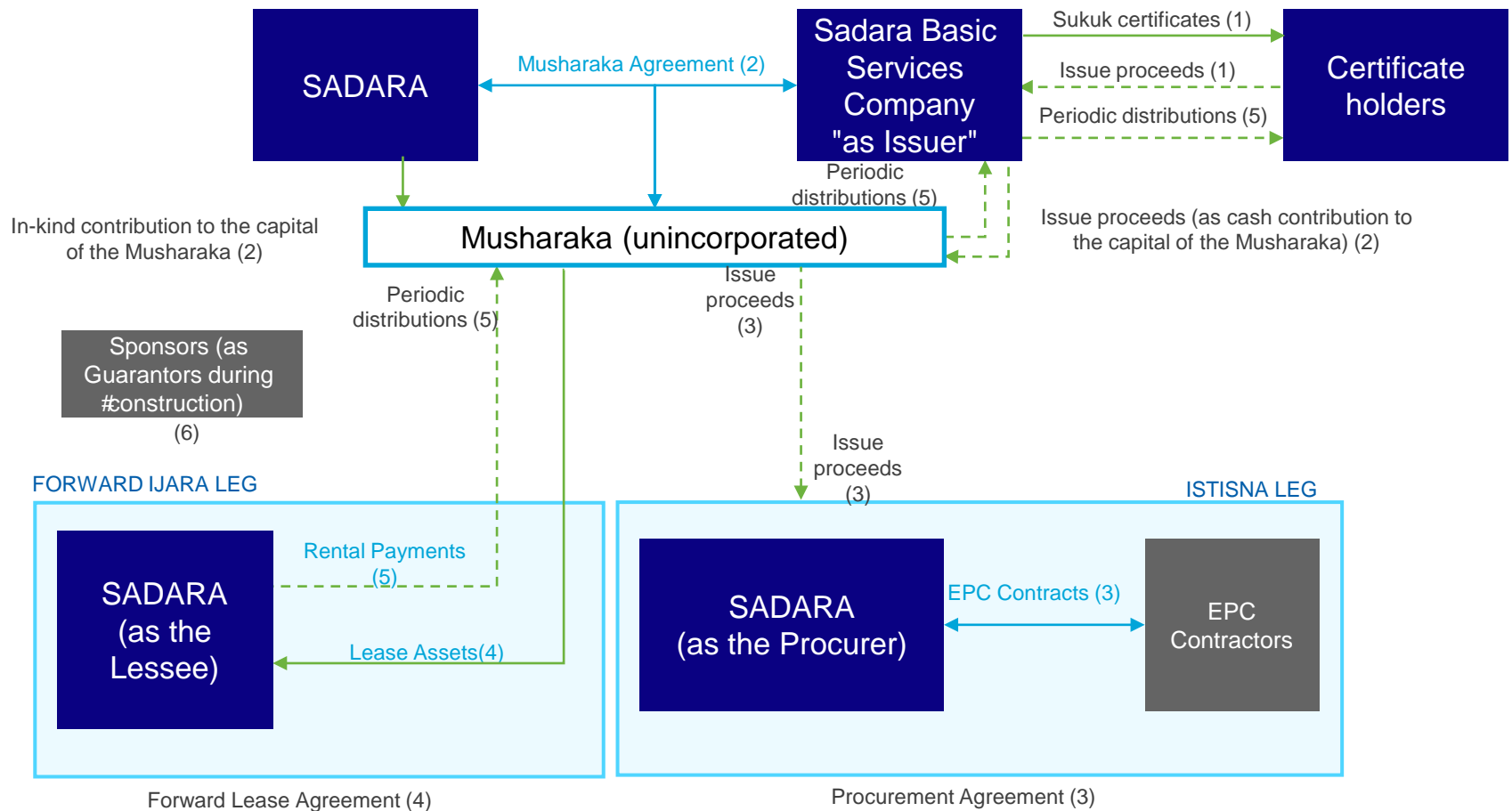
Background

- Islamic finance is very well suited for financing greenfield projects and refinancing developed projects
 - Strong track record in the GCC (and wider ME) region of using a combination of a contract for manufacture (Istisna) and Forward Lease (Ijara Mawsufa fi al Dimmah) structures (and Wakala and Forward Lease structures used Saudi Arabia) for financing development projects
 - Most major commercial banks, export credit agencies and development finance institutions have experience of co-financing major projects which include one or more Islamic finance facilities (including the recent approx. US\$10 billion Barzan Gas Project in Qatar and current approx. US\$5 billion and the Phase II EMAL Aluminium Project in the UAE)
- Structuring project finance Sukuk raises additional to those which have to be dealt with in the context of Islamic bank project financings. These include:
 - The fact that a Sukuk cannot be traded unless at least 30-50% (actual figure depends on the relevant Sharia board(s) approving the issuance) of the proceeds of the Sukuk the issuance have been invested in tangible assets. This is particularly an issue for greenfield projects where there are no tangible project assets at the start of the development process
 - The nature and complexity of project documents means that a project company may need to seek waivers of covenants (particularly during the project construction phase). Getting consents and waivers from Sukukholders may be a difficult and time consuming (because of the need to call Sukukholder meetings etc.) so Sukukholders will need to be disenfranchised from operational decisions and only involved in a limited set of “fundamental decisions” such as waivers of payment defaults and major breaches
 - From a pricing, marketability and rating perspective, unless the Sukukholders are made up of institutions experienced in project finance, they may not be able or willing to take construction risk so a project where the Sukukholders are expected to take construction risk may be more expensive and difficult to market

Sadara Project Sukuk

- Financing part of a \$20 billion project sponsored by Saudi Aramco and Dow Chemical
- Sukuk issued before the main (Islamic and conventional) bank and ECA project financing put in place
