

# European Refinancing Deal of the Year 2006

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01/03/2007

## M6 refinancing: Sponsor upside

The M6 refinancing is an example of what a sponsor with significant kudos can do with a strong underlying asset and an accommodating bank market. Mandated lead arrangers Banco Espirito Santo, Banco Santander, Calyon and Dresdner Kleinwort arranged a £1.03 billion senior term loan refinancing for Macquarie Infrastructure Group's M6 toll road concession using an accreting swap that closed 23 August 2006.

The original equity sponsors were Macquarie Infrastructure Group (75%) and Italy's Autostrade (25%), but in June 2005 Autostrade sold its stake to Macquarie for £49 million, fulfilling a call option agreed by the two companies in 2000.

Structured for special purpose company Midland Expressway Limited (MEL), which built and operates the M6 Toll Road under a 53 year concession, the nine-year mini-perm refinances the original 15-year £684.75 million debt allowing MIG to release £392 million from the project in the form of a dividend generated by an accreting swap mechanism.

The swap artificially reduces interest payments during the first years of the refinancing, enabling Macquarie to increase the project's gearing and take out a larger-than-otherwise dividend. The swap ranks on an equal footing with the senior debt and does not include a break mechanism.

The loan is priced at 90bp in year one, 80bp to year five, 95bp to year seven and 110bp to year nine, and features a cash sweep from year six – 40% in year six, 60% in year seven, 80% in year eight and 100% in year nine.

The swap fixes the interest rate on the facility at 1% plus the credit margin during the first five years, which then increases by 25bp each year up to 8%. A cash sweep in the first five years reduces the swap's accretion.

The economics of the project look good. Approaching maturity of the bullet loan banks will have to take a view on the refinancing risk, although the lending banks may see this as an opportunity to lend to an operating asset with a track record.

The deal was not for everyone – some banks balked at the accreting swap because they felt the deal was done a couple of years too early. Nevertheless, S&P rated the debt BBB and lenders can take comfort from the 53-year concession period, a minimum DSCR of 1.65x and the flexibility the concessionaire has to amend the tolls. There is a distribution lock-up at 1.4x and S&P believes the project can stand a 15% below traffic low case scenario.

These mitigants were enough for the lead arrangers to bring in a further 14 banks in two rounds of a successful syndication.

## Midland Expressway Limited refinancing

Status: Financial close 23 August 2006

Description: £1.03 billion senior term loan refinancing of M6 concession, UK

Sponsor: Macquarie Infrastructure Group (MIG)

Mandated lead arrangers: Banco Espirito Santo, Banco Santander, Calyon, Dresdner Kleinwort

Legal counsel to borrower: Clifford Chance

Legal counsel to lenders: Linklaters

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Technical adviser: Capita Symonds

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