Ostregion: Drawing by numbers

01/02/2007

The financing of the Ostregion Paket 1 (Phase 1) PPP project – the Vienna northeastern (Ypsilon) bypass – is not only Austria's first road PPP, its first monoline wrapped PPP bond and the first multiple-draw-down wrapped PPP bond.

Issued by SPV Ostregion Investmentgesellschaft Nr 1 SA, the bonds are wrapped by Ambac and feature a fixed/floating swap from Deutsche that gives certainty of pricing to the concessionaire Bonaventura – a consortium comprising Hochtief PPP Solutions (44.4%), Alpine Mayreder Bau (44.4%), Egis Projects (11.2%), Deutsche Asset Management (0.1%) and AECOM (0.1%).

The deal has been dogged by legal injunctions. Construction had been scheduled for autumn 2006 but financial close was held up when rival bidding consortia AKOR and Bilfinger & Berger contested the process by which Asfinag (Austria's state-owned road authority) evaluated the bids and its award to Bonaventura. Bilfinger withdrew its case but AKOR (comprising Strabag, Porr, Swietelsky and Habau as well as Raiffeisen, BA-CA, Investkredit and Immorent) persisted until the courts ruled against it.

The project is the first of four in the Ostregion programme (total estimated cost Eu3.4 billion ($4.4 billion)). The overall programme includes the construction of a new motorway from the outskirts of Vienna to the Czech border, new ring-road around Vienna, the extension of an existing road and a new crossing of the River Danube.

The 33-year Phase 1 DBFO concession is also split into four parts — the 23km A5 motorway heading north from Vienna, 12km sections of the S1 East and S1 West of Vienna ring road and the 5km S2 Bypass around the village of Sussenbrunn – totalling around 51km of road and including 98 bridges, four tunnels and several supporting structures. Construction will be finished in three years under a Eu798 million fixed price, date certain, lump sum, turnkey contract (awarded 50/50 to Hochtief and Alpine) with Bonaventura receiving milestone payments as it completes sections of the project.

The EPC contract is supported by a performance bond (10% of the total EPC contract) and a Eu20 million bank guarantee. Both EPC contractors have agreed to provide a liability bond (3% of the total contract) and Bonaventura retains 1% of all payments until the work is finished.

The Eu998 million debt financing comprises Eu425 million of 32-year privately placed, Ambac-wrapped floating rate notes sole arranged and underwritten by Deutsche; a Eu350 million Ambac-guaranteed floating rate loan from the EIB; Eu78 million of floating rate mezzanine notes from Deutsche/RREEF Infrastructure and Meridiam Infrastructure; Eu24 million of subordinated participation rights and Eu2 million of pin-point equity. The sub-rights and mezzanine are covered by junior bridge bonds until end of construction when Bonaventura, RREEF and Meridiam will put up replacement funding.

The issue comes with no spens clause (the obligation of a bond issuer to repay the lender at a price equivalent to the yield of an underlying benchmark bond in the event of premature redemption) and in the case of premature termination Deutsche's fixed/floating swap is settled with compensation only covering the remainder of the outstanding debt.

Pricing has not been released but it is rumoured that Deutsche has bought most of the bonds for is own trading book. This would make sense given the multiple-draw-down structure of the bonds – unusual for a PPP bond.

The effect of the structure is the same as that of the conduit CP structure used last year on the Limerick Tunnel PPP in Ireland, negating unnecessary sponsor negative carry whilst accessing long-term funding, but without leaving the underwriters with the pricing risk of a mismatch between long term project debt and refinancing in the short-term CP market – a risk many banks are wary of on the Limerick deal but one which arranger HBOS claims to have solved with a matching liquidity line (for more details search 'Limerick').

The Bonaventura debt will be drawn down as needed during the three-year construction phase – amortisation begins in 2010 with legal maturity in 2039 (leaving just a three-month tail between bond maturity and the end of the concession).

The project is leveraged on a 88:12 debt-to-equity ratio which would be high but for the relative certainty of the concession payments which are a combination of availability (dependent on quality of service) and banded shadow tolls. Annual debt service coverage is set at 1.125x for the first 23 years then rising to 1.15x to maturity.

The underlying structure of the concession is based closely on the UK DBFO model (although Austria does not have a specific PPP legal framework). The payment regime does include some exposure to traffic risk, but this is minimal thanks to a minimum revenue guarantee from Asfinag: if traffic volume falls below a worst case scenario where annual debt service coverage falls below 1.05x Asfinag will make up the difference.

Availability payments make up between 65% and 75% of the base case revenues and the remaining shadow toll payments are split into five bands each for heavy goods and light vehicles with a cap on heavy goods income of 55% of overall toll income.

Ostregion Paket 1
Status: Financial close 21 December 2006
Description: Wrapped bond financing for Phase 1 of Ostregion roads programme
Debt: Eu1 billion
Sponsors: Hochtief PPP Solutions; Alpine Mayreder Bau; Egis Projects
Concession awarder: Asfinag
Lead arranger/book runner: Deutsche
Monoline: Ambac
Multilateral debt: EIB
Mezzanine providers: Deutsche; Meridiam
Financial adviser to Asfinag: KPMG
Legal counsel to sponsors: DLA Piper Weiss Tessbach
Legal counsel to Asfinag: Linklaters; Haslinger Nagele & Partner; Doralt Seist Csoklich
Legal counsel to lenders: Allen & Overy; Wolf Theiss; McGrigors; CMS Cameron McKenna
Traffic forecasting: Faber Maunsell; Intraplan