

Tuban Project

TIRTAMAS GROUP: Offers IBRA a debt settlement

Hashim Djojohadi-koesoemo has offered to hand over the assets belonging to the Tirtamas Group's Tuban (Trans Pacific Petrochemical Indonesia) project as part of the Group's debt settlement program with IBRA.

"The hand over of the Tuban asset was not included in the previous agreements on the asset handover by the Tirtamas Group. This is one way we are able to restructure the company's debt at IBRA, and is what we meant by "new assetinjection", IBRA Deputy Chairman Arwin Rasyid told reporters after attending a seminar yesterday.

Rasyid said both parties have not reached a final decision on Hashim's proposal. "Discussions are still underway and a meeting on this matter took place this morning. This means the asset hand-over has not been realized yet, and it now depends on whether all parties choose to accept it or not," he added.

The only way to settle the liabilities of the Tirtamas Group, said Rasyid, was to include the Tuban project in the asset sales. "Production from the Tuban project is enormous and the cash flow reaches hundreds of millions of dollars per year," he said. "If the Tuban project is handed over to IBRA, it will become part of the asset sales program, although a further market study is needed before the asset can be released. IBRA's philosophy is that all assets must be disposed of. But disposing of assets like the Tuban project would require an indepth market review."

Tirtamas Group is one of IBRA's 21 largest debtors. From the company's total Rp3.194 trillion liability, as at August 25th, 2000, Rp1.003 trillion has been approved for restructuring, while Rp669 billion remains to be settled via legal action. (Mandiri On Line 26-Sept-2000)

In 1995, Tirtamas Group started a \$2.3 billion Tuban Petrochemical Project, located in East Java. The construction had reached up to 65 percent, when it was suspended in 1999 due to economic conditions. As part of Tirtamas Group's debt settlement, the Indonesian Bank Restructuring Agency (IBRA/BPPN) took over the asset. Under the restructuring scheme, IBRA and Tirtamas formed a new company (Newco) P.T. Tuban Petrochemical Industries, to complete the project.

The Tuban project planned to build two plants - olefin and aromatic. The Government of Indonesia has taken control of the project and decided to continue building the aromatic plant, and postpone the olefin plant. Resumption of the Tuban Aromatic Project started on June 1, 2004, and it will take two years to complete. When completed, the plant will have annual production capacity of aromatic products consisting paraxylene (p-xylene) 500,000 tons, toluene 75,000 tons, o-xylene 80,000 tons, and benzene 200,000 tons. In addition, it will also produce 280,000 tons of reformat and 637,000 tons of kerosene. A wide variety of chemical production systems and machinery will be needed to complete the aromatic plant.

In 2003, Indonesia imported aromatic products worth of \$545,97 million. GDP grew by 4.1 percent during that period. Demand for aromatic products is expected to continue increasing with improvement of the country's economy.

(www.strategis.ic.ga.ca)

Asia-Pacific Petrochemicals Deal of the Year 2004

KerisPetro Finance: Tuban or not Tuban

Getting the commercial debt to finish Indonesia's Tuban Petrochemicals project – 64% complete but suspended due to the Asian crisis in 1998 – at economically viable pricing and a practical tenor required bankers suspending disbelief, even when the deal signed on February 26th, 2004.

But an ECA-guaranteed deal bolstered by an innovative, if complex, repayment support mechanism pulled in 8-year debt at a 370 bp over Libor margin and a 30% over-subscription in syndication – very reasonable given the chequered history of the project.

The total project cost is approximately \$1.2 billion of which \$500 million had already been spent. Originally sponsored by Comexindo Tirtamas Group through PT Trans Pacific Petrochemical Indotama (TPPI), the project was one of biggest stakes surrendered by Tirtamas to the Indonesian Bank Restructuring Agency (IBRA) as part of the restructuring of the bankrupt company's Rupiah 4.2 trillion debt in 2002.

