Moody's

Rating Action: Moody's affirms Leviathan Bond's Ba3 ratings, outlook stable

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London, November 11, 2022 -- Moody's Investors Service (Moody's) has today affirmed the Ba3 rating on the senior secured notes issued by Leviathan Bond Ltd. (Leviathan Bond). The outlook remains stable.

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 (the Government of Israel, A1 positive), and associated assets.

RATINGS RATIONALE

Today's rating action recognises Leviathan Bond's strong operational and financial performance supported by favourable commodity prices and market dynamics.

Leviathan Bond benefits from the substantial strength in oil and gas prices and increased demand for gas, including from Europe. The project generates strong free cash flow, given a fairly low cost of production. This performance is supportive of Leviathan Bond's credit quality in the context of its refinancing risk, given that the project's USD500 million bond is due in June 2023.

Moody's considers that persistently high prices will bolster Leviathan Bond's credit quality but only to the extent additional cash flows are used to reduce gearing on a sustainable basis, given the quality of incremental earnings, Leviathan's limited diversification of off-takers outside Israel and their weak average credit quality. In this regard Moody's notes the potential for direct collaboration on the supply of LNG between NewMed Energy and international counterparties as evidenced by the recent signing of a non-binding memorandum of understanding with Uniper SE.

Overall, the Ba3 rating on the senior secured notes is underpinned by the substantial gas reserves in the Leviathan gas reservoir, which had 1P proved reserves of 347 billion cubic meters (bcm) as of end-December 2021 and an annual production capacity of around 12 bcm., 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 the contracted earnings with long-term off-take agreements covering a substantial share of production until 2030, including minimum take-or-pay quantities and floor prices protection to Leviathan's cash flows in the case of weak Brent oil prices. NewMed Energy and the field's operator, Chevron Mediterranean, have a strong track record at the neighbouring Tamar field and the former Mari B field.

The rating is, however, constrained by the fairly high concentration of Leviathan's sales to off-takers with weak credit quality and the reservoir's exposure to geopolitical risk, given its location. The largest off-takers include Blue Ocean, which acts as an intermediary with the Egyptian Natural Gas Holding Company (EGAS) in Egypt (Government of Egypt, B2 negative) and the

National Electric Power Company (NEPCO), owned by the Government of Jordan (B1 stable). 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. At the same time, the Leviathan field faces competition from other Israeli gas suppliers, including the Tamar field and the recently commissioned Karish field. Moody's further notes that some of the gas sale purchase agreements (GSPA) include the right for the off-takers to reduce volumes if the Brent oil prices fall below a certain level.

The Ba3 rating further considers the terms of the senior secured notes, with limited creditor protections. Leviathan Bond's debt structure includes four notes with maturities ranging between 2023 and 2030, and the project is exposed to refinancing requirements. 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. In this regard, Moody's expects Leviathan Bond to manage the refinancing risk in a timely fashion and positively considers the strong cash flow generation of the project ahead of the next year's debt maturity.

RATIONALE FOR STABLE OUTLOOK

The stable outlook reflects Moody's expectation that Leviathan Bond will achieve improving financial metrics, in particular the ratio of funds from operations (FFO) to debt, based on NewMed Energy's share of the Leviathan project's cash flow.

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

The ratings could be upgraded if Leviathan Bond achieved FFO/debt sustainably above 25% and the market dynamics in terms of gas demand and prices remained favourable, or if the Leviathan partners entered into material new take-or-pay gas sale and purchase agreements with high-quality off-takers that improved cash flow visibility.

The ratings could be downgraded if FFO/debt appeared likely to fall below the mid-teens in percentage terms, if cash flow visibility deteriorated, if targeted production levels were not achieved or subsequently disrupted, or if appears that Leviathan Bond will be unable to refinance maturities in a timely fashion.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Generic Project Finance Methodology published in January 2022 and available at https://ratings.moodys.com/api/rmc-documents/361401. Alternatively, please see the Rating Methodologies page on https://ratings.moodys.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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