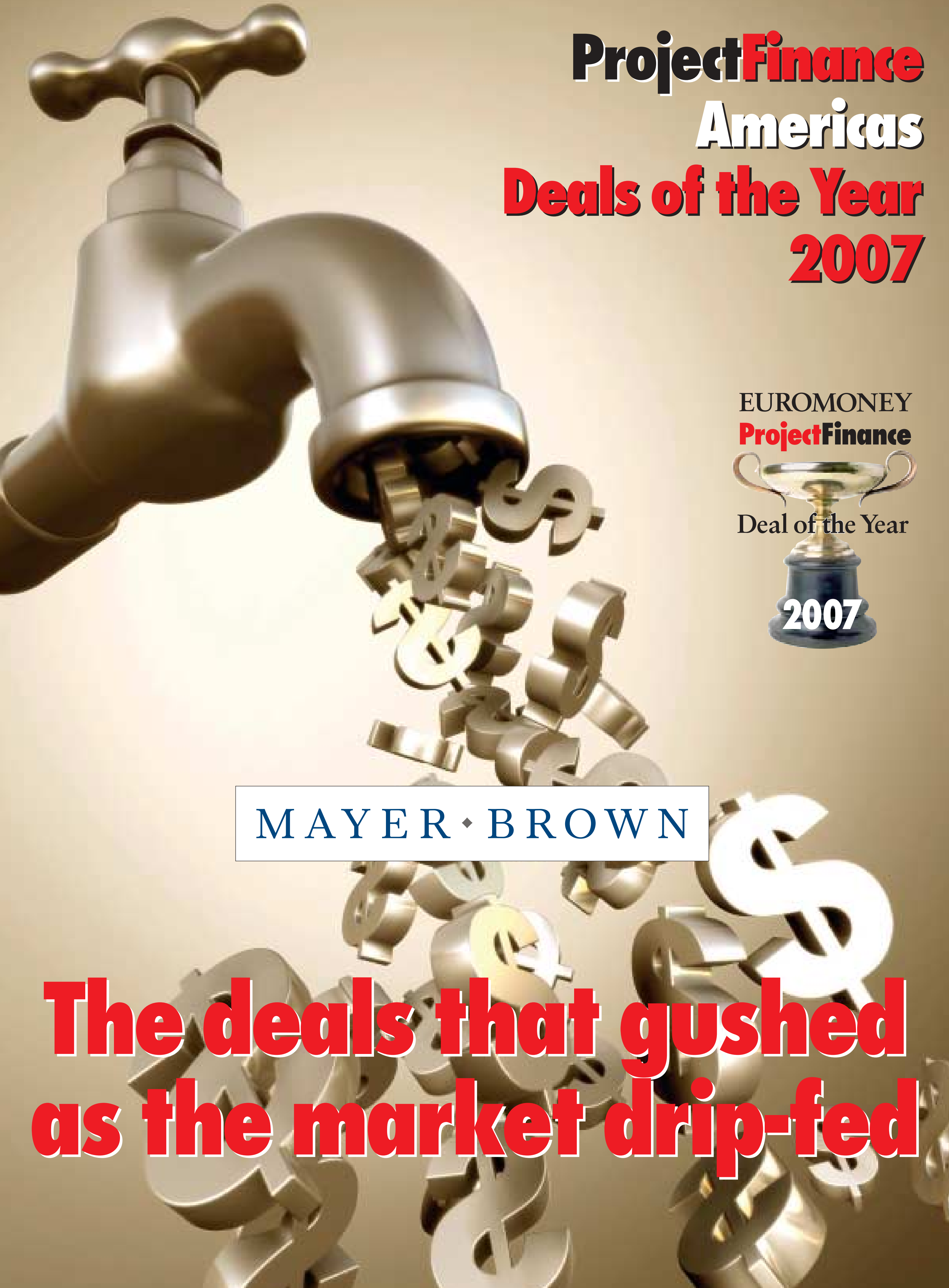
ProjectFinance Americas Deals of the Year 2007



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Deal of the Year
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The deals that gushed as the market drip-fed

North American Transport Deal of the Year 2007

Northwest Parkway: Full circle

The financing for Brisa and CCR's Colorado Northwest Parkway concession closed on 21 December, and was one of a small number of roads deals to reach financial close in North America in 2007. The acquisition of the distressed concession was the most comprehensive restructuring in 2007, and its terms highlight what banks will do to build market share in the US infrastructure market

The 99-year concession for the existing, and previously non-profit, toll road was awarded by the state in agreement with the Northwest Parkway Authority when, after four years of operation, poor revenues indicated that original traffic projections had been overly optimistic.

RBS was sole underwriter on the $459 million bank debt, which closed on 21 December 2007, and launched syndication on 15 January 2008. Brisa holds a 90% stake in the concession, and CCR has the remaining 10%.

