

Autopista del Sol toll road refinancing, Spain

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Cintra has successfully raised €557.8 million (\$631 million) of debt to refinance two of its Spanish toll roads, with institutions from Germany and the US providing funds. What may have initially seemed a straightforward transaction however, eventually proved more complicated.

Cintra is the lead shareholder with 80% of the two PPP concession companies for the Autopista del Sol – Ausol I and Ausol II. Unicaja owns the other 20% stake. The sponsors reached financial close with a [combined Ausol financing package](#) in 2011 for the two road sections, though in fact they have been in operations since 1999 (Ausol I) and 2002 (Ausol II). That mini-term debt had a March 2016 maturity, prompting this refinancing.

The concession covering Malaga-Estepona lasts from 1996 to 2046, while the concession for Estepona-Guadiaro runs 1999 to 2054. The AP-7 highway runs for 105.2km along the Costa del Sol in Andalucia in southern Spain, and the two concessions cover 96km.

Unfavourable conditions

The sponsors led the refinancing, which kicked off in late 2015. Santander was acting as bookrunner.

The only recent project bond benchmark for a Spanish toll road PPP was the [A66 Benavente-Zamora](#) in June 2015. However the A66 is an availability-based concession, while Ausol is a real toll, meaning a different risk profile.

But one investor involved in the run-up to the deal pointed out that even though the A66 had closed only 10 months earlier at a spread around 180bp, Ausol was experiencing market conditions already significantly less beneficial.

Interest rates have generally started to rise again, compared to 2015. The Andalucian economy in southern Spain has the highest unemployment rate in the country according to European Commission figures. Meanwhile the whole of Spain is in political limbo with no elected central government. Stalemate has continued since inconclusive December 2016 elections, and with no signs of a coalition materialising, a fresh election is likely on 26 June 2016.

Drop-outs

In the couple of months [leading up to closing the Ausol refinancing](#), several bond investors chose to withdraw.

One institution which dropped out at a late stage told *IJGlobal* they had not been happy with the absence of several covenants and that the senior debt tail was short (indeed it should be fully repaid only three months before Ausol I's concession ends).

The mismatch in junior and senior debt maturities was a cause for concern for the investor. The junior bank debt will be

gone after year five, while senior debt matures in 2045. They emphasised that in their view the risk on these mature toll roads is not in the short term, but on traffic levels in 10, 15, 20 years and by then the junior debt will be gone.

In fact in 2015 the 11.1% growth of traffic growth year-on-year shows a strong momentum right now. From 2007 to 2013 during the downturn, traffic volumes fell 41%. S&P has estimated compound annual growth of 2.1% in its base case from 2016-2045.

Final package

IJGlobal understands that the pricing Cintra was originally seeking for Ausol was a spread a bit below 250bp over mid-swaps. In the end this was not realistic. The implied spread for the senior debt came in at 260bp over mid-swaps.

Although there were exits, the big player Allianz Global Investors was in a position to meet the lion's share.

The final package which reached financial close on 17 March 2016 was:

- €467 million – fixed-rate 3.75% senior notes, maturing 30 December 2045, listed on Irish Stock Exchange, rated BBB (S&P)
- €40m – fixed-rate 3.75% senior notes, matures 30 December 2045, listed on Vienna Stock Exchange, rated BBB (S&P)
- €50.8 million – junior loan with 10-year maturity, fully amortising after five years due to significant cash sweeps, interest rate equates to 7%

Of the €467 million Ireland-listed senior debt, AllianzGI subscribed to €320 million. German asset manager MEAG and German physicians' pension fund manager Ärzteversorgung Westfalen-Lippe (AEVWL) took €147 million between them.

An unknown US investor subscribed to the €40 million senior notes which it required to be listed in Vienna.

Santander, Banco Popular and Unicaja provided the junior debt, which *IJGlobal* understands has no enforcement rights.

The issuer is Autopista del Sol Concesionaria Española SA. The S&P base case estimates a minimum annual debt service coverage ratio of 1.36x and an average of 2.32x. There is a 12 month debt service reserve and a major maintenance reserve account, both fully-funded.

To cover pending land expropriation issues and tunnel works, the sponsors have injected the exact required amount as equity - €42.73 million. Overall leverage is in the region of 80% *IJGlobal* understands.

New benchmark deals

Brownfield refinancings and acquisitions continue in Spain's transport sector, where greenfield deals dried up a long time ago. upcoming refinancings in the toll road sector are not due to be as large as Ausol or Itinere though.

Itinere refinanced its real toll roads in a €1 billion 10-year deal at the start of the year.

A source said, "on the one hand you have the 30-year tenor achieved on Ausol which is a real success, and on the other hand Itinere was a €1 billion very large deal in the high yield category, ending up with a cost of debt below 300bp, which is also a real success."

The source who exited Ausol said that while they didn't do that deal, they are still very interested in further transactions in the country.

Advisers

Allen & Overy advised the institutional investors. Uria Menendez and Mayer Brown were legal advisers to the sponsors.

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