

INTERVIEW

Buyer's Credit for RAPID Project in Malaysia

Supporting Export by a Japanese Company Through Project Finance

Interview with **Daisuke Ito** and **Kyohei Iwaori**, Deputy Directors, Division 2,
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*The titles are at the time of project approval

The Japan Bank for International Cooperation (JBIC) signed on 1 April 2019 a project finance based buyer's credit (export finance) agreement totaling up to USD 900 million (JBIC's portion) with Pengerang Refining Company Sdn. Bhd. (PRC) of Malaysia. The loan is co-financed with Mizuho Bank, Ltd. (who also acts as the facility agent of the facility), Sumitomo Mitsui Banking Corporation, MUFG Bank, Ltd. and Citibank, N.A. Tokyo branch bringing the total financing amount to USD1,500 million. The co-financed portion is covered by insurance from Nippon Export and Investment Insurance (NEXI). In addition, this is an international co-financed project backed by a consortium of export-import banks and export credit agencies from various countries. The loan will be used to purchase a steam cracker facility from Toyo Engineering Corporation.

Contributing to a National Project Undertaken by Malaysia and Saudi Arabia

JBIC is providing financing to PRC, which is indirectly invested in, via wholly owned subsidiaries, by Petrolim Nasional Berhad (PETRONAS), the state-owned petroleum company of Malaysia, and Saudi Arabian Oil Company (Saudi Aramco), the state-owned national oil company of Saudi Arabia. PRC plans to construct and operate an integrated complex, consisting of several petrochemical plants, in Pengerang, a municipality in the south eastern region of the state of Johor in Malaysia. This will be the largest complex of its type in Malaysia. The complex will house a refinery with a daily refining capacity of 300,000 barrels and also ethylene, propylene and other petrochemical plants (total annual output of 3.3 million tons). This project is a national project for Malaysia and is expected to play a major role in implementing the 11th Malaysia Plan. The project is also of great strategic importance to Saudi Arabia's Vision 2030 and Saudi Aramco's long term strategy of increasing its global refining and petrochemicals footprint, including in Asia. This project is in line with the economic and industrial policies of the governments of both countries.

"JBIC has a long track record of supporting PETRONAS' and Saudi Aramco's projects and RAPID is the first project jointly operated by the two companies. It has provided us with an opportunity to deepen our relationships with them" says Daisuke.

Creating a Precedent Model for Future Projects

Kyohei sums up the progress of the project as follows: "Our involvement began when Toyo Engineering asked us to issue a letter of interest for participating in the EPC bid stage. A steam cracker facility is an important process to produce ethylene, propylene, and other products and is an area where Japanese companies can offer highly advanced technology.

"As this is a megaproject, it was difficult to wrap the contracts to one and, consequently, a total of 13 bidders were awarded contracts. This project is also co-financed by a wide-ranging group of lenders including European and Asian export credit agencies as well as private financial institutions. At the kick off meeting held in Singapore, more than 60 people participated representing the two sponsors, namely PETRONAS and Saudi Aramco, as well as JBIC and other export credit agencies along with advisers.

"In a project in which a large number of contractors are involved, the overall progress of construction work becomes the focal point for completion. For example, completion risk is the biggest concern in ordinary projects. However, in this project,

more than 90% of the construction work had already been completed when we started negotiations, which provided us with reassurance of reduced risks. As both PETRONAS and Saudi Aramco had a proven track record in this type of project, feedstock supply and product sales did not present a serious concern. However, we experienced some difficulties in responding to various requirements posed by PETRONAS and Saudi Aramco during negotiations. Nevertheless, as the largest lender, JBIC led and continued negotiations in a cohesive manner in order to create an exemplary model for future projects."

Counsel Elizabeth Wood, who actively participated in the negotiations says: "The project was co-financed internationally by a number of export credit agencies. Therefore, while all agencies needed to act in unison in negotiations, sometimes there was a difference in emphasis or concern

depending on each agency's policy requirements and history with similar projects. The most thrilling part was putting the deal together through multilateral, cross-cultural negotiations while working to persuade other agencies to support the conditions that were crucial for JBIC."

Daisuke adds: "While attending several face to face meetings held in Kuala Lumpur, Singapore, London and Tokyo, we also visited the head offices of PETRONAS, Saudi Aramco and Toyo Engineering Corporation as well as the project site. Through these onsite meetings, we made efforts to deepen our understanding of the project and technology so that we could smoothly make financing arrangements in cooperation with the other export credit agencies. As a consequence, by gaining the trust of the related parties, the other agencies generally supported JBIC's position even when we had to make a difficult decision or request."

Aiming to Expand Business Opportunities for Japanese Companies

The project aims to start commercial production during 2019.

Indicating JBIC's future directions, Kyohei points out: "A major success we achieved through this project financing is that we have further strengthened trusting relationships with PETRONAS and Saudi Aramco. The Japanese companies' technology and JBIC's contribution to financings are highly rated by both companies. They told us that they were looking forward to JBIC's cooperation in the future. Competition with other countries has become increasingly intense in petrochemical plant engineering. JBIC would like to support Japanese companies to strengthen their competitiveness in the global market and to expand their business opportunities."

Daisuke also affirms this view and says: "As Japan's policy-based financial institution, JBIC will continue to provide financial support for overseas business development and the export of plant, machinery and equipment by Japanese companies, by drawing on its various financial facilities and schemes for structuring projects, and by implementing its risk-taking function while also collaborating with foreign export credit agencies."

Deputy Director Ito

Deputy Director Iwaori



(JBIC Team at Pengerang Integrated Complex dated 11 July 2018)