IBRA and Tirtamas agreed to restructure the debt by setting up a new holding company, PT TubanPetro, in which IBRA took a 70 % stake. Consequently, through TubanPetro, IBRA holds a controlling 59.5 % stake in TPPI. The other TPPI shareholders include state-run oil and gas company Pertamina (15%); Tuban Petrochemicals Pte Ltd – a subsidiary of Siam Cement – (17%); Sojitz Corporation – formerly Nissho Iwai – (4.25%); and Itochu Corp. (4.25%).

TPPI is designed to produce 500,000 mtpa of paraxylene as well as approximately 400,000 mtpa of benzene, toluene and orthoxylene, using heavy naptha feed from the condensate splitter. It will also produce reformate, kerosene and diesel, which make up the subset of the middle distillate products.

The \$400 million commercial debt financing for TPPI comprises two tranches: a \$200 million A tranche extended by Mitsui and Co, and supported by JBIC; and a \$200 million B tranche in th form of a syndicated commercial loan, fully underwritten by Sumitomo Mitsui Banking Corporation (SMBC), and insured by NEXI's Overseas Untied Loan Insurance. The deal was structured through a newly formed Dutch special purpose vehicle, KerisPetro Finance, managed by Meespierson Intertrust.

The project is an important one for Indonesia and Pertamina. The complex will reduce Indonesia's dependence on imported petrochemicals. Furthermore, Pertamina needs to establish a larger presence in the downstream sector and TPPI is part of that long-term strategy.

Although exposure to political risk on TPPI is limited – firstly by keeping all payments offshore and secondly by Nexi's 97.5% political risk and 50% commercial risk coverage to support the Tranche B Lenders – to bring offshore banks into the deal on reasonable terms, repayment risk had to be removed from the financing.

To achieve this, the project is underpinned by an innovative Pertamina support mechanism similar to that used on the Blue Sky deal (for more details see www.projectfinancemegazine.com).

Instead of relying on cashflows from the project, repayment of principal and interest depends on the cash flows derived from KerisPetro sales of Low Sulphur Waxy Residue (LSWR) to Mitsui.

KerisPetro obtains the LSWR from Pertamina under a long term contract in exchange for the right of Pertamina to obtain middle distillate products from TPPI under a separate long term contract. The terms of the arrangement between KerisPetro and Mitsui mirror the terms, including price and quantity of LSWR, between Pertamina and KerisPetro.

The exchange comes with heavy strictures that guarantee Pertamina delivers a specific value of LSWR within a specific time frame. Pertamina is obliged to deliver enough LSWR to KerisPetro to generate a value of \$50 million for any six-month period over a term of 6 years. If the value of LSWR delivered by Pertamina to KerisPetro is less than \$50 million in any six-month period, Pertamina is obliged to pay cash in lieu equal to the shortfall.

To facilitate the exchange and guarantee that Pertamina eventually gets its distillates Product Delivery Instruments (PDIs) were put in place. In exchange for deliveries of LSWR and payments of cash in lieu, Pertamina receives an equivalent face value in PDIs from KerisPetro. The PDIs represent TPPI's obligations to deliver middle distillate products to Pertamina and were TPPI to fail meet its obligations, Pertamina would have recourse to TPPI's assets.

The risk mitigation mechanisms and ECA backing brought nine lenders in total. Final takes were Indonesia Fuel Oil Capital (a Mitsui subsidiary) the full \$200 million A tranche; and on the B tranche, SMBC \$32 million; WestLB \$32 million; HVB \$ 32 million; UFJ Holdings \$24 million; Standard Chartered \$24 million; Fortis \$24 million; BoTM \$16 million; and Natexis Banque \$16 million.

In addition to the \$400 million of offshore finance, the deal also features a \$65 million mezzanine facility and \$217 million vendor financing both lead managed by the EPC contractor JGC Corporation.

KerisPetro Finance

Status: Signed February 26th, 2004

Project debt: \$400 million

Description: Offshore funding to build the remaining 36% of the Tuban Petrochemical Complex that was suspended in 1998 due to the Asian crisis.

Sponsors: TubanPetro/IBRA (59.5 %); Pertamina (15%); Tuban Petrochemicals/Siam Cement (17%); Sojitz Corporation/Nissho Iwai (4.25%); Itochu Corp. (4.25%).

