

IIRSA Sur: Stripped down

01/02/2007

Odebrecht has completed the \$630 million financing of the IIRSA Sur toll road in Peru. The deal follows closely on the heels of an earlier financing for the IIRSA Norte concession, a \$214 million bond issue that closed in August 2006. But the Sur dispensed with many of the enhancements that characterised its predecessor, partly because its bookrunner correctly predicted that demand existed for uncovered debt, partly because of the work done for the earlier transaction, but also because between the two transactions Peru was upgraded.

The bookrunner for the bonds is Merrill Lynch, which priced the deal in late December. The proceeds will fund the construction, rehabilitation, maintenance, and operation of the 700km second and third sections of a 2,500km toll road network in Southern Peru, known as the Transoceánica Sur. The two sections are the subject of separate concessions, Concesionaria Interoceanica Sur-Tramo 2 S.A. and Concesionaria Interoceanica Sur-Tramo 3 S.A.

Work on the concessions is in turn split into three phases. For section two, which covers 300km, construction began in July 2006, and must be complete by July 2010, and section three, of 403km, has the same start and finish dates. The operation of the two sections lasts until 2031.

The two concessions have the same holder, a consortium of Constructora Norberto Odebrecht (25%), Odebrecht Investimentos em Infra-Estrutura (45%), Grana y Montero (19%), JJC Contratistas Generales (7%), and Ingenieros Civiles y Contratistas Generales (4%). Odebrecht and Grana y Montero worked together on Norte (together with Andrade Gutierrez), while JJC and ICCG are newcomers.

The concession structure is broadly similar to Norte. The project receives certificates of completion, known as CRPAOs, from the government of Peru, as and when defined sections of the road are complete and certified by OSITRAN, the government body that regulates the country's transport system. These certificates, which are transferable, and which represent an unconditional payment obligation