

A2: Crowd control?

28/07/2009

In a lending environment devoid of liquidity the Eu1.4 billion (\$1.9 billion) financing for Autostrada Wielkopolska's (AWSA) Nowy Tomysl-to-Swiecko section of the A2 motorway in Poland is an anomaly. It was a deal where both commercial banks and the European Investment Bank (EIB) had to be persuaded by financial advisers Deutsche Bank and Calyon to scale back their takes.

The project is part of the TENs programme and therefore politically important to Poland, the EU and the EIB. At issue was the cost of debt – the commercial banks wanted larger takes, which would have meant more debt at commercial margins. The Polish government wanted the cheapest debt available and pressured the EIB to circumvent one of the key tenets of its internal constitution – that EIB project funding must be additional in nature, with a 50% ceiling, to safeguard against the crowding-out of commercial lenders.

The Eu1.4 billion debt splits into a 27-year, Eu1 billion loan from the EIB and a 20-year Eu400 million commercial tranche.

On the commercial tranche, Deutsche Bank, Calyon and KfW took tickets of Eu50 million; WestLB, UniCredit, Banco Espirito Santo, Societe Generale and Caja Madrid took tickets of Eu42.5 million; and BBVA took a Eu37.5 million ticket. The debt is priced at 350bp over Euribor during the three-year construction period, rising to 400bp at year 12. The arranging fee was 300bp, and the average debt service coverage ratio is just above 1.3x.

A zloty-denominated Eu33.7 million VAT facility was also provided by local banks – PKO BP with Zl70 million), Bank Pekao Zl45 million and BRE Bank Zl35 million.

The road is a three-phase project. In 2000, the financing for the first section – also sponsored by AWSA and lead arranged by Credit Lyonnais (now Calyon), Commerzbank and the EIB – between Nowy Tomysl and Konin, reached financial close. The third section, from Konin to Stikov, has yet to be tendered.

In late 2007, Meridiam approached Deutsche Bank for advice on getting into the Polish infrastructure market. The bank advised Meridiam to buy out the Swedish group NCC's 10% stake in AWSA, as well as a 30% stake from Kulczyk (at that time lead sponsor, with 70%), which it did in late 2008. Consequently the AWSA consortium now comprises Meridiam (40%), Kulczyk (40%), Strabag (10%) and KWM (10%).

Once the consortium was re-settled, it mandated Deutsche Bank as co-financial adviser with Calyon (which had advised on the Nowy Tomysl to Konin section) for the second A2 phase.

Calyon had been contemplating a series of payment structures: real toll, shadow toll or availability payment. Given the lack of bank appetite for real or shadow tolls, the advisers pushed for an availability payment scheme and tabled a funding proposal on 31 March 2009 to the Polish government.

The proposal included an indication from the EIB that it would be willing to come in with Eu800 million, half of the total project cost. The government, however, was keen to bring in as much cheap multilateral debt as possible and, worried that Eu800 million would not be enough, pushed the EIB to lend Eu1.2 billion, to which the bank made a tentative commitment.

Deutsche and Calyon then started to worry that the commitments they were receiving from commercial lenders, which amounted to a 100% oversubscription, could be threatened by the EIB take. They were also concerned that, beyond having to scale back lenders' tickets, they might have to drop banks from the club.

The commercial tranche, following the heavy oversubscription, had been set at Eu700 million, but this did not work when the EIB loan was taken into consideration. Efforts were made to push the EIB to scale its take back to the originally planned Eu800 million but, due to the Polish government's insistence, it was only possible to scale it back to Eu1 billion.

The oversubscription pushed the gearing up from 85% to 88%, split between the EIB's 27-year Eu1 billion loan, a 20-year, Eu400 million commercial tranche and a zloty-denominated, Eu33.7 million VAT facility from three local banks.

In the end, no commercial banks were dropped from the structure and all nine agreed, following a series of difficult discussions, to scale back their takes.

It was only five weeks before financial close that the question of scaling back the EIB take was finally settled. In the final weeks leading up to close, Deutsche Bank and Calyon were running parallel negotiations with the commercial banks, which were nervous about being crowded out by the EIB; the sponsors, which were concerned about the commercial banks being unhappy at the scale-back; and the Polish government, which was pressuring for the financing to work around the EIB's take.

It was only in the final week of the process that the intercreditor agreements, including event of default arrangements, were finalised. Added to that, last-minute talks between the Polish ministers of finance and infrastructure meant that the scheduled 6pm signing on 30 June looked like it would not happen. A call to that effect went out to the lenders at 2pm on the signing day. Later that evening, at 8pm, the lending group were called to the table to sign.

The issue thrown up by this deal is whether the EIB should have gone beyond its 50% remit. Arguably it should not have, given that more commercial bank liquidity was available, and the vast demands on the EIB to spread its debt across as many EU projects as possible in the tight lending climate.

The fact that the A2 is a TENs deal may have influenced the financing, but having set the precedent the EIB has opened the door to political pressure from more governments for similar deals where commercial bank lending is available. The EIB budget is not unlimited, and one deal's gain will mean another project's loss, a loss that might be the difference between economic viability or not for some marginal projects.

Autostrada Wielkopolska

Status: Financial close 30 June 2009

Description: Construction of the Nowy Tomysl-to-Swiecko section of the A2 motorway in Poland

Sponsors: Autostrada Wielkopolska (Meridiam/Strabag/Kulczyk/KWM)

Mandated lead arrangers: EIB, Deutsche Bank, Calyon, KfW, WestLB, UniCredit, BES, SG, Caja Madrid, BBVA

Multilateral: EIB

Financial advisers to Autostrada Wielkopolska: Calyon and Deutsche Bank

Legal adviser to sponsors: Baker & McKenzie

Legal adviser to commercial lenders: Allen & Overy

Legal adviser to EIB: Clifford Chance

Thank you for printing this article from IJGlobal.

As the leading online publication serving the infrastructure investment market, IJGlobal is read daily by decision-makers within investment banks, international law firms, advisory firms, institutional investors and governments.

If you have been given this article by a subscriber, you can contact us through www.ijglobal.com/sign-in, or call our London office on +44 (0)20 7779 8870 to discuss our subscription options.

