Social PPP but anti-social margins?

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The technical and financial bids for the first of Greece's 34 government-approved social infrastructure PPP projects – seven fire stations valued at Eu38 million ($60 million) – go in this month. Although a tiny deal, it is punching above its weight in attracting sponsors.

The bidding line-up is predominantly local: Vioter; Ellhnikh Texnodomikh TEV/Vinci; J&P Avax; Gantzoulas ATEE/Kourtidhs; Innisfree/Edrash Pslidas/Elergo/Eretvo/ Klearchos G. Roussis/Nostos. But the entry of European PPP heavyweights Innisfree and Vinci, and the expense of drawing up full financial and technical bids with just a one-in-five chance of winning such a small volume deal, makes the project a test case for Eu4 billion of approved PPPs in the Greek government pipeline.

Expressions of interest for an Eu89 million, 27-year accommodation PPP, across 13 police divisions, went in recently and again pulled in a lot of local interest and some surprising names – Agricultural Bank of Greece and Interserve for example. The full list is: µioter; Melka/Orion/Vermion/DIM-ER; Anastilotiki/Themeli; Aktor; J&P Avax/ Interserve PFI Holdings; GEK; Agricultural Bank/Edrasi Psalidas/Ekter/Elergo/ Eretbo/Klearxos G. Routsis/Nostos.

Social PPP development

To call Greece a fully-developed PPP market is overstatement, since a secondary equity or PPP refinancing market is at least three years away. But as with other markets, the beginning of a social infrastructure sector signals it is not far off. The big projects to come include an oncological hospital and a paedriatric hospital in Thessaloniki, each costing just over Eu300 million, the general Hospital in Preveza and recovery centre in northern Greece, each worth just over Eu100 million. A 10-year project for the installation of security at 12 Greek ports is budgeted at Eu342 million.

However, of the Eu4 billion social infrastructure deals to come many are under Eu100 million – for example, some of the schools tenders may be split into waves – and advisers, arrangers, sponsors and lenders will be looking for repeat business to make returns competitive.

Competition for advisory mandates is already intense, with little margin for error. For example, last month Ernst & Young won the advisory mandate for the third Greek schools PPP by just 0.5 of a technical point in evaluation (a mere Eu3,000) from nearest rival bidders Agricultural Bank of Greece and Attica Bank.

National Bank of Greece (which has advised the government on all the Greek road deals so far) and Grant Thornton have had most advisory success to date, winning the Thessaloniki Oncological Hospital, the Thessaloniki Paediatric Hospital and the University of Pelopponese and the Attica Schools mandates. Alpha Bank initially formed an advisory coalition with PwC but had no success on the first social PPP phase. Piraeus Bank is also trying to win mandates but has yet to find an ally. And Ernst & Young is bidding for two university accommodation deals, a rehabilitation centre and is one of the seven groups bidding for the advisory on the first Greek waste deal in Thessaloniki.

Deal economics

In comparison with more developed markets, Greek PPPs are able to generate sufficient return to interest the private sector at volumes below Eu50 million. Technical costs, advisers' fees, architects and so on are as much as 50% lower than the UK market, for example. Furthermore, although debt margins have risen by up to 20bp, depending on the project, the global liquidity crunch has not bitten hard and many concessions are availability-based and therefore low-risk and can raise low-cost debt.

The cost of bank funding may yet go up, and there was recently a small flex on the pricing of the Elefsina-Patra-Tsakona road, which is near syndication close. But for those Greek banks with a good deposit base, funding costs look relatively stable.

The social PPP programme has been largely driven by the Secretariat for PPPs, which has overseen the transition from a market marred by acrimonious challenges to the tender process from losing bidders on some of the first roads concessions – the Thessaloniki Submerged Tunnel and Maliakos-Kleidi – to relative stability via a centralised decision-making process.

The 2005 PPP law also standardised elements of risk allocation, sidestepping one of the failings of the road programme and other early Greek PPP deals, where tenders collapsed because of poorly drafted documentation.

However, local bankers and sponsors still express concerns that bidding costs are too high compared with other PPP markets – particularly for low volume work – and that more standardisation of documentation and more government flexibility in negotiation would help bring down those costs.

