

Aumancha: Wrap revived

01/05/2008

Iridium Concesiones closed the Eu110 million (\$165 million) refinancing of the Vinedos 2 shadow toll road in Spain on 31 March 2008. The refinancing uses FSA to provide a AAA wrap of a bank loan from Dexia Sabadell, the instance of a wrapped bank loan of the credit crunch. Several peculiarities of the financing, however, make it a less-than-reliable guide to the future viability of the product.

Iridium, a subsidiary of Spanish construction group ACS, owns 67% of the borrower, Autovia de la Mancha SA (or Aumancha), while a smaller Castillian construction group, Cyopsa-Sisocia, owns the remainder. It holds a concession for a 52.3km shadow toll road running between Toledo and Consuegra in Castilla-La Mancha. The concession, which was awarded in 2003, runs until 2033.

Dragados was at the time of the award being acquired by ACS, and its concession operations were subsequently merged into Iridium. The sponsors financed the road in 2004 with a bank loan of roughly Eu130 million from Banesto. That long-term loan was closed after plans for a bond issue to finance construction foundered. Sources in the market claimed at the time that the ratings agencies had been unwilling to grant the concession a rating in line with sponsor expectations.

The road, part of the Autopista de los Vinedos, runs through a rural area of Castille between Toledo, a word heritage site 40km southwest of Madrid, and Consuegra. If the landscape is a little reminiscent of Don Quixote, the concession terms are more hard-headed. The project revenues come entirely from shadow toll payments, leaving the concessionaire exposed to revenue and operating risk.

The shadow toll payments are calculated using a banded payment mechanism, whereby the concessionaire is paid according to vehicle-km travelled. There is an upper limit on the tolls paid by the government, so as to avoid the back-breaking burden on the state of grater-than-expected traffic numbers. According to Jesus Puy, a director in the Madrid office of FSA: "It has a benign banding structure, so there is not a tight correlation between traffic and revenue. You would need to have a big change in traffic to have a big change in revenue. Another factor is that that there are no competing roads built or planned in the area."

The awarding authority and source of the payments is the Junta de Comunidades de Castilla-La Mancha, the local regional government. The Junta enjoys wide authority, though historically less than regions like Catalonia and the Basque Country, but has deep fiscal resources, and its own tax-raising authority.

The Junta is the awarding authority for another section of Vinedos, for which Acciona, Constructora Sarrion and Caja Castilla la Mancha Corporacion were the sponsors. That road reached a sufficiently agreeable rating with the agencies to ensure that Eu163 million in wrapped debt closed in 2004. Whatever the subsequent travails of that monoline, XL, the Junta is familiar with the concession structure and the needs of monolines.

The project was completed ahead of time and on budget in 2005, and during the ramp-up in traffic volumes the sponsor looked into the possibility of refinancing the road to account of its lower risk profile. While the construction loan could have run to maturity without and difficulty, the sponsor was confident that it could obtain better terms from banks or bonds during the operational period. After testing out unwrapped and wrapped bond and bank solutions, it settled on Dexia as provider and FSA as wrapper in May 2007.

The timing, if not the choice of debt provider, was not perfect. By the middle of the summer debt markets had been turned upside down, and by the end of 2008 the monoline sector was enduring heavy speculation as to its ability to survive. By March, two monolines active in the wrapped bank loan sector – FGIC and XL Capital Assurance – had been severely downgraded. Bank lenders on some of their deals were able to obtain increased pricing to accommodate the downgrades.

During this period, sponsor and lenders went through due diligence, which was relatively painless, and with documentation and settling on a rating, which was a little more so. Traffic levels on the road are strong, and construction risk is no longer a factor, so the pain factors for the agencies to consider were performance risk and payment risk. Whatever the reasons for the length of time the deal took to complete, the final underlying rating on the road, at A1/A- (Moody's/S&P), was strong.

This rating is the new minimum rating for the monolines, since while the agencies will still allow them to wrap BBB credits, they assign such a high capital charge to these commitments that it is much more profitable to insurer higher-rated debt. Moreover, FSA and Assured Guaranty are the only insurers with which lenders have been completely comfortable, though the two largest, Ambac and MBIA, insist they will return to infrastructure.

Aumancha's financing does not allow banks to raise pricing in the event of a monoline downgrade. This feature is designed to encourage lenders to do sufficient due diligence on the bond insurer to prevent strains on the project's financials from a downgrade. That Dexia is willingness to do so for FSA says something about FSA's ability to navigate the crisis without a downgrade, and a little more about that fact that Dexia owns FSA.

So Aumancha, small, highly rated, and sold down to the guarantor's parent, does not herald a new age in wrapped bank debt. But the wrapped bank debt solution stayed competitive. As Carlos Reyero, Iridium's chief financial officer, notes "the debt parties did not change the terms of the financing between the mandate and financial close. They were extremely competitive." Aumancha is good first step from which to rebuild.

Autovia de la Mancha SA

Status: Closed 31 March 2008

Location: Castilla- La Mancha, Spain

Description: Refinancing of 52km shadow toll road

Sponsors: ACS/Iridium (67%), Cyposa (33%)

Debt: Eu110 million

Tenor: 23 years

Provider: Dexia Sabadell

Monoline: FSA

Lender legal advisers: Garrigues

Sponsor legal: In-house

Traffic consultant: Steer Davies Gleave

Technical adviser: TYPSA

Lenders' tax and model adviser: Deloitte

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