



## RATING ACTION COMMENTARY

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

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Fitch Ratings - Madrid - 04 Aug 2022: Fitch Ratings has affirmed Leviathan Bond Ltd's USD2.25 billion notes at 'BB'. The Outlook is Stable.

The Leviathan bond USD2.25 billion debt is a monetisation of NewMed Energy's (NewMed, formerly Derek Drilling) 45.34% interest in the Leviathan gas reservoir, off the Israel coast. The notes are non-recourse to the sponsors and are ultimately secured on the interests and rights of NewMed in the Leviathan gas field.

## 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 rating is constrained by the project's exposure to the two largest offtakers.

## KEY RATING DRIVERS

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

The project benefits from a diversified offtake structure in the form of long-term contracts with offtakers in Jordan (BB-/Stable) and Egypt (B+/Stable) and with a well-diversified portfolio of companies in Israel. Export volumes currently make up more

than 50% of Leviathan's gas sales and imply a reliance on the offtakers in Jordan and Egypt to meet their payment obligations.

We view domestic gas sales as systemic in nature as gas supply in Israel is still limited to Tamar and Leviathan gas fields and, in the near future, to Karish gas field. Leviathan's exports to Jordan are via a gas sale purchase agreement (GSPA) with National Electric Power Company (NEPCO), and we also 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 fairly expensive LNG.

Blue Ocean (BO) acts as an intermediary with the Egyptian Natural Gas Holding Company (EGAS), which is the ultimate offtaker. BO's GSPA expressly allows Egypt to export Leviathan gas as LNG in addition to domestic use. This provides a strong incentive for Egypt to make full use of its contractual volumes.

Israel's gas sale prices are based on various pricing formulas, including linkages to the electricity production tariff determined by the Electric Authority for most long-term GSPAs in Israel and the Brent barrel price for NEPCO's and BO's GSPAs. This exposes the project to price risk, which however is limited by the provision of floor prices set in individual contracts. The project's volume risk is limited by 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 industry. 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.

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

As of December 2021, based on Netherland, Sewell & Associates, Inc (NSAI) estimates, Leviathan had 1P and 2P reserves of 347 billion cubic metres (bcm) and 379 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'

The Leviathan gas field 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'

Our assessment reflects the senior secured nature of the debt, the absence of exposure to variable interest rates, swaps or other derivatives, which is offset by significant exposure to refinancing risk due to the staggered bullet maturities of the project's debt-amortisation profile.

The project's cash flow servicing and debt security relate to NewMed's 45.34% ownership interest in the Leviathan gas field. This structure results in less control over operations and cash flow than in a standard project structure. We deem this a weakness, which is however 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/EBITDA as a measure of leverage the most relevant financial metrics. The minimum FRC PLCR of 1.7x occurs only in 2030 and net debt/EBITDA gradually reduces from 3.3x in 2022 under the FRC.

#### PEER GROUP

The closest peers in Fitch's portfolio is Ras Laffan Natural Gas Company II & 3 (Rasgas; AA-/Stable), which is a large-scale natural gas producing project in Qatar that benefits from a strong offtaker base and high resilience 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 Rasgas had some bullet maturities, but these could be redeemed with cash flow. Consequently, Rasgas is rated well above the Leviathan bond.

#### RATING SENSITIVITIES

**Factors that could, individually or collectively, lead to negative rating action/downgrade:**

- PLCR for the project's remaining operating life at below 1.4x

- Payment delays by NEPCO or BO, marked deterioration of the political environment in the region or similar sustained external shocks that would threaten the Leviathan gas field'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 as 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 NewMed (45.34%), Chevron (39.7%) and Ratio Energies LP (15%). and was discovered in 2010 and reached first gas in 2019.

Leviathan's operational and financial performance has been strong since first gas. Leviathan bond's 2021 cash flow available for debt service (CFADS) was USD550 million, driven mainly by higher gas volumes sold and prices, well above initial sponsor (around USD400 million) and FRC (around USD350 million) projections. Also, based on an updated NSAI report as of end-December 2021, the project benefits from 1P reserves of 347 bcm, up from 343 bcm in the March-2021 report, while 2P reserves decreased slightly to 379bcm from 384 bcm, despite the 8 bcm produced over that period.

Over the last year, Leviathan continued expanded its local offtaker base and signed new GSPAs, which supports additional sales. Also, from February 2022, the project has increased exports to Egypt via Jordan through the Fajr pipeline and expanded the capacity of the Eastern Mediterranean Gas (EMG) pipeline. Notably, in June 2022, Israel, Egypt and Europe signed a tri-lateral natural gas memorandum of understanding,

which would enable Israel to streamline and increase its gas exports through Egyptian ports, where it can be liquefied and transported to Europe.

## FINANCIAL ANALYSIS

**Fitch Base Case (FCB):** We assume a 2P production profile in the FBC, with Brent price forecasts. In the long run, we assume a gas price of USD5/thousand cubic feet (mcf) for any uncontracted volumes, in line with international hub prices. We further apply a 5% stress on operating expenditure (opex) and capex. Interest rates for refinanced debt are increased 150bp-200bp compared with interest rates on existing tranches.

**FRC:** In the FRC, we assume a 1P production profile, stressed Fitch's 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 refinanced 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](http://www.fitchratings.com/esg)

## RATING ACTIONS

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

[VIEW ADDITIONAL RATING DETAILS](#)

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## APPLICABLE CRITERIA

[Infrastructure & Project Finance Rating Criteria \(pub. 20 Jul 2022\) \(including rating assumption sensitivity\)](#)

## APPLICABLE MODELS

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

Third-party Model ([1](#))

## ADDITIONAL DISCLOSURES

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Leviathan Bond Ltd

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