Lead arrangers: SMBC; Mitsui

Participants: WestLB (arranger); HVB (arranger); UFJ Bank (co-arranger); Standard Chartered Bank (co-arranger); Fortis Bank (co-arranger); Bank of Tokyo-Mitsubishi (lead manager); Natexis Banques Populaires (lead manager)

Legal counsel to TPPI: Skadden Arps Slate Meagher & Flom (international) Kartini Muljadi & Rekan (local)

Legal counsel to lenders: Debevoise & Plimpton (international), Mochtar Karuwin & Komar (local), Nauta Dutilh (Netherlands)

Lawyers to Pertamina: White & Case (international); Lubis Ganie Surowidjojo (local)

EPC Contractor: JGC Corporation

(www.projectfinancemagazine.com)

Tuban Petrochemical, East Java, Indonesia

The Tuban Petrochemical project, which began in the early 1990s, could be called a project of mixed fortunes. The construction of the huge new \$2.3bn petrochemical complex (an aromatics and an olefin plant) was at its height and over 65% completed in 1998, when disaster struck and the Asian economic crisis caused the project to be suspended. \$500m had already been spent on construction.

"The production was to have totalled 3.6 million tons of aromatics and other oil products." But this was not the end of the project. The construction company Tirtamas Group had debts of Rp4.1 trillion (\$478m) but was taken in hand by the Indonesian Bank Restructuring Agency (IBRA). A new company, PT Tuban Petrochemical Industries, was then formed to finish the project.

Fresh finance of \$400m was raised from Japanese creditors (underwritten by the Indonesian Government) and in 2004 the construction of the aromatics plant continued.

Meanwhile, the partially constructed olefins plant was dismantled and sold off to BASF for a project in China.

ORIGINAL PLANT DESIGN

The starting plan was for a 100,000 barrels per day condensate splitter, a 700,000t per year naphtha cracker, and a 500,000t per year paraxylene plant.

In addition to this the plant was also to process other olefins, aromatics and polymer and polymer precursor derivative projects, which would include polyethylene, polypropylene, styrene monomer, vinyl acetate monomer

and also vinyl chloride monomer. The production was to have totalled 3.6 million tons of aromatics and other oil products.

TUBAN PARTNERS

The aromatics part of the project continued construction in 2004 with the following partners having a stake.

Overall control of the project is by Trans Pacific Petrochemical Indotama (TPPI) (60%) (the company is a wholly owned subsidiary of PT Tuban Petrochemical Industries), Tuban Petrochemical Pte Ltd (Siam Cement PCL) (20%), Nissho Iwai (5%), Itochu Corporation (5%) and Pertamina, an Indonesian state oil company (10%).

The amount of finance to complete the whole plant was estimated at \$475m. The Japan Bank for International Cooperation (JBIC) in conjunction with Sumitomo Mitsui Banking Corp and Mitsui & Co were able to offer fresh finance of \$400m over a period of eight years.

CAPACITY OF THE NEW AROMATICS PLANT

"By 2007 the aromatics plant was producing above its design capacity for its paraxylene output and expansion was being considered."The overall complex was expected to have capacity for the production of 700,000t per year of ethylene, 500,000t per year of paraxylene, toluene 100,000t per year, orthoxylene 120,000t per year and 300,000t per year of benzene.

In addition the plant should produce 335,000t per year of reformate (which can be recycled for aromatics production), 1 million tons per year of light naphtha, 189,000t per year of diesel fuel and 1.1 million tons per year of kerosene (taken off for fuel oil production).

START OF PRODUCTION

Three construction firms were awarded contracts to continue the building of the plant, including PT Adhi Karya, a state-owned construction company. In early 2006 the delayed aromatics plant was opened and started to receive condensate as raw material from the Senipah gas fields. By 2007 the aromatics plant was producing above its design capacity for its paraxylene output and expansion was being considered.

The capacity enhancement or debottlenecking project is to require an investment of \$100m (paraxylene production will be increased to 800,000t per year). Enhanced paraxylene capacity is required for the provision of additional feedstocks for the production of terephthalic acid, required for the production of polyester fibre.

(www.chemical-technology.com)