

Research Update:

# Outlook On Leviathan Bond's Debt Revised To Negative On Geopolitical Risk; Affirmed At 'BB-'

November 6, 2023

## Rating Action Overview

- In our base case, we assume the war between Israel and Hamas will remain centered in Gaza, and so far Leviathan Bond Ltd. (Leviathan) has not been immediately affected, with the project located in the northern part of Israel and remaining fully operational.
- However, we believe there are risks that further escalation of the conflict could threaten the stability of the project's revenue, continuity of operations, or physical integrity of assets.
- We therefore revised our rating outlook on the senior secured notes issued by Leviathan to negative from stable and affirmed our 'BB-' rating; the recovery rating is unchanged at '1'.
- The negative outlook indicates that, over the next 12 months, we could lower the ratings if security and geopolitical risks for the project intensify resulting in credit metrics deteriorating more sharply than we currently project.

## Project Description And Key Credit Factors

Leviathan issued \$2.25 billion to refinance its portion of the construction and development costs of the Leviathan gas field. Following a repayment of the 2023 bonds, the principal outstanding on Leviathan's bonds was \$1.75 billion. Rights to explore and produce petroleum and gas in the Leviathan field were granted proportionately to NewMed Energy Limited Partnership (45.34%; Leviathan's parent company), Chevron Mediterranean Ltd. (39.66%), and Ratio Energies (15.00%) under a production lease until February 2044 with an option to extend. Leviathan is an offshore gas field, situated approximately 120 km west of Haifa, with a production platform located 10 km off the coast of Dor, Israel. First gas was delivered in December 2019 and Leviathan currently supplies gas to Israel, Egypt, and Jordan (see "Leviathan Bond Ltd. Affirmed At 'BB-' After Revised Project Finance Criteria; Outlook Remains Stable," published March 15, 2023).

### Strengths:

- Minimal resource risk, with 1P reserves sufficient to cover production capacity for over 30 years.
- Leviathan has an experienced operator, Chevron Mediterranean, which underlines our view that

### PRIMARY CREDIT ANALYST

**Valeriia Kuznetsova**  
London  
+44 2071760864  
valeriia.kuznetsova  
@spglobal.com

### SECONDARY CONTACTS

**Livia Vilela**  
Madrid  
+ 34 91 423 3181  
livia.vilela  
@spglobal.com

**Gonzalo Cantabrana Fernandez**  
Madrid  
+ 34 91 389 6955  
gonzalo.cantabrana  
@spglobal.com

**Elena Anankina, CFA**  
London  
+ 7 49 5783 4130  
elena.anankina  
@spglobal.com

### ADDITIONAL CONTACT

**Corporate and IFR EMEA**  
RatingsCorpIFREMEA  
@spglobal.com

the project will maintain stable production and low operating costs (below 10% of revenue).

- Leviathan's strong market position and solid operational performance to date have boosted the project's cash flow generation, enabling it to repay its \$500 million bonds due in June 2023 without the need for refinancing.
- Sufficient liquidity to sustain operations and meet upcoming debt-service payments in the event of a disruption to production.

**Risks:**

- The rating is capped by our view of the creditworthiness of the rated GSPA offtakers.
- Despite a large, contracted revenue base, we expect the project will remain exposed to market risk, which introduces some cash flow volatility.
- The bullet nature of the notes exposes the project to refinancing risk on every maturity date, which is partially mitigated by cash reserving provisions.
- Leviathan can issue additional debt, subject to several conditions, which include maintaining the net present value at a 10% forward discount (NPV10) to net debt above 1.5x.

## Rating Action Rationale

**The negative outlook reflects the risk of a potential adverse impact stemming from the war between Hamas and Israel.** The outlook revision primarily reflects the material escalation in geopolitical and security risks that Israel faces from the ongoing war with Hamas in the Gaza Strip. On Oct. 24, 2023, we revised our outlook on Israel to negative (see "Israel Outlook Revised To Negative On Geopolitical Risks; 'AA-' Ratings Affirmed," published on RatingsDirect). As of now, Leviathan's assets have not been directly affected by the Israel-Hamas war because they are located away from the affected areas in the northern part of Israel. That said, in recent days there has also been an exchange of fire in the north of the country, which could escalate and potentially expose the project to higher security risks. We continue to monitor the risk of any damage to project's assets or any other limitations on its operations and expansion works, as well as repercussions for exports (Leviathan exports the majority of its production to Egypt and Jordan) and domestic sales. In case of further escalation of the geopolitical situation in the region, physical integrity of assets, continuity of operations and stability, and timeliness of revenue would be our primary focus.

**We affirmed our ratings because the project remains fully operational, and its cash flows have not been affected at this stage.** Amid the security situation in the south of Israel, the Ministry of Energy and Infrastructure has temporarily halted operations at the Tamar gas field due to its proximity to the Gaza Strip. For the time being, we understand two remaining gas fields--Leviathan and Karish Main--have sufficient production capacity to supply domestic needs, together with other available alternative fuels in Israel, and that domestic demand for energy in autumn is seasonally low. Gas exports to Egypt have been conducted through the FAJR pipeline, which bypasses the most affected areas in the south of Israel. We understand that payments from export and domestic off-takers have not been interrupted or delayed. Leviathan has no upcoming debt maturities in the next 12 months and the project has adequate liquidity reserves to cover the interest payments. Leviathan benefits from insurance coverage for risks of direct damage to assets and indirect damage (loss of revenue or prevention of profits) as a result of war or terrorism

actions. This is in addition to compensation provided under Israel's Property Tax and Compensation Fund Law for physical loss affecting the market value due to war or terrorism.

## **Outlook**

The negative outlook reflects the risk that the war between Israel and Hamas could spread more widely and affect the project's performance. We currently assume the conflict will remain centered in Gaza and last no more than three to six months. We continue to monitor the risk of any damage to the project's assets or any other limitations on its operations and expansion works, as well as repercussions for exports and domestic sales.

## **Downside scenario**

We could lower the ratings on the debt issued by Leviathan if the conflict widens materially, increasing the security and geopolitical risks the project faces. We could also lower the ratings in the next 12 months if the impact of the conflict on the project's credit metrics proves more significant than we currently project.

## **Upside scenario**

We could revise the outlook to stable if risks from the conflict subside substantially or the conflict is resolved, resulting in a reduction of regional and domestic geopolitical and security risks without any repercussions for the project's credit metrics.

## **Related Criteria**

- General Criteria: National And Regional Scale Credit Ratings Methodology, June 8, 2023
- Criteria | Infrastructure | General: General Project Finance Rating Methodology, Dec. 14, 2022
- Criteria | Infrastructure | General: Sector-Specific Project Finance Rating Methodology, Dec. 14, 2022
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology Applied To Bank Branch-Supported Transactions, Oct. 14, 2013
- General Criteria: Global Investment Criteria For Temporary Investments In Transaction Accounts, May 31, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

## **Related Research**

- Israel Outlook Revised To Negative On Geopolitical Risks; 'AA-' Ratings Affirmed, Oct. 24, 2023
- War In The Middle East Compounds Global Geopolitical Risks, Oct. 18, 2023

- Israel Electric Has Sufficient Fuel Supply Amid Potential Strain From Additional Costs, Oct. 17, 2023
- Leviathan Bond Ltd. Affirmed At 'BB-' After Revised Project Finance Criteria; Outlook Remains Stable, March 15, 2023

## Ratings List

### Ratings Affirmed

---

#### Leviathan Bond Ltd.

---

Senior Secured      BB-/Negative

---

Recovery Rating    1(90%)

---

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.spglobal.com/ratings](http://www.spglobal.com/ratings) for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at <https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceld/504352>. Complete ratings information is available to RatingsDirect subscribers at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.spglobal.com/ratings](http://www.spglobal.com/ratings). Alternatively, call S&P Global Ratings' Global Client Support line (44) 20-7176-7176.

Copyright © 2023 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, [www.spglobal.com/ratings](http://www.spglobal.com/ratings) (free of charge), and [www.ratingsdirect.com](http://www.ratingsdirect.com) (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at [www.spglobal.com/usratingsfees](http://www.spglobal.com/usratingsfees).

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.