# A1: An unlikely syndication

19/12/2008

Syndication of the 29-year Eu595 million ($796 million) debt and equity facilities backing the Eu650 million 30-year A1 Hamburg-Bremen toll road concession closed at the end of November. Five banks, including Deka Bank and Commerzbank, joined the mandated lead arrangers (MLAs) Unicredit/HVB, Caja Madrid and DZ Bank in the lender line-up.

The project is Germany's largest PPP to date and the largest A-Model ever awarded. But more significantly, the deal is a rare commodity in the project finance market at the moment – an underwritten deal with market risk. The A1 financing leaves lenders with traffic risk at a time when most banks will only look at availability-payment based deals, have little liquidity and no appetite for long-term risk. The 29-year tenor on the deal leaves just a one-year tail.

Sponsored by A1 Mobil Consortium – comprising Bilfinger Berger (42.5%), John Laing (42.5%) and Johann Bunte (15%) – the project is a main artery of the Northern European traffic system. It stretches more than 70 km and connects France and the Benelux to Northern and Eastern Europe, whilst also linking the German ports of Hamburg, Bremerhaven, Bremen, Lubeck and Jade Weser Port Wilhelmshaven. The last of these is a new deep sea port due to open in 2010, which includes a major logistic centre that will have to use the A1.

The 30-year concession is for upgrading 72 km of road from 2x2 to 3x3 lanes and the construction of 74 bridges and underpasses, within 4.5 years at full traffic levels with no lane closures, as well as its subsequent operation and maintenance. Initial capex is Eu650 million, but inclusive of maintenance costs over the life of the concession total investment is Eu1 billion-plus.

The financing has been a challenge for underwriters Unicredit, Caja Madrid and DZ Bank because of scepticism over heavy goods vehicle (HGV) traffic projections. Under the A-model only HGV traffic over 12 tons is tolled. RBC dropped out of the underwriting group before financial close in July and the remaining three MLAs had to increase their underwriting commitments to get the deal closed on time.

The deal was controversial from the start. The first request for proposals (RFP) was rejected by banks for being too aggressive, and since the global recession started to bite, GDP and HGV traffic forecasts have been on a downward path. The final MLA group had to negotiate a revision of traffic projections – albeit based on 15 years of historical data that demonstrate HGV traffic has less volatility than all-vehicle traffic – to more acceptable levels, whilst retaining some of the more aggressive elements of the original RFP.

The financing comprises a 29-year Eu480 million term loan; a Eu35 million debt service reserve; a Eu5 million revolving working capital facility; a Eu60 million 4.5-year equity bridge and a Eu15 million 6.5-year performance bond. The last two are provided solely by HVB/Unicredit, feature bullet repayments and benefit from bank letters of credit.

Although the senior debt has only a one-year tail, the financing includes a cash-sweep from year 20 that effectively cuts the tenor to 28 years in the base case. Consequently the sponsors get the benefit of a 29-year repayment profile in years 1 to 20 and were therefore able to put in a more aggressive bid.

The deal also benefits from the state assuming uninsurable force majeure risks, toll collection risk, tariff and inflation

risks. And the risk from competing roads is factored into the base case and addressed by the Eu35 million debt service reserve account.
Pricing on the term loan at launch started at 125bp over Euribor during construction, rising in steps to140bp from year 21 to maturity. The deal has since been flexed to give an average margin of 150bp-160bp over Euribor.

Tickets on offer were Eu50 million for 75bp, Eu30 million for 60bp and Eu10 million for 30bp. According to the three initial mandated lead arrangers, take-up was strong enough for them to scale back their underwriting positions close to their original intention.

Despite syndicating, the A1 financing will not set a precedent in the short term. With bank market liquidity drip-feeding projects for the next six months, another long-tenor deal with market risk looks unlikely, even if the debt market returns to health.

The tender for the next A-Model – the A5 – is proving a disaster. Bidders are struggling to comply with the government's revenue-sharing terms because of rising construction and financing costs, and lower traffic projections since they entered their first offers over a year ago.

The problem is such that for the first bid deadline in November Bilfinger Berger – advised by Macquarie and with backing from Unicredit/HVB, DZ Bank, Commerzbank, KfW and SG – deliberately put in a non-compliant best and final offer. And the Hochtief/Vinci consortium, which should then have been appointed preferred bidder, also had its offer thrown out after Hochtief reduced its stake in the consortium to less than 10% without altering bid documentation.

Hochtief's retreat from the deal was a response to disagreements with Vinci, which has continued to bid on its own account with an offer underwritten by HSBC, ING, BBVA, Dexia, NIBC and Santander. However some of those banks are rumoured to have dropped out and it is unclear whether Vinci has submitted a fully-underwritten deal for the second deadline in December.

Consequently, a repeat of the A1 structure for A-Models in the shorter-term looks very unlikely – if only because the sponsors will not take on the concessions at current return on investment (ROI) predictions. Bankers are privately pessimistic about the whole A5 process and believe the German government needs to reconsider the concession's thresholds so that sponsors can make a fair ROI. Since the government plans to launch a second batch of eight A-Model concessions from 2009, that advice may be warranted.

**A1 Mobil**
Status: Syndicated November 2008
Description: Eu595 million A-Model road financing
Sponsors: Bilfinger Berger; John Laing; Johann Bunte
Financial advisor: Macquarie
Lead arrangers: Unicredit/HVB; Caja Madrid; DZ Bank
Lender legal counsel: Allen & Overy
Borrower legal counsel: Linklaters