



## **Rating Action: Moody's confirms Leviathan Bond's Ba3 ratings, negative outlook**

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14 Feb 2024

London, February 14, 2024 -- Moody's Investors Service (Moody's) has today confirmed the Ba3 ratings on the senior secured notes issued by Leviathan Bond Ltd. (Leviathan Bond). The outlook is negative. Previously, the ratings were on review for downgrade. This concludes the review for downgrade initiated by Moody's on 23 October 2023.

Leviathan Bond is a special purpose vehicle and the notes are secured on the 45.34% working interest of NewMed Energy Limited Partnership (NewMed Energy) in the Leviathan gas project, located off the coast of Israel, and associated assets.

### **RATINGS RATIONALE**

Today's rating action takes account of Leviathan Bond's continued strong operational and financial performance with no material negative impact of the conflict between Hamas and Israel to date. However, it also considers the persistent downside risks to Leviathan Bond stemming from the increased geopolitical risk and military activity, which could adversely impact the project's operations.

Leviathan Bond derives its cash flows entirely from the Leviathan field, which is located 130 km offshore, in the northern part of the country. The field is connected to the Leviathan platform some 10 km off the coast of Israel. Since the start of the military conflict, the Leviathan field has been operating at full capacity and there has been no disruption to its operations. While there was some shift in Leviathan's sales during the temporary suspension of operations at the Tamar field and closure of the EMG pipeline, cash flows have remained resilient and there have been no negative developments associated with any of Leviathan's contracts, with payments from all the offtakers remaining current.

Moody's considers Leviathan Bond's liquidity as adequate. The project continues to generate strong cash flows on a monthly basis and Leviathan Bond does not have any immediate refinancing needs. Its next debt maturity is related to the USD600 million bond due in June 2025. The terms of the notes provide for the Principal Reserve Fund, which begins to fill 12 months ahead of each maturity date but to a maximum amount of USD150 million in addition to the Debt Payment Fund, which must include USD100 million prior to any distribution.

Moody's will continue to assess Leviathan Bond's exposure to the evolving operating and geopolitical environment. In particular, any risks of damage to Leviathan assets, associated infrastructure, changes to key offtakers and timeliness of payments, as well as potential for government intervention, against the protection provided by the insurance package for physical damage risk and business interruption. Leviathan Bond's insurance policies apply in an event of a political violence, and they are additional to the Property Tax and Compensation Fund, which is provided by the

Government of Israel.

Overall, the Ba3 rating on the senior secured notes is underpinned by the large size and the very long life of Leviathan's gas reserves, with limited investment requirements to maintain stable production. It further recognises the importance of the field, which is the largest gas reservoir in Israel, to the country's energy security and contracted earnings with long-term off-take agreements, including minimum take-or-pay quantities and floor prices. The rating is, however, constrained by the reservoir's exposure to geopolitical risk, given its location and fairly high concentration of Leviathan's sales to off-takers with weak credit quality. While some of the gas sold to these counterparties is directed to the global markets, Leviathan is reliant on those off-takers for exports, given the lack of infrastructure in Israel to support direct LNG export. The Ba3 rating further considers Leviathan Bond's financial leverage and the terms of the senior secured notes, with limited creditor protections and the project's refinancing requirements.

#### RATIONALE FOR THE NEGATIVE OUTLOOK

The negative outlook reflects the risks of a potential adverse impact stemming from the military activity in the country on Leviathan Bond's operations and cash flows.

#### FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Given the negative outlook, an upgrade of the ratings is unlikely. Moody's could change the outlook to stable if the conflict is resolved or risks from the conflict materially subside with no negative impact for Leviathan Bond's operational and financial performance.

The ratings could be downgraded if (1) the conflict were to widen or the situation in the North escalated to a full-scale conflict with Hezbollah; (2) Leviathan's assets or operations were adversely impacted and this was not offset by any mitigating measures from the government, shareholders or through the insurance coverage; (3) funds from operations (FFO) to debt, based on NewMed Energy's share of the Leviathan project's cash flow, were to fall and remain sustainably below the high teens in percentage terms; or (4) there were concerns about Leviathan Bond's liquidity.

#### PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Generic Project Finance Methodology published in January 2022 and available at <https://ratings.moody's.com/rmc-documents/361401>. Alternatively, please see the Rating Methodologies page on <https://ratings.moody's.com> for a copy of this methodology.

#### COMPANY PROFILE

Leviathan Bond Ltd. is a special purpose vehicle established to issue bonds secured by a first priority fixed pledge of NewMed Energy's 45.34% working interest in the Leviathan gas project as well as certain associated assets. Recourse against NewMed Energy is limited to the collateral pledged by the sponsor.

#### REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology

Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moodys.com/rating-definitions>.

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