- **Issuer** - Sadara Basic Services Company – a Saudi joint stock company incorporated under the laws of the Kingdom, for the purpose of issuing the Sukuk
- **Size** - SAR 7.5 billion (approx. US\$2 billion)
- **Periodic Coupon** - Floating coupon: SAIBOR (6-months) plus 95 basis points per annum
- **Listing** - Saudi Stock Exchange (Tadawul)
- **Tenor and maturity** -15.75 years (final maturity date: 15 December 2028)
- **Completion guarantee** - Completion guarantees provided by Saudi Aramco and Dow Chemical
- **Joint Lead Managers and Bookrunners** – AlBilad Bank, Alinma bank, Deutsche Bank and Riyad Bank

Sadara Project Sukuk structure



Sadara Project Sukuk structure

- The Issuer (Sadara Basic Services Company) issued the Sukuk, the proceed of which will be used (pursuant to the Musharaka Agreement) as its contribution to an unincorporated Musharaka with Sadara (the project company)
- Pursuant to the Musharaka Agreement, Sadara contributes all of its rights and interests in the land on which the project is being constructed as its in-kind contribution to the Musharaka. The Musharaka is appointed Sadara as the Musharaka Managing Partner
- Sadara is appointed by the Musharaka as the procurer for the construction of the Sukuk assets in return for the issue proceeds (minus permitted deductions) and the Sukuk assets will be held by the Musharaka Managing Partner on construction completion/delivery
- The Musharaka leases the Issuer's undivided interest in the Sukuk assets (which undivided interest the Issuer is entitled to pursuant to the Musharaka Agreement) to Sadara (as lessee) in return for periodic rental payments, which rental payments are for the benefit of the Issuer only
- Lease payments from Sadara to the Issuer will match the periodic distribution amounts due under the Sukuk certificates
- The Sponsors (Saudi Aramco and Dow) guarantee, up to the project completion, the obligations of Sadara (as procurer (under the Istisna) and lessee (under the forward lease)) by virtue of the Issuer being a beneficiary of the completion guarantees

Worldwide. For Our Clients.

whitecase.com

White & Case LLP

16th Floor, Al Sila Tower

Sowwah Square

P.O. Box 128616

Abu Dhabi UAE

T +971 2 611 3439

E sahmed@whitecase.com