

## Landmark Notes Issuance for Jamaican Highway Project

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*Abstract: This article provides an overview of the structure and credit highlights of the US\$225 million 5.75 percent senior secured notes issued by TransJamaican Highway Limited, the Jamaican toll road concessionaire. The bond issuance was highly successful as a result of several factors: the toll road is strategically located, the asset is fully operational, the operator has managed the toll road since its inception, and the financing package includes adequate structural protections.*

The issuance of US\$225 million 5.75 percent senior secured notes in February 2020 by TransJamaican Highway Limited (TJH), the Jamaican toll road concessionaire, followed by the initial public offering of shares in TJH in March, were landmark events for the capital markets in Jamaica and the region.

TJH holds the concession to develop the East-West Highway, the first phase of Jamaica's Highway 2000 Project. Not only is the toll road essential for Jamaica, it is a proven asset, with a track record of consistent cash flow generation. Leveraging this, TJH was able to use the bond issuance to refinance its higher-priced debt with predictive, long-term financing, and the issuance paid a significant dividend to its parent.

### Background

TJH is the concession holder under a 35-year agreement entered into in 2001 with the National Road Operating and Constructing Company (NROCC), the grantor of the concession. NROCC is a wholly owned Jamaican government company and represents the government's interest in the Highway 2000 Project. The East-West Highway concession, via an international tender, was awarded in 2001 to Bouygues Travaux Publics (Bouygues), a French contractor, in partnership with VINCI, a French toll operator.

Construction on the toll road commenced in February 2002 and was completed in August 2012. Operating and maintaining the road is the responsibility of Jamaica Infrastructure Operator Limited (JIO), which is owned by VINCI Concessions (51 percent) and Bouygues (49 percent).

TJH was initially formed and owned by Bouygues, then later joined by Autoroutes du Sud de la France SA, a subsidiary of VINCI. In 2011, in connection with a refinancing facility provided by a group of multilateral development banks, International Finance Corporation and Société de Promotion et de Participation pour la Coopération Economique subscribed

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for additional shares. On December 20, 2019, in preparation for the IPO in March 2020, NROCC purchased 100 percent of TJH's equity from these former shareholders.

## Credit Features

**Strategic Asset.** The East-West Highway is one of two toll roads in Jamaica, the other being the North-South Highway, which connects Ocho Rios on Jamaica's north shore with Kingston. About 50 kilometers long, the East-West Highway is the only high-speed road connecting Kingston, Jamaica's capital and its other highly populated towns to the west such as Saint Catherine and Clarendon. The areas served by the toll road make up 52.8 percent of Jamaica's population. The toll road has limited competing roads or routes, and the ones that do exist are not as safe or convenient; some sections of the competing roads have uncontrolled points of access, resulting in heavy pedestrian traffic and longer travel times. The toll road's strategic position has facilitated the urban development of the suburbs west of Kingston, which Jamaica's National Environment and Planning Agency has called the country's growth centers.

**Toll Rates.** Under the concession agreement, the toll rates are adjusted on an annual basis subject to an annual capped toll rate using an escalation formula based on the US CPI and the US dollar/Jamaican dollar exchange rate. Additional increases are permitted if the US dollar/Jamaican dollar exchange rate depreciates more than 10 percent intraperiod. For the current annual period, the toll rates represent 85 percent of the annual capped toll rate, giving TJH extra headroom should it decide to increase the toll rate for the period.

**Fully Operational Project.** Fully operational since 2012, the toll road is a mature asset. Under the concession agreement, no critical construction milestones are required until the handback requirements at the end of the concession period on November 21, 2036. Arup North America Limited, the independent engineer, provides operational oversight by reviewing the annual operating budget and maintenance plan in relation to the base case financial model. The independent engineer will also review and opine on the required major maintenance plan for the starting year and mid-term forecast updates.

**Experienced Operator.** JIO has operated the toll road for 18 years since commencement of construction in 2002. The operator is the beneficiary of the expertise and experience of its two shareholders, VINCI Concessions and Bouygues, with their international industry experience in the design, construction, operation and maintenance of toll roads and motorways. In December 2019, the O&M agreement between JIO and TJH was renewed for a new five-year period. Upon the expiration of the period, TJH plans to renew the O&M agreement with JIO or contract with another experienced international toll road operator.

**Debt and Collateral Structure.** The US\$225 million 5.75 percent senior secured notes offering was made in accordance with Rule 144A and Regulation S of the US Securities Act of 1933 and underwritten by UBS Securities LLC. The principal on the notes is payable according to a fixed quarterly amortization schedule after a one-year interest-only period. In addition to the major maintenance reserve account and the O&M reserve account, the financing structure includes a six-month debt service reserve account. The transaction documents include a standard project finance-type covenant package.

Pursuant to the onshore debenture, TJH has pledged to JCSD Trustee Services Ltd., as the onshore collateral agent, its rights and interests in the onshore accounts, freehold and leasehold property, tangible movable property, permits, intellectual property, insurance policies and proceeds, and project documents governed by Jamaican law. TJH has collaterally assigned its interest in the concession agreement to the onshore collateral agent in accordance with the Jamaican law assignment agreement. The most valuable offshore collateral consists of the offshore accounts, and, pursuant to the security and offshore accounts agreement, TJH has pledged its interests in such accounts to The Bank of New York Mellon as the offshore security agent and indenture trustee.

Consistent with the project finance structure paradigm, TJH entered into direct agreements with its project document counterparties. The NROCC direct agreement includes key investor remedial rights upon a breach by TJH under the concession agreement. Upon such a breach, before NROCC is

permitted to take any enforcement actions, it is required to deliver a notice thereof to the indenture trustee, and the standstill or cure period must have expired. At any time after an enforcement notice is issued by the indenture trustee or during a standstill period, the investors can deliver a step-in notice to NROCC to propose a replacement party that meets certain substitute conditions to assume TJH's obligations under the concession agreement.

**Ratings.** At closing, Fitch assigned a "BB-" rating to the notes with a stable outlook, which was above that of the Jamaican sovereign (B+/positive) but constrained by Jamaica's country ceiling of "BB-". S&P assigned a "B+" issue-level rating to the notes.

Fitch noted that the project's minimum and average DSCR were strong for the rating category.

Comparable projects in the region include Autopistas del Sol, S.A. (AdS; B+/Negative) in Costa Rica and Autopistas del Nordeste (Cayman) Limited (AdN; BB-/Stable) in the Dominican Republic. In some respects, TJH and AdS are similar projects in that they are toll roads in which the most common user is a commuter within their respective capital cities.

**Timing Is Everything.** TJH and NROCC were very fortunate to have closed the notes issuance and IPO when they did. Had the IPO been delayed—which, in turn, would have delayed the escrow release date—the spread of COVID-19 would no doubt have extinguished both deals. In the 2008 global recession, traffic on the toll road decreased appreciably, but the project rebounded after the recession. The COVID-19 pandemic will have a similar material adverse effect on the project, but as an essential asset with strategic importance for Jamaica, the toll road will overcome this setback as well.

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