Funding pipelines

NOW BASED AT PETROFAC, BRENDAN BOUCHER WAS FORMERLY GROUP TREASURER OF AUSTRIAN ENERGY GROUP OMV. AT THE ACTME ANNUAL CONFERENCE HE REFLECTED ON HOW OMV'S FUNDING STRATEGY DEVELOPED THROUGH THE DOWNTURN, REPORTS **GRAHAM BUCK**.

Among the many victims of the credit crisis, oil and gas companies are not the first category that comes to mind. Nonetheless, extreme volatility in the price of oil and gas created headaches for their treasurers in 2008 – the price of a barrel of crude peaked at $145 in July yet had dropped below $50 before the end of the year.

One individual with first hand experience of funding a medium-sized oil and gas company through the credit crisis is Brendan Boucher, now group head of treasury at oil and gas facilities service provider Petrofac in the United Arab Emirates and previously group treasurer at Austria's OMV.

CLEAR RESONANCE He provided a case study of his experiences at OMV, in a presentation entitled Funding Strategy, at the ACT Middle East annual conference in November. Although not a name as instantly recognisable as BP or Shell, OMV is one of Austria's largest listed companies; an integrated energy group active in exploration and production, refining and marketing in addition to gas and oil. Its experiences have clear resonance for energy companies globally as well as in the Gulf Cooperation Council (GCC).

The group has a robust shareholder structure to help it through hard times; it comprises 48% free float, 32% held by the Austrian Republic's investment and privatisation agency OIAG and the remaining 20% held by the IPIC formed by the Abu Dhabi government.

Before the credit crunch hit in the latter half of 2007 the group had built up its short-term debt and felt comfortable in doing so, buoyed by the steady rise in the price of oil. The group prepares both its annual budget and its plan for the next three years in the fourth quarter, but the forecast is updated on a quarterly basis. An annual financial strategy is approved by the board.

OMV targeted a debt to equity gearing ratio of 30% and also sought to maintain the group's good rating from the credit agencies; the latter published for the first time in September 2008 with Fitch allocating an A- rating with stable outlook, and Moody's an A3.

The group had traditionally relied mostly on bank finance with a couple of private placements, but as the credit crunch began to take hold and liquidity deteriorated, uncommitted lines of credit were withdrawn and a "perfect storm" of events was set in motion. OMV was forced to explore alternative sources of financing.

Early in 2008, the group was able to arrange a €1.5bn three-year revolving credit facility in the capital markets as a back-up, but Boucher said that it required careful management with pricing conditions deteriorating on a seemingly weekly basis during the process.

As he observed, the extremely volatile conditions at that time required more than ever that the group's funding strategy and risk management strategy were aligned – a good lesson for all businesses. However, managing risk was an integral part of the treasury team's activities and Boucher himself had responsibility for the enterprise risk management (ERM) process.

Boucher highlighted the essential factors that a company must take into account when evaluating market conditions. This process begins with deciding what the company's internal priorities are and also avoiding any assumptions that conditions will inevitably improve while being prepared for opportunities as and when they arise. Although mutual trust must be established with the banks and lead arrangers, treasurers should be flexible and access more than one market while keeping themselves updated on markets and transactions.

As the financial crisis intensified in the latter half of 2008, with the demise of Lehman Brothers in September, OMV embarked on its

inaugural debt investor road-show that same month, issuing its ratings simultaneously to reassure investors. By then the steep decline in the price of oil was underway and the group initiated an oil price hedging programme specifically to preserve liquidity. Boucher noted this was a good illustration of the need to ensure risk management and funding strategies are aligned.

OTHER OPTIONS Other financing options that were considered included factoring the group's receivables. In the end this was ultimately rejected as providing insufficient funds, although had OMV "hit a serious crisis" it might also have been used as a last resort. Boucher emphasised the importance of knowing what additional sources of finance could be tapped by the company, irrespective of whether these are ultimately utilised.

By early 2009, however, the worst appeared to be over and the group was able to complete several major transactions in the opening months; in February a €555m five/seven year private placement and in April after establishing a €3bn medium term note programme, the company issued its inaugural Eurobond for €1bn and a five year term.

The latter issue had been an intention of the group since late 2007 to extend the debt maturity profile and diversify funding sources, but it waited until conditions had improved before approaching the market for an inaugural transaction. Boucher said that in the interim period the documentation was regularly updated to ensure that market opportunities could be exploited.

Boucher commented that it is essential to secure the backing of non-treasury colleagues for the funding strategy. Drawing on his previous professional experiences where support for treasury transactions such as bond issues from other departments was a well-established process, he noted this should not be taken for granted, particularly when a company is looking to do new transactions for the first time. Key colleagues whose commitment he regards as essential include: the financial controller, group tax, group legal, investor relations and business unit finance teams, particularly with respect to updating company information in prospectuses.

The board also needs to be involved and should be fully briefed and kept regularly updated on progress. When market conditions are challenging, it is also essential to manage the board's price expectations.

As he noted, a number of alternative funding options had been considered in the past and dismissed as being insignificant – but when conditions become much less favourable they then become worth resurrecting.

So OMV survived the downturn and while conditions were challenging, they never reached crisis point. "People had to be patient and much more realistic on pricing, but despite this things ultimately got done."

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