The facility is divided into three tranches, and its pricing increases over time, starting at 105bp over Libor in years one to three, 110bp in years four to six, and 125bp until maturity.

The term loan is $249 million, with a 10-year maturity, and covers the debt portion of the sum that Brisa paid for the concession. This tranche was reduced from $255 million (bringing the total planned debt down from $465 million), just before financial close. The change was due to the increased costs of the interest rate swap on the facility, which would have reduced cash flow, so RBS reduced the debt to maintain the targeted debt service coverage ratio (DSCR), which is set at 1.4x.

The second tranche is a $60 million loan, which is designed to be eventually replaced with equity. It carries an 11-year maturity, longer than a conventional equity bridge. This tranche is 100% guaranteed by Brisa. The sponsor is also providing $266.9 million in cash equity to the project upfront.

The third tranche is a $150 million liquidity facility, also with a 10-year maturity, designed so the sponsor can meet the debt service over the first six or seven years, until the road is expected to make enough to be self-sustaining. The facility essentially replicates, in a cheaper and simpler fashion, an accreting swap mechanism.

The road's revenues are expected to cover the base case and operating expenses during this ramp-up period, but the liquidity facility is necessary to meet the initial debt repayments. Under the base case, the lender estimates that only $70 million of the liquidity facility will be drawn; however, the additional $80 million was provided to meet the rating agencies' requirements in giving the deal an investment grade rating. Standard & Poor's rated the deal BBB-, and Moody's Baa3.

The rating, which is not normally solicited for bank deals, lays the groundwork for a refinancing. João Vasconcelos, Brisa's head of finance, explains that the sponsor had originally intended to use bond debt and a monoline wrap for the concession; "When the markets turned in August, first the credit bubble, then the monoline problem, it increased the pricing on a bond deal and made it less attractive to us. The requirements for the investment grade rating were already in place for the monolines, and we benefited from keeping the rating when we switched to a bank deal."

BNP Paribas, as syndication agent, and Caja Madrid and Caixa Geral de Depósitos, both document agents, signed on at sub-underwriter level before syndication launched. Each of the three took 22.5% of the total facility in pro rata commitments (approximately $103 million each). The arrangers invited roughly 20 potential participants to attend the bank meeting, and expect significant interest from Spanish and Portuguese banks, given the sponsor origins.

The sponsor will pay the state up to $603 million for the concession, of which $543 million was paid upfront to the Authority when the sponsor took control of the road on 21 November 2007. This sum was funded with the equity, and a $250 million bridge loan from RBS, which has now been taken out with the longer-maturity term loan. Brisa will pay the Authority $263,200 in additional annual instalments.

Of the upfront payment, $503 million is to repay the Authority's outstanding bond debt on the road. The remaining $40 million is to be held in escrow until 2018, when it will be transferred to the Authority if an extension is underway from the highway to US128 and US93; if not, the funds will be returned to the concessionaire. The concessionaire may also pay an additional $60 million, if approval for construction of a 3.7km section of the road to US128 comes before the 2018 deadline.

This concession is Brisa's debut in the US market. Victor Saltão, CEO of Brisa North America, says the concession appealed to Brisa for three reasons; "Firstly, the deal is an appealing size, not too big, so we perceived it to be executable in the market. Secondly, we liked that is was a brownfield project, as we are not designers and developers, but concessionaires. The road has been in operation since 2004, so we had some idea of the revenues. Thirdly, there is potential for growth in the future, as there is a section of the ring road yet to be completed".

Pedro Costa, CEO of the Northwest Parkway for Brisa, adds that the asset has the benefits of a brownfield project, but because it was built so recently, also requires no capital expenditure. He explains that the planned developments for the road are implementing Brisa's express toll system, which is inter-operable with the existing transponders, but will also allow users to pay for parking and petrol station services electronically. Brisa has already piloted the system in Portugal.

Brisa's financing package gives the concession enough time to test whether the new set of assumptions are better. With global credit markets rewarding simpler deal structures, the liquidity facility may become the market standard for transport deals. ■

Northwest Parkway

Status: Closed 21 December 2007
Size: $686 million (including administrative costs)
Location: Denver, Colorado
Description: 99-year concession of 18km toll road
Concession awarder: Northwest Parkway Authority
Sponsors: Brisa (90%) and CCR (10%)
Equity: $266.9 million
Debt: $459 million
Maturity: 10 and 11 years
Sole lead arranger and bookrunner: RBS
Agents: BNP Paribas, Caja Madrid, Caixa Geral de Depósitos
Financial adviser to sponsor: ABN AMRO
Financial adviser to state: RBC Capital Markets
Legal counsel to lender: Freshfields
Legal counsel to borrower: Chadbourne & Parke
Legal counsel to the awarder: Mayer Brown
Technology and traffic consultant: Halcrow
Traffic consultant (sponsor): Cambridge Systematics
Traffic consultant (state): Vollmer

Latin American Renewables Deal of the Year 2007

Hidro Xacbal: Terra vision

The largest of the current Guatemalan hydro projects and one of very few project finance deals in the country to date, the $226.8 million 94MW Hidro Xacbal hydroelectric power project also demonstrated that carbon credits can be a bonus, rather than a necessity, in making emerging markets renewables deals bankable.

Xacbal is one of a slew of projects (Guatemala has an estimated 5,000MW hydro capacity and 1,000MW of geothermal potential) designed to take advantage of SIEPAC, the interconnection system for Central America and Mexico that is set to be complete in 2008.

Sponsored by Grupo Terra (a Honduran energy, infrastructure and telecoms group), the run-of-river plant will be built in the municipality of Chajul, department of El Quiche, in the northern region of Guatemala, using the flows of the Xacbal River. The project is designed to produce 473GWh per year and will account for 4.5% of Guatemalan electricity generation. It is the largest Guatemalan hydropower project to be built since Chixoy, which came into operation in 1985 and has a generating capacity of 265MW.

Israeli construction company Soleh Boneh is performing civil works with Voith Siemens responsible for water-to-wire electromechanical components. The plant is expected to be fully operational by 2010.

Grupo Cobra is building the project's transmission line under a fixed-fee cost per kilometre based on the type of terrain it encounters as it builds. The project was structured from the outset for project debt and construction contracts compliment each other and provide lenders with comfort during the project works.

Although the project is eligible for carbon credits – both by its likely displacement of bunker oil-fired capacity, and the social and environmental infrastructure investments it has made – they are not integral to the financing.

The 1.28x debt service coverage ratio (DSCR) does not factor in carbon revenue and the sponsor will not sign any offtake contracts for carbon credits until completion. In fact the only reference to credits in the project comes where carbon revenues are pledged to lenders if the DSCR falls below 1.1x.

Furthermore, the project is 100% merchant – symptomatic of investor confidence in the future of the developing local energy market, high combustible fuel prices and the growing local demand for power, which is rising at a rate of approximately 60MWs per year.

The project will go a long way to insulating the country's electricity market from price spikes caused by rising combustible fuel pricing.

The project also benefits from local renewable energy incentives – 10-year breaks on income and corporation taxes plus a break on the import duties for renewable energy generation equipment. – and will have priority dispatch into the National Electric Interconnection System.

Of Xacbal's $226.8 million cost, $167.4 is funded through a 15-year (with a three year grace period) term loan lead arranged by Royal Bank of Trinidad & Tobago (RBTT) – the bank's first project financing in Central America. The deal priced at 355bp over 3-month Libor in year one, 320bp in year two, 315bp in year three, and 300bp thereafter.

The deal came in oversubscribed in syndication and banks and multilaterals that joined were FMO with a $30 million take, G&T Continental Bank with $15 million, the Central American Bank for Economic Integration (CABEI or BCIE) with $90 million, and Banco Agromercantil. RBTT retained the remainder of the loan.

The financing is notable on two levels. First the 15-year tenor is impressive for a merchant project anywhere, let alone one in Guatemala. Second, the debt/equity ratio is high at 3:1 and rises further to roughly 4:1 following end of construction when Terra can withdraw just over $11 million in equity.

Hidro Xacbal is a major boost for the Guatemalan and Central American project sectors. The project will go a long way to insulating the country's electricity market from price spikes caused by rising combustible fuel pricing. But most significantly, and perhaps ironically, it demonstrates that carbon credits are not always a pre-requisite for getting renewables projects banked. ■

Hidro Xacbal

Status: Financial close 30 March 2007
Size: $226.8 million
Debt: $171 million
Description: 94MW run-of-river hydroelectric project
Location: Quiche region, Guatemala
Sponsor: Grupo Terra
Lead arranger: RBTT
Participants: CABEI, FMO, Grupo Financiero G&T Continental, Banco Agromercantil
Sponsor legal counsel: Paul Hastings
Lender legal counsel: Mayer Brown
Contractors: Solel Boneh, Voith Siemens, Grupo Cobra

Latin American Project Bond Deal of the Year 2007

Lima Airport Partners: Split but pierced

Latin American project bond issues were plentiful in 2007. Amid a crowded field, Lima Airport Partners stood out, as much for its structural complexity as its direct benefit to the sponsor.

The $165 million bond financing refinances a more expensive and restrictive construction financing, and provides additional capital for a second phase of construction at the Jorge Chavez international Airport. The financing, arranged and underwritten by Merrill Lynch, was rated at above the foreign currency ratings for Peru.

The financing was structured around one of the most government-friendly concessions in the Americas, and involved no changes to the underlying concession. It included one useful structural innovation: the replacement of a debt service reserve – a drag on sponsor economics – with an insurance policy.

But the most important factor in achieving a coveted investment grade rating was not so much the result of a suite of external enhancements as the ability to persuade the agencies and investors that the revenues available to Latin airport investors have been undervalued by debt markets.

Lima Airport has a good track record. It serves the world's 28th largest city, and handles over 95% of the country's air traffic. A consortium of Alterra (a Bechtel/Changi joint venture, 42.75%) Fraport (the operator of Frankfurt Airport, 42.75%) and Cosapi (14.5%) took on the concession for a small upfront payment in February 2001, after winning the bid in late 2000.

The three winners received approval for a $106 million financing from the Overseas Private Investment Corporation (OPIC) and KfW in the middle of 2001. In 2002, Alterra bought out Cosapi, but its shareholders began to tire of the airports sector, in part because of their experiences with the stalled Costa Rica airport concession.

Lima Airport Partners closed on an expanded 16-year $125 million financing for the airport in November 2003. The expanded financing amount reflects the $12 million that the sponsors had to spend in the first two years of the concession and an estimated $1.2 billion investment that they will need to find over the life of the 30-year build-operate-transfer concession.

Corpac, the government-owned airport operator, and the awarder of the concession, struck a hard bargain. It gets to retain 46.5% of the total revenues of the airport, and receives these revenues before any debt is serviced. So while Peru has enjoyed strong economic growth since the airport was awarded, the private operator has not enjoyed the full benefit of this growth.

The OPIC/KfW financing was closed in the aftermath of the post 9-11 slump in worldwide air traffic, and lender caution was reflected in high pricing and restrictive covenants. But the concession produced Ebitda of Eu20 million ($30 million) on revenues of Eu80 million in 2006, and the first phase of the redevelopment of the airport was complete.

In early 2007, Merrill Lynch's Latin America Infrastructure finance group pitched the sponsor a bond refinancing of the multilateral debt. The deal would, in essence, monetise the passenger fees paid by users of the airport, fees to which the previous set of lenders had assigned too high a risk premium.

Merrill Lynch proposed raising an additional $40 million against the concession to fund a second phase of construction, including the acquisition of boarding bridges and an extension of the terminal. The financing would build on its $630 million securitization of payment rights for the IIRSA Sur toll road in Peru, which closed in December 2006.

The refinancing is designed to bring Lima's leverage to levels closer to international norms, particularly the booming European market. To do this, the underwriter needed to persuade ratings agencies Fitch and Standard & Poor's (S&P) that the revenues from the airport are solid enough to justify and investment grade rating.

Fitch rates Peru BB+ foreign currency with a BBB- country ceiling, as does S&P. The $165 million bonds are not unique, since other issuers, particularly those with dollar export revenues, often achieve the same rating. Airport issuers, particularly those where revenues do not stay out of the country, find it more difficult to do so.

The financing rests on the idea that the dollar revenues remitted to the concessionaire and promptly paid on to an offshore trust for the benefit of bondholders, and the ring-fencing of the concession's health from that of its operator, can boost the rating to the country ceiling.

But the deal was assembled against the backdrop of a looming renegotiation of the concession's terms. While none took place before the close of financing, sponsor and government were negotiating rebalancing the concession to allow for a more generous split in exchange for greater or accelerated investment at the airport. The agencies did not assume any benefits to the concessionaire from the process, though any improvement in Ebitda margins from their present 23% would be very welcome.

The other main innovation in the financing was the replacement of the debt service reserve account, which essentially leaves a large chunk of bond proceeds inert in an account for the benefit of bondholders rather than available for capital expenditures, with an insurance policy. This policy, with a Merrill Lynch subsidiary, costs the borrower a premium, and is available to bondholders if needed.

The bonds priced for a coupon of 6.88%, but were all bought by Merrill Lynch, and serve as food for its derivatives trading operations. Were there to be substantial positive changes to the concession terms or an upgrade to Peru, a long position in the bonds could record substantial gains.

Fraport bought out Alterra's stake in the airport in August 2007, paying $36.8 million. It will look at selling on 40% of its holding to a mixture of the International Finance Corporation and Peruvian investors. Completing the refinancing gives it a much better proposal to send out on roadshows. ■

Lima Airport Partners

Status: Closed July 2007
Size: $165 million
Location: Lima, Peru
Description: Securitization of revenues from Jorge Chavez airport, the country's largest
Sponsor: Fraport
Sole bookrunner: Merrill Lynch
Maturity: 15 years
Coupon: 6.88%
Traffic study: SH&E
Offshore trustee: Bank of New York
Onshore trustee: Citigroup
Bookrunner legal: Mayer Brown (international) Estudio Rubio, Leguía, Normand & Asociados (local)
Borrower legal: Clifford Chance (international), Rebaza, Alcazar & De las Casas (local)
Insurance: Moore-McNeil