Budapest Airport: Crunch crushed

01/12/2007

Ten mandated lead arrangers have completed the Eu1.52 billion ($2.24 billion) senior debt backing a Hochtief-led consortium's purchase of Ferrovial-BAA's 75% stake in Budapest Airport, without increasing its margin or fees. Eight banks underwrote the loan at the beginning of June and despite their nervousness it negotiated the summer of strife. The deal benefited from a large group of recognised underwriters, as well as the concession's fundamental revenue strength.

The eight original lead arrangers – Bayerische, BNP Paribas, Calyon, KBC Bank, RBS, SG, SMBC, and WestLB – equally underwrote the senior debt. KBC subsidiary K&H Bank and Bayerische unit MKB Bank later came in as MLAs with a share of their parents' portions. BNP Paribas, Calyon, RBS and SMBC were bookrunners.

The debt package features senior A facilities, which comprise a Eu830 million 7.5-year term loan and a Eu300 million 7.5-year capex facility, and a Eu370 million 7.5-year share acquisition B facility. The deal inherits a 15-year accreting swap and an 8-year vanilla interest rate swap from the original deal, which BAA put in place when it bought the stake in early 2006.

Senior A facilities have an initial margin of 95bp over Euribor stepping up to 110bp after year 5, whilst the senior B facility has an initial margin of 110bp, stepping up to 120bp after year 5. The difference in pricing is because the A facilities benefit from a full compensation guarantee in the event of termination from the Hungarian government, along the same terms negotiated by BAA.

The debt has a balloon payment at maturity but amortises with the benefit of annual cash sweeps. To counteract the subordination issues between B and A facilities, B debt gets prepaid first. In the first two years 100% of the excess cash is taken in the sweep, 50% in the next four years, 60% in the penultimate year and 75% in the final year.

The buyer, the HTA consortium, comprises operator Hochtief AirPort (49.666%, which equates to a direct interest of 37.25% in the airport company), and financial investors Caisse de dépôt et placement du Québec, Montreal (23.167%), GIC Special Investments, Singapore (23.167%), and KfW IPEX-Bank, Frankfurt (4.0%). Since June 2007, the consortium, which is contributing Eu360 million in equity, has owned 75% minus one vote of Budapest Airport.

The principal challenge in structuring the deal was that the Hungarian government, which owns the remaining 25% plus vote, one did not want to renegotiate the original terms of the concession it had with BAA. The underwriters had to go through an intensive bout of due diligence to satisfy themselves of the risks and mitigants of the original deal, and document the new transaction along exactly the same lines. The termination guarantee covers only the A tranches of the senior debt, reflecting the fact that the original debt had been partially amortised.

The overall total purchase price is Eu1.9 billion, with the Eu1.52 billion debt disbursed in May and a deferred payment of Eu406 million due on 30 June 2011.

The deal's syndication was even more fraught than structuring around the government's wishes. The mandated lead arrangers were, according to one source, "very nervous" about deteriorating market conditions, since leveraged acquisitions have been hardest hit of project debt types by poor bank liquidity.

The deal launched in the last week of August, one of the first to do so after the crunch. But it benefited from comparisons with other recent airport financings. Neither the Brussels nor the London City Airport financings featured partial compensation in the event of a termination, and Brussels was structured as a corporate deal without the same level of asset-protection.

The Eu1.63 billion refinancing of the Brussels Airport Company closed on 22 June – three years after Macquarie bought a 70% stake in it. Lead arrangers of the 8-year financing were Dexia, HSH Nordbank, Royal Bank of Scotland and SG, and it was priced over Euribor on a leverage grid from 35bp to 90bp in years one to five, and ratcheting in 10-15bp steps thereafter.

Some banks declined to join the Budapest syndication, citing liquidity issues. The lead arrangers were in constant dialogue with the sponsors and the subject of price flex was high on the agenda. The underwriters were committed to pre-crunch pricing, but the sponsors where unlikely to alienate banks it may wish to revisit for a future refinancing. Ultimately, the banks did not gain their flex, and after a protracted round of bank meetings, the deal closed syndication oversubscribed on 15 November.

Joining the lead arrangers as sub-underwriters were: DekaBank, EDC, HSH Nordbank, ABN Amro, BBVA, BTMU, Caja Madrid, Helaba, Investkredit, LBBW, Allied Irish Banks, La Caixa, CIB Bank Ltd, Piraeus Bank, National Bank of Greece, Magyar Takarekszovetkezeti and Inter-Európa Bank.

Tickets of Eu75 million, Eu50 million and Eu25 million were offered originally, though a select few banks came in with Eu100 million takes. Fees of 65bp were offered on the Eu75 million ticket, with the fees commensurately higher and lower for the other ticket sizes.

Notable by its presence is the Canadian ECA, EDC, which is better known as an arranger on deals in Latin America and the Middle East. EDC makes its contribution on the back of Caisse de dépôt et placement du Québec's participation in the equity.

Budapest Airport is Hungary's main international airport, handling around 8.3 million passengers in 2006. The HTA consortium has inherited BAA's development and investment programme, which will be undertaken over the next five years and will cost Eu261 million. The concession agreement lasts until 2080.

HTA Consortium
Status: Underwritten 10 May, financial close 6 June, syndication closed 15 November 2007
Description: Eu1.52 billion senior credit facilities to finance the acquisition of a 75% minus one vote stake in Budapest Airport from BAA
Sponsors: Hochtief AirPort, Caisse de dépôt et placement du Québec, GIC Special Investments, Kreditanstalt fur Wiederaufbau
Mandated lead arrangers: Bayerische Landesbank, BNP Paribas, Calyon, K&H Bank Nyrt, KBC Bank NV, MKB Bank Nyrt, Royal Bank of Scotland, Société Générale, Sumitomo Mitsui Banking Corporation, WestLB
Sub-underwriters: DekaBank, EDC, HSH Nordbank, ABN Amro, BBVA, BTMU, Caja Madrid, Helaba, Investkredit, LBBW, Allied Irish Bank, La Caixa, CIB Bank Ltd, Piraeus Bank, National Bank of Greece, Magyar Takarekszovetkezeti, Inter-Európa Bank
Financial adviser: SG
Legal counsel to lenders: DLA Piper
Legal counsel to the sponsor: Taylor Wessing