FitchRatings

RATING ACTION COMMENTARY

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

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Fitch Ratings - Milan - 25 Jun 2024: Fitch Ratings has affirmed Leviathan Bond Ltd's USD1.75 billion notes at 'BB' with a Stable Outlook and removed them from Rating Watch Negative.

RATING RATIONALE

The rating actions reflect Leviathan's better-than-expected financial performance as well as its solid liquidity buffer, which together with the expected cash flow generation, should be sufficient to cover the USD600 million bullet maturity due June 2025. In the Fitch rating case (FRC), as of 2025, the project life coverage ratio (PLCR) and leverage are 2.4x and 2.2x, respectively.

The 'BB' rating reflects the project's high-quality reserves, proven technology, and strong operational setup, with Chevron Mediterranean Ltd (Chevron) providing day-to-day operations. Any potential damage to the project's physical infrastructure or operations resulting from the Israel-Hamas war is not considered our base case scenario and, if it occurred, it would be treated as event risk.

KEY RATING DRIVERS

Diversified Offtake Base; Lower-Rated Counterparty Exposure: Revenue Risk - Midrange

The project benefits from a diversified offtake structure with long-term contracts with National Electricity Production Company (NEPCO; backed by the Jordanian government) in Jordan (BB-/Stable), Blue Ocean (BO) in Egypt (B-/Positive) and a portfolio of Israeli companies. We view Israeli gas sales as systemic in nature due to the high expected increase in local gas demand. Leviathan's gas is strategic for Jordan, due to its lack of sufficient domestic energy sources and liquefied natural gas (LNG) being more expensive. Egyptian Natural Gas Holding Company, the ultimate offtaker of

Leviathan's gas in Egypt, is incentivised to maximise gas purchases as it can also be used for export as LNG internationally.

Pricing exposure to Israeli electricity tariffs and Brent prices for exported gas volumes is mitigated by contractual floor prices, while volume risk is contained by long-term, take-or-pay contracts. The offtake base limits the rating as we view the two largest offtakers, BO and NEPCO having below investment-grade credit profiles. The Israeli offtake is diversified and we view the risk of contract renewal as low.

Experienced Operator Mitigates Complexity: Operation Risk - Midrange

Fitch views the operation of oil & gas 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 acquired Noble Energy Mediterranean Ltd in October 2020, which became Chevron Mediterranean Ltd. Noble's experienced operating team was retained by Chevron.

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 December 2023, Netherland Sewell & Associates Inc (NSAI) reported 1P and 2P reserves at 382 billion cubic metres (bcm) and 430 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. We have not given these volumes any credit under the FRC.

Expansion Outside Project Parameter: Infrastructure Development & Renewal - Midrange

Leviathan will require investments to sustain production and address the operational issues that arise in complex ventures, in line with similar projects. We view the operator's experience positively, and it should mean the field's operational and development requirements are appropriately managed and anticipated. All growth capex for capacity expansion within Phase 1A is being funded by internally-generated cash and is highly flexible.

Some Refinancing Risk: Debt Structure - Midrange

Fitch's assessment reflects 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 the debt amortisation profile.

The cash flow servicing and securing the debt relates to the share (45.34%) of ownership interest that NewMed Energy (NewMed) has in the Leviathan gas field. This structure results in lower control over operations and cash flow compared with the standard project structure and Fitch considers it a weakness, mitigated by the strong alignment of interest between the partners and operator.

Financial Profile

We deem the PLCR as a measure of debt service coverage and net debt/EBITDA as a measure of leverage the most relevant financial metrics. The projected PLCR starts at around 2.3x in 2024 and slightly increases to 2.5x in 2030, which is the last maturity date of the existing bullet debt. Net debt to EBITDA gradually reduces from 2.7x in 2024 to below 1.5x in 2030 in the FRC.

As of May 2024, the USD100 million debt payment fund was fully funded. Furthermore, the additional funds in the pledged accounts, NewMed Accounts, combined with cash flow generation expected by management over the next 12 months and USD100 million of undrawn credit facility, should place the issuer in an adequate position for the refinancing needs for the June 2025 bullet maturity. In the FRC, as of 2025, PLCR and leverage are 2.4x and 2.2x, respectively.

PEER GROUP

The closest peer in Fitch's portfolio is QatarEnergy LNG S(2) & QatarEnergy LNG S(3) (QELNG S(2) & QELNG S(3); AA/Stable), which are Qatari LNG liquefaction companies engaged in the upstream production of natural gas, gas treatment and liquefaction, and the export of natural gas in liquid form. The projects benefit from a strong offtaker base and high resiliency to price declines given their low-cost bases. For QELNG S(2) & QELNG S(3), we also factor in their status as integral parts of Qatar's oil & gas industry as well as their strong indirect ownership by and control links with Qatar. Consequently, the projects are rated above Leviathan.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

- PLCR consistently below 1.4x.

- Increasing refinancing risk resulting from escalation of the war and higher geopolitical risk.

- Failure to have sufficient liquidity or committed funding to repay June 2025 bullet debt.

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.

TRANSACTION SUMMARY

Leviathan Bond's debt is a monetisation of NewMed Energy's 45.34% interest in the Leviathan gas project, 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 project.

CREDIT UPDATE

Leviathan's operational and financial performance has been strong since first gas. Leviathan bond's 2023 cash flow available for debt service was around USD600 million, in line with the initial sponsor case and well above the FRC projections (around USD540 million). Since the start of the Israel-Hamas war, the project has been operating at full capacity with no material disruptions to its operations.

Over the last year, Leviathan continued expanding its local offtaker base and signed new gas sale and purchase agreements, which support additional sales. From March 2024, the project commenced condensate sale (around 2,500 bbl/day) at a Brent-linked price.

In terms of investments, Leviathan is installing a gathering line to improve current performance and maximum capacity. This is expected to reach first gas in mid-2025 and improve the gas field capacity by around 2bcm.

FINANCIAL ANALYSIS

Fitch Base Case (FBC): The FBC assumes a 2P production profile, 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 apply a 5% stress on opex and capex. Interest rates for refinanced debt are increased 100bp-200bp compared with interest rates on existing tranches.

FRC: The FRC 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 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

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' 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. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

RATING ACTIONS

ENTITY / DEBT	RATING		PRIOR
Leviathan Bond Ltd			
Leviathan Bond Ltd/Project Revenues - Senior Secured Debt/1 LT	LT	BB Rating Outlook Stable Affirmed	BB Rating Watch Negative

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

Infrastructure & Project Finance Rating Criteria (pub. 17 May 2023) (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	EU Issued, UK Endorsed

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