MainOne: Subsea at a price

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Main Street Technologies' $268 million Phase 1 MainOne cable project overcame a number of hurdles to get to financial close – issues that had nothing to do with the global liquidity crunch.

The two-phase project is planned to be a 15,000km dense wave 1.92Tb/s subsea cable linking all countries along the coast from South Africa to Portugal – although permits for a landing in South Africa now appear unlikely. Phase 1 of the project links Ghana, Nigeria and Portugal, with phase 2 expected to add Ivory Coast, Senegal, Canary Islands, Morocco, DRC, Gabon and Angola to the landing sites.

The technology is 15x faster than existing cable in the region and is expected to tap into both home and commercial internet business – notably secure and reliable connections for Nigeria and Ghana's oil industry.
The project financing is based on conservative cashflow and market penetration predictions, nevertheless revenues from the 6900km phase 1 alone are expected to make the whole project economically viable and revenues from future roll-out will be a bonus.

Despite those predictions – and they are well-founded enough to have brought the two Nigerian banks (Skye Bank and First Bank Nigeria) lending to the deal in as equity investors as well – the project required difficult negotiation through what has been described by bankers on the deal as a 'chicken-and-egg' problem; offtakers for the project, MTN for example, were not keen to sign up until the project had financed, and lenders were equally wary until the offtakers were in place.

Few deals can be largely attributed to one individual but according to lenders the impasse was largely overcome by Main Street founder Funke Opeke (ex-chief technical officer of MTN Nigeria and executive director of Verizon Communications Wholesale Division in the US).

After a long negotiation the deal signed in September 2009. The financing comprises three tranches: a six-year-seven-month term loan provided by the AfDB ($55 million) and DEG ($20 million); a $45 million tranche of the same tenor provided by First Bank Nigeria ($20 million), FBN Bank UK ($15 million) and Skye Bank ($10 million); and a $12 million three-year-seven-month standy facility split equally between AfDB and Skye Bank.

Pricing on the debt was not cheap – a flat 13.5% on the term loans with a 100bp commitment fee, and 18.5% on the standby facility with a 150bp commitment fee. That combined with expectation of IRR on equity bordering 25% makes MainOne a likely candidate for refinancing as soon as phase 1 has revenue.

But although the deal is a financing agreed out of absolute need, it is still a significant achievement and if cable take-up reality proves to be anything like the African mobile market, the financing will almost certainly pay for itself many times over in the years to come.

MainOne
Status: Financial close September 2009
Description: First project financing for open source submarine cable on the west coast of Africa
Sponsors: Main Street Technologies (25%); Pan African Infrastructure Development Fund (25%); AFC (255); First Bank

Nigeria (12.5%); Skye Bank (12.5%)
Financial advisor: Standard Chartered
Lead arrangers: AfDB: First Bank Nigeria; Skye Bank
Participant: DEG
Sponsor legal counsel: Banwo & Ighodalo
Lender legal counsel: Vieira de Almeida & Associados; Norton Rose
EPC Contractor: Tyco Telecommunications (US) Inc