Sorgenia CCGTs: Three-in-one

11/09/2009

Sorgenia, the largest privately-owned energy company in Italy, has closed a Eu600 million ($862 million) expansion financing from a club of six banks.

The debt is secured against three CCGT projects – one operational and two in construction – in a hybrid corporate/project financing. The complexity of the deal was compounded by the need of the sponsors to keep an existing corporate facility in place for the operational plant, Termoli, for tax purposes, albeit with amendments to effectively turn loose the unsecured debt into a pari passu facility.

Sorgenia is providing a direct guarantee to cover the construction of the 770MW Lodi plant, which is close to completion, and the 770MW Aprilla plant, which is in the early stages of development: The EPC contract is with Ansaldo Energia, which is also responsible for the maintenance of the gas turbines and related generators. The project benefits from the operational leverage of the 770MW Termoli plant – completed in 2006 – which is providing solid cash flows.

The guarantees during construction fall away incrementally after a successful technical due diligence post-construction of the Lodi plant, with all guarantees removed when all three plants are fully operational.

The Eu600 million financing is being provided by Mediobanca, Intesa, WestLB, MPS, Unicredit and Banca Popolare di Lodi. The tenor is 10 years and there is a 20% balloon payment. The debt is priced at 300bp over Euribor during the three-year construction period. The margin then steps up in 25bp increments to reach 450bp in year seven. The upfront fee is 200bp with hedging provided by all the banks at 15bp. ADSCR is 1.4x and the debt-equity ratio is around 60/40.

The banks are taking a dilute form of merchant risk beyond the construction period: The risk is limited to quasi-market price risk, not volume risk, as Sorgenia is committed to offtake the entire output of the captive plants and its production is sold entirely direct to end-users.

Lenders can also take comfort from no spark-spread risk. The price of electricity from the plants is set on an annual basis under a business service contract with Sorgenia's end-users. The mechanism is based on a price formulated with reference to the market price and is re-gauged by changes in various inputs such as gas supply price.

Nevertheless, a condition precedent of debt disbursement is that Sorgenia secures long-term gas supply contracts that fit with the base case model. Sorgenia has supply agreements lined up with Enel.

The financing ranks pari-passu with an existing unsecured corporate facility used for the construction of Termoli CCGT plant. That corporate financing refinanced a merchant project deal underwritten by MPS, which reached financial close on 20 January 2004, with a club signing at the end of February 2005. The project financing comprised a 10-year Eu260 million main debt facility ($326 million) and a Eu65 million VAT facility. Pricing started at 220bp over Euribor during construction and ratchets down at intervals of 200bp, 190bp, and 180bp.

MPS completely underwrote the corporate refinancing in June 2007. There is around Eu178 million outstanding of the Eu222 million facility. The corporate debt has been amended to exactly the same pricing and repayment profile as the new facility. It also shares the same events of default, DSCR triggers, mandatory payment clauses, and the same security, including a pledge over the shares of the operating company, Sorgenia SpA.

Although the two facilities can be accelerated separately, the intercreditor agreements include a 10-day standstill provision so that lenders can seek a remedy or all seek acceleration on an equal footing.

Sorgenia chose not to refinance the corporate financing, principally for tax purposes. By amending rather than novating the corporate facility, Sorgenia is able to amortize the debt for tax purposes along the same tenor and repayment profile as the original five-year corporate deal. Had the deal been refinanced it would require a mortgage under Italian law and Sorgenia would then be liable to tax claw-back.

The ADSCR is 1.4x, and if the debt service falls below 1.4x at cash checks every six months, an automatic 20% cash sweep kicks in. Lender risk is further mitigated by a sponsor penalty worth six month's debt service if the operating company fails to meet its forecast base case Ebitda target. The debt service cover trigger for default is 1.15x.

Sorgenia CCGTs
Status: Financial close 15 July 2009; first drawdown due end of August 2009
Description: Hybrid project/corporate debt
Sponsor: Sorgenia – shareholders: CIR (51.85%); Verbund (44.77%)
Mandated lead arrangers: Mediobanca (documentation); Intesa; WestLB; MPS; Unicredit; Banca Popolare di Lodi
Lender legal counsel: Latham & Watkins
Sponsor legal counsel: Chiomenti
EPC contractor: Ansaldo Energia