European Transport (Light Rail) Deal of the Year 2007

01/03/2008

Milan Metro 5: Underground PPP

Milan Metro Line 5 is Italy's first underground PPP project and goes beyond Florence Metro by having a more conventional PPP structure with more risk borne by the private sector.

The project consists of the construction and operation of a new line of the Milan metro under a 32-year concession agreement between the Municipality of Milan and Metro 5, the SPV incorporated by the sponsors.

The line is a 5.6km long driverless metro with nine stations. It will connect the Garibaldi station located in the centre of the city to the north-west suburb. The project is among the government list of strategic infrastructure to be realised under the law 166/92 Legge Obiettivo (the Target Law).

The project is a typical PPP with the traffic risk effectively retained by the municipality and the SPV payments paid by the municipality subject to penalties or bonuses according to availability and service performances, such as punctuality, cleaning and safety.

The closest country benchmark for the deal is the Florence Metro project, however whereas the Florence Metro concession included a scheduled refinancing by Cassa Depositi e Prestiti (formerly Ispa) at 10 years, the debt backing Line 5 is a one-hit affair along conventional PPP lines.

The debt backing Florence Metro, which closed in June 2005, comprised a Eu92.7 million 15-year term loan; two 28-year term loans totaling Eu111 million; two standby facilities totaling Eu12 million; and a Eu13.8 million 10-year VAT tranche. The debt was priced at 120bp to 130bp over Euribor.

Mediobanca, Dexia Crediop and WestLB acted as financial advisers on Line 5 and were later appointed mandated lead arrangers with SG. Banks have an anaemic view of risk-taking on new Italian infrastructure projects given the administrative and judicial risks. And lender risk on Line 5 is largely limited to counterparty risk.

The total project cost is Eu556 million and is met by a Eu275.6 million 23-year term loan, Eu40 million equity and a public contribution of around Eu300 million. There is also a performance bond equal to around 8% of the construction costs. There is a sculpted amortisation profile linked to DSCR and a debt reserve account. Syndication is launching imminently.

Construction risk is passed directly through to the EPC contractor, as the EPC contract mirrors the SPV obligations under the concession agreement. Similarly during operation, most of the risk in the SPV agreements is passed through lead operator Azienda di Trasporti Milanese (ATM). ATM is a private company (Spa) but is 100% owned by the municipality.

A portion of risk is retained by the SPV during operation as the overall cap of penalties is higher under the concession agreement than the operating and maintenance (O&M) agreement.

Transport deals in Italy typically have a potted history to financial close and Line 5 is no different. The project has witnessed the customary legal challenges, a merging of competing consortia, the protracted settlement of the public contribution and a change in the scope of the project.

The deal had been scheduled to close around November 2007, but was put back so that the concession documents could accommodate a request by the municipality to enable a future extension of the line from Garabaldi station to the San Siro football stadium.

Line 5 is a key milestone of the Milan Municipality public transportation development programme aimed at reducing the traffic congestion through the construction of metro lines. Two other PPP lines will soon follow the Line 5.
First in the pipeline, nationally, is likely to be the Line D project for the Rome Metro. Although Line C of the Rome Metro is being developed under the general contractor provisions, PPP concessions are likely to be the procurement option of choice given the budgetary constraints on the public purse.

Mediobanca has won an advisory mandate for Line D, and given that the bank was mandated by the sponsors on Line 5 it is likely that the project template will operate in Rome.

Milan Metro Line 5
Status: Financial close 12 December 2007
Description: financing of 32-year concession involving the construction and operation of a new line of the Milan Metro, Line 5
Sponsors: Ansaldobreda (7.3%); Ansaldo Trasporti Sistemi Ferroviari (24.6%); ATM – Azienda di Trasporti Milanese (20.0%); Astaldi (23.3%); Alstom Ferroviaria (9.4%); Torno Internazionale (15.4%).
Mandated lead arrangers: Mediobanca, Dexia Crediop, WestLB, SG
Financial advisers: Mediobanca, Dexia Crediop, WestLB
Legal adviser to sponsors: Lovells/Studio Annoni Segato
Legal adviser to lenders: Allen & Overy
Traffic consultant: Steer Davies Gleave
Technical consultant: D'Appolonia
Insurance: AON
Model auditor: KPMG
EPC contractors: Ansaldobreda, Ansaldo Trasporti Sistemi, Ferroviari, ATM, Astaldi, Alsom Ferroviaria, Torno Internazionale