The focus of the tender process also has its detractors, with many claiming that the government puts too much emphasis on bidding the lowest cost.

Ironically, that focus stems from the initial challenges to the roads tenders because the lowest cost is not open to interpretation. But on some of the advisory mandates total newcomers to the market have bid at up to 40% discount to the norm – either as a loss-leader or, more worryingly, because they have underestimated costs and will not be able to deliver. Consequently, seasoned Greek PPP advisers and arrangers would like to see a government cap on discounting.

Despite the issues, only one of the six flagship roads projects remains unclosed – the Eu2.2 billion Elefsina-Patra-Tsakona section – and not because of a challenge to the tender process. The deal is expected to sign on 5 August after sponsors Vinci/Hochtief/Hellenic Technodomiki/J&P Avax renegotiate technical details with the government. Disputes over the width of some stretches of the road have prevented arrangers Alpha Bank, Millennium BCP, Natixis and Calyon calculating the swap and confirming allocations on the Eu1.8 billion project facility.

The deal before that – Eu1.53 billion in debt for the E65 central motorway – pulled in final commitments in mid-July from Intesa and Alpha Bank. National Bank of Greece, Piraeus Bank, Agricultural Bank of Greece (ATE), Caixa de Investimento and BES were already on the financing with bookrunners Fortis, BBVA, EFG and Santander.

There are still a few road projects to be tendered. Launch of the Eu1.2 billion Attiki Odos (Athens ringroad) 55km extension is expected by the end of the year and market rumour is that the Greek contractors on the original deal – Elliniki Technodomiki, Aktor, J&P Avax, Pantechniki, C.I. Sarantopoulos, TCGC, Eteth, Attikat, Alte and TEG – are tipped to win.

The project should have no trouble finding lenders. Debt on the original phase has already been repaid, making the road the most successful toll road in Europe. National Bank of Greece is advising the government on the extension, which will come with no state contribution.

Airport and ports

Airport deals are also on the long-term agenda. The Greek government is looking at privatizing regional tourist airports, but has yet to appoint an adviser. In the greenfield airport market National Bank of Greece and Lambda Infra Finance are advising the government on a Eu1.5 billion tender, due in 2009, for a new airport on the site of an old German military airport at Kasteli in Crete. The existing Kazantzakis airport cannot be expanded and an environmental preliminary study for the new project is underway.

The Greek tendering authorities have also received bids for the Eu605 million ($932 million) Piraeus Port upgrade project and the Eu319 million Thessaloniki Port upgrade project.

China's Cosco Pacific, Hutchison Port Holdings and Dubai Port World are bidding for Thessaloniki while Piraeus has bids from Cosco, Hutchison with Alapis, and DP World with Piraeus Bank. Preferred bidders are expected to be selected in the next months.

Power

In addition to opportunities in PPP the Greek power market has picked up after the awarding of new independent power project licenses. The Eu250 million Heron combined-cycle gas turbine project in Greece is near financial close, having been delayed since the spring following the introduction of an offtake counterparty to the deal.

The 435MW power plant, located in Thiva, was originally going to sell its power on the spot market, with mandated lead arrangers EFG Eurobank, Piraeus Bank, Fortis and Emporiki prepared to take on merchant risk. However, the introduction of an offtake agreement with an undisclosed buyer has led to a renegotiation of the amount of equity with the sponsors, Terna and GEK, wanting to put in less.

Average debt service cover ratios were originally negotiated at 4x, but this will also come down. The project's commercial debt will have an average all-in pricing of around 150bp and a tenor of 15 years. The European Investment Bank will provide up to half of the overall project cost.

Several more projects are likely to follow, notably the 370-420MW Aliveri plant, a Eu220 million project sponsored by Metka, which also has had funding approved from the EIB.

In the renewables sector, Greece is having less success, despite subsidies of up to 40%. Iberdrola subsidiary Rokas Renewables is looking to mandate a rare $20 million loan to support construction of a $50 million, 40MW wind project in southern Greece. And the developer is planning on bringing 2GW of wind projects online in the next five to six years. But although highly subsidised the Greek renewables environment is dogged by a bureaucratic permitting process that requires developers to obtain not one but multiple permits from as many as 19 authorities before borrowers can even begin to approach the lending market.