Costera 4G toll road, Colombia

Rosie Fitzmaurice

15/07/2016

Goldman Sachs has just arranged a second multi-tranche, dual-currency, hybrid financing backing one of Colombia’s 4G toll road concessions. Together the deals have created a new paradigm for infrastructure finance in underdeveloped Latin American markets.

The $472 million debt issuance, which settled on 8 July 2016 in support of the Costera Cartagena Barranquilla toll road project, involved the placement of local and international bonds, as well as local bank loans and institutional debt. The deal mirrored February’s $648 million Pacífico Tres (P3) transaction, which became the first 4G toll road to achieve financial close.

Global arranger and structuring agent, Goldman Sachs, also structured a roughly $340 million debt package in support of the Girardot-Puerto Salgar toll road, which signed on 13 July. Given its smaller size, the deal relied solely on bank funding.

The three projects share similar sponsor groups. The package of three concessions were originally won by a joint venture between local construction firm Mario Huertas Cotes (MHC) and Costa Rica’s Constructora Meco under the so-called “first wave” of 4G, during 2014.

The sponsors subsequently brought in strategic partners for some of the project consortia in order to boost financing capacity. Local construction firm Colpatria acquired a share in the Costera consortium, and Pavimientos Colombia and Ingenieria de Vias purchased stakes in the Girardot-Puerto Salgar project company.

The Pacífico Tres deal structure was unprecedented in Colombia, which had until then a very limited history of infrastructure finance. The deal represented the first international bond for a Colombian toll road. While Costera essentially replicated P3’s tried and tested formula, there are some nuances which set the deals apart.

Complex structure

"This is one of the most sophisticated and multi-faceted financings that I’ve ever worked on in Latin America" says Gianluca Bacchiocchi, a New York based partner at Clifford Chance which advised the lenders, arrangers and initial purchasers, "It is the height of sophistication even from a worldwide perspective".

Costera's debt package consists of the follow facilities:

- $150.8 million in US dollar bonds priced at a coupon of 6.75%
- Ps327 billion in UVR bonds priced at UVR plus 6.25%
- Ps135 billion UVR-denominated loan provided by CAF Ashmore I priced at UVR plus 7.40%
- Ps250 billion peso-denominated loan A provided by Bancolombia priced at IPC plus 7.50% with step down to 7% post construction

- Ps300 billion peso-denominated loan B provided by Banco de Bogota and Banco do Occidente priced at IPC plus 9.00% with step down to 6% post construction

Fitch rated the US dollar bonds 'BBB-', the UVR bonds and loan 'BBB-/AA+(col)' and AA+(col) to the Peso-denominated loans A and B.

The Peso loan tranches for Costera are understood to have been oversubscribed and the sponsor group assembled an almost entirely different lender group to P3.

The deal received one of the first commitments from the CAF/Ashmore local debt fund, which reached its first close in the final quarter of 2015. It also attracted Scotia Capital as an initial purchaser alongside Goldman Sachs. This is thought to be the Canadian bank’s first closed 4G deal.

Both transactions benefit from a multipurpose subordinate liquidity facility provided by the Colombian development finance institution FDN. Costera obtained a FDN facility for the full target size of 15% of the senior debt, which was not possible in P3 due to its larger size (there is a cap as to how much the bank can commit per project). Consequently in P3, the sponsors had to arrange an alternative financing to make up the shortfall.

The future of the region

The Costera bonds are understood to have drawn a stronger group of local institutional investors than P3, demonstrating a growing confidence in the 4G toll roads. Goldman Sachs and local investment bank Structure, which acted as financial adviser to the sponsors, spent time with local accounts in particular in advance of the issuance.

Additionally, there was stronger interest from abroad in the UVR-indexed local bond tranche. "The appetite from foreign investors to take COP risk, especially when indexed to inflation, is a very positive sign for the region" says Bacchiocchi. "In the past it was only dollar bonds, now they are willing to take local currency risk".

The proceeds of the bonds were funded upon financial close, but the monies are only disbursed as the concessionaire reaches conditions precedent (CPs) in the construction period, which is broken down into six units, or milestones, called UFs. Once the bond proceeds are fully utilised the loans will begin to disburse, in order to reduce negative carry.

"Now that we have been able to achieve this in Colombia, the sky is the limit when you look at other underdeveloped jurisdictions, such as Argentina and Paraguay. It is the future of the region as a whole" he adds.

"We expect more sponsors of 4G projects to use a hybrid structure, and hopefully someday a bond only structure".

The 25-year concession entails the design, build, finance, operation and maintenance of the Cartagena-Barranquilla toll road. Works include the improvement of existing roads, construction of new road stretches, bridges and interchanges, and a viaduct.

The sponsors have sub-contracted the construction of the viaduct, which belongs to the UF2 unit, to Rizzani de Echer. This contract accounts for a significant portion of the overall EPC contract price. This was a differentiating factor in the structure to P3, where there was no significant sub-contract.

As with all of the other PPPs awarded under the national infrastructure agency's (ANI) 4G programme, Costera's cash flows derive from ANI contributions and toll revenues. If toll collection falls below the amount stipulated in the concession contract, ANI will provide top up payments to the concessionaire.

Advisers

Milbank and Castro Leiva advised the sponsor group. Clifford Chance and Philippi Prietocarrizosa Ferrero DU & Uría provided counsel to the lenders, arrangers and initial purchasers. Holland & Knight advised FDN.