FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms Leviathan Bond Ltd's Notes at 'BB'; Outlook Stable

Tue 10 Aug, 2021 - 10:05 AM ET

Fitch Ratings - London - 10 Aug 2021: Fitch Ratings has affirmed Leviathan Bond Ltd's USD2.25 billion notes at 'BB'. The Outlook is Stable.

RATING RATIONALE

The rating reflects the project's high-quality reserves, the use of commercially proven technology and strong operating set-up, with Chevron Mediterranean Ltd (Chevron) providing day-to-day operating services.

The offtake base constrains the rating to its current level, as we view the two largest offtakers, Dolphinus Holdings Limited in Egypt and Government-backed National Electricity Production Company (NEPCO) in Jordan, as having below investment grade credit profiles. The Israeli offtake is diversified, and we view domestic gas sales as systemic in nature as the gas supply in Israel is limited to Tamar and Leviathan currently, and Karish and Tanin from 2022. The Dolphinus export agreement was novated to Blue Ocean Energy (BO), a Cayman Islands company and affiliate of Dolphinus.

The Leviathan bond USD2.25 billion debt is a monetisation of Delek Drilling's 45.34% interests in the Leviathan gas reservoir, off the Israel coasts. The notes are non-recourse to the sponsors and are ultimately secured on the interests and rights of Delek Drilling in the Leviathan gas field.

KEY RATING DRIVERS

Diversified Offtake Base, Exposure To Lower-rated Counterparties: Revenue Risk - Midrange

The project benefits from a diversified offtake structure with long-term contracts with offtakers in Jordan and Egypt as well as a well-diversified portfolio of companies in Israel. The export volumes currently make up slightly more than 50% of Leviathan's gas sales and imply a reliance on the offtakers in Jordan and Egypt to perform on their payment obligations.

Leviathan holds a 15-year gas sales and purchase agreement (GSPA) with the Jordanian NEPCO, the national electricity company of the Hashemite Kingdom of Jordan (BB-/Negative) and is wholly owned by the Jordanian Government. We view Leviathan's gas as strategically important to Jordan as the country does not have any domestic sources of energy other than renewables and is otherwise reliant on the import of relatively expensive LNG.

The project also has a 15-year GSPA in place with BO for the export of up to 4.7 billion cubic metres (BCM) per year to Egypt (B+/Stable). BO is a special purpose company incorporated to import natural gas from Israel to Egypt acting as the intermediary between Leviathan and the ultimate offtaker, the Egyptian Natural Gas Holding Company (EGAS). The GSPA expressly allows for the export of Leviathan gas as LNG in addition to domestic use. This provides a strong incentive for Egypt to make full use of the contractual volumes, even as it develops its domestic gas fields in the Eastern Mediterranean.

The remaining gas sales are with a diversified basis of Israel offtakers, which Fitch views as systemic as the gas supply in Israel is currently constrained. The gas sales prices are based on various pricing formulas, including linkages to the electricity production tariff determined by the Public Utility Authority-Electricity for most GSPAs in Israel and the Brent barrel price for the NEPCO and Dolphinus-BO GSPAs. This exposes the project to price risk, which is limited by the provision of floor prices set in the individual contract. The project's volume risk is limited through the long-term nature of most offtake contracts, and the take-or-pay requirements under the GSPAs.

Experienced Operator: Operating Risk - Midrange:

Fitch views the operation of gas & oil facilities as at the higher end of complexity within the infrastructure space. The project benefits from the presence of Chevron as an experienced operator of gas fields in the Eastern Mediterranean region with demonstrated performance on Tamar and the Yam Thetys/Mari-B fields. Chevron Corporation acquired Noble Energy Mediterranean Ltd in October 2020, which became Chevron Mediterranean Ltd.

Sufficient Resources, High Quality Reservoir: Supply Risk - Stronger:

The technical advisor views Leviathan as a high-quality gas reservoir with a relatively strong drive mechanism that should result in reservoir pressure remaining high even as gas volumes reduce as well as reducing the need for well drilling. As of March 2021, NSAI reports 1P and 2P reserves of 343 bcm and 384 bcm, respectively. Additional existing gas volumes currently classified as contingent (1C and 2C) will be added to the 1P and 2P reserves once additional wells or developments are approved and the volumes become commercial, but we have not given these volumes any credit under the Fitch Rating Case (FRC).

New Assets, Expansion Outside Project Parameter: Infrastructure Development and Renewal - Midrange

Leviathan will require investments to sustain production and address the operational issues that can be expected to arise in complex ventures, in line with similar projects. We view positively the operator's experience, which should mean that the field's operational and development requirements are appropriately managed and anticipated.

Senior Secured, High Refinancing Risk: Debt Structure - Midrange

We assess Debt Structure as Midrange due to the senior secured nature of the debt, the absence of exposure to variable interest rates, swaps or other derivatives, offset by significant exposure to refinancing risk due to the staggered bullet maturities of debt amortisation profile.

The cash flow servicing and securing the debt relate to the share (45.34%) of ownership interest that Delek Drilling has in the Leviathan gas field. This structure results in lower control over operations and cash flow compared to the standard project structure and is considered a weakness, mitigated by the strong alignment of interest between the partners and operator.

Financial Profile

We deem the project life cover ratio (PLCR) as a measure of debt service coverage and net debt to EBITDA as a measure of leverage to be the most relevant financial metrics. The PLCR increases over time reflecting the long debt-free tail. The minimum FRC PLCR of 1.9x occurs in 2030. Net debt to EBITDA gradually reduces from 5.8x in 2021 in the FRC.

PEER GROUP

The closest peers in Fitch's portfolio are Dolphin Energy Ltd (DEL; A+/Stable) and Ras Laffan Natural Gas Company II & 3 (Rasgas; AA-/Stable). Both are large-scale natural gas producing projects in Qatar and benefit from a strong offtaker base and high resiliency to price declines given their low-cost bases. For Rasgas, we also factor in its status as an integral part of Qatar's oil & gas industry. Initially both projects also had some bullet maturities, but these could be redeemed out of cash flow. Consequently, the projects are rated well above Leviathan.

RATING SENSITIVITIES

FACTORS THAT COULD, INDIVIDUALLY OR COLLECTIVELY, LEAD TO NEGATIVE RATING ACTION/DOWNGRADE:

- PLCR for the remaining operating life below 1.4x.

- Payment delays of NEPCO or BO, a marked deterioration of the political situation in the region or similar sustained external shocks that would threaten Leviathan's ability to continue gas exports to Jordan or Egypt.

FACTORS THAT COULD, INDIVIDUALLY OR COLLECTIVELY, LEAD TO POSITIVE RATING ACTION/UPGRADE:

- Fitch deems an upgrade unlikely at this stage. The project is exposed to lower rated counterparties.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Sovereigns, Public Finance and Infrastructure issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579.

CREDIT UPDATE

The Leviathan gas field is owned by Delek Drilling LP (45.34%), Chevron (39.7%) and Ratio Oil (15%). and was discovered in 2010 and reached first gas in 2019.

Leviathan's operational performance has been strong since first gas. Based on an updated NSAI report as of end-March 2021, 1P and 2P reserves increased to 343 bcm and 384 bcm from 319 bcm and 371 bcm, respectively, in December 2020. Over the last year, Leviathan has expanded its local offtaker base and signed new GSPAs, which supports additional sales by Leviathan.

Sponsors plan the acceleration of the development of one additional well to 2H22 to support an increase in maximum system throughput and well redundancy. Capex linked to this new well development will be fully funded by internal cash generated by the project.

FINANCIAL ANALYSIS

Fitch Base Case: We assume a 2P production profile in the Fitch Base Case (FBC), Fitch's base case Brent price forecasts. For the gas price assume a price of USD4.7/thousand cubic feet (mcf) for 2021 for any uncontracted volumes. In the long term we assume USD5.0/mcf for uncontracted volumes in line with the international hub prices. We further apply a 5% stress on opex and capex. Interest rates for the refinance debt are increased between 150-200bp compared with current interest rates.

FRC: In the FRC, we assume the 1P production profile, Fitch's stressed Brent price forecasts and a gas price of USD4.5/mcf for uncontracted volumes in the long term. We further increase the stress on opex and capex to 10%, reflecting a realistic downside scenario. Interest rates for the refinance debt are assumed in line with the FBC.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

RATING ACTIONS

ENTITY/DEBT	RATING	PRIOR
Leviathan Bond Ltd		

ENTITY/DEBT	RATING			PRIOR
• Leviathan Bond Ltd/Debt/1 LT	LT	BB Rating Outlook Stable	Affirmed	BB Rating Outlook Stable

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

Infrastructure and Project Finance Rating Criteria (pub. 24 Mar 2020) (including rating assumption sensitivity)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Third-party Model (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Leviathan Bond Ltd	UK Issued, EU Endorsed

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