Will Nigerian banks fund $7bn NLNG Train 7 project

Nigerian Liquefied Natural Gas Limited, NLNG, has paid off the $5.45 billion shareholders loan facility it took from its shareholders.

NLNG sourced a total principal amount of $4.043 billion from its shareholders in their respective shareholding proportions to partly fund the construction of Trains 1 to 6. The total capitalised interest in the shareholders loan was 1.411 billion dollars, which he said was in addition to the total principal drawdown of 4.043 billion dollars accounted for the total loan amount of 5.45 billion dollars repaid by the company.

Types of funding used for LNG export projects

As was the case with Nigeria LNG Trains 1-6, LNG export projects can be funded by their developers either using accumulated cash or corporate credit lines.

LNG export projects can also be funded using limited recourse project finance structures. Popular debt sources include; commercial banks, Export Credit Agencies, Multilateral Agencies and other sources like Sovereign Wealth Funds, Bonds, Pension Funds, Sponsor Co loans etc.

LNG projects have always attracted financing

LNG projects were very attractive to financiers and project sponsors due to their long term, take-or-pay contracts, and usually lasting 20 years or more. Now, with spot contracts emerging to fill sudden spikes in demand, growing competition from smaller LNG projects and less certainty of project success, financiers are a bit more wary.

Providers of debt funding to liquefaction projects include

Commercial banks and export credit agencies (ECAs). World Bank Group's International Finance Corporation has completed a $150 million financing package for the construction and operation of Panama and Central America's first integrated liquefied natural gas (LNG) to power facility, which will become operational in 2018. Development banks, such as the European Investment Bank for the liquefaction projects in Egypt; bonds, as seen in Qatar's RasGas trains 2 and 3 financings; and sovereign wealth funds, as seen in Russia's $27bn financing for Yamal LNG.

Funding LNG Infrastructure is also gaining steam

Berlin-based Liquind 24/7 said in a statement, it would start building ten LNG stations after it had been granted about 3.3 million euros ($4.03m) from the EU Commission's Connecting Europe Facility (CEF) funding program.

In total, the project that is expected to "significantly" improve the LNG distribution network in Germany and offer an alternative fuel to diesel will cost about 16.4 million euros ($20m), the statement said. This LNG infrastructure consists of multimodal distribution terminals at inland ports and refuelling stations for trucks and inland waterway vessels.

Possible Challenges to Project Financing

Growing Domestic demand, in areas where there is insufficient gas infrastructure linking the domestic markets to international supply. Financiers may see growing domestic demand as not bankable till the right infrastructure in in place. Innovative LNG players, like Qatar Gas and Rosneft, have used the option of providing assistance with floating gas infrastructure, in a bid to access merging markets, with growing domestic demand for LNG.

Contract duration, flexibility clauses that allow diversion, or free-on-board (FOB) structures that allow the gas to go anywhere, rather than to a set destination are raising the level of uncertainty.

Entering new markets, is another areas of uncertainty, there is a push for renewables, while LNG is also being touted as the cleanest fossil fuel.

Will Nigerian Banks Fund the $7 Billion NLNG Train 7 Project?

According to the National Bureau of Statistics (NBS) Nigeria's oil and gas sector indebtedness to banks reached N3.58 trillion as at the fourth quarter of 2017. It seems Nigerian Banks are already well exposed to the oil and gas industry.

As reported by the Guardian News, the First Vice President of the Chartered Institute of Bankers of Nigeria (CIBN), Dr. Uche Olowu, Speaking on oil and gas exposure to Nigerian banks, said that the unpaid subsidy arrears to oil marketers had created liquidity gap in the industry and had led to a negative impact on banks' operational costs.

In this analysts' opinion, it is doubtful, if Nigerian Banks will have the appetite nor the capacity to take on, an additional **$7 Billion of debt,** which is roughly N2.535 trillion.

NLNG has a $7 Billion Train 7 Project

As it stands NLNG, will be seeking **$7 billion from the global financial markets** for the sustainability of its operations and expansion project which will increase its production capacity from 22 Million Tonnes Per Annum, MTPA to 30 MTPA. By getting its financing from foreign banks, NLNG will be bringing in much needed foreign exchange into Nigeria and will help to ease the pressure on the Naira.

Olufola Wusu is a Commercial/Oil and Gas and I.P. Lawyer with Megathos Law Practice based in Lagos.

Internationally recognised on Who's Who Legal as a top business lawyer:

http://whoswholegal.com/profiles/65712/0/wusu/olufola-wusu/

www.olufolawusu.com

Olufola Wusu is noted for his “dynamic practice” and “commercial acumen”. He is praised for his “first-rate skills” in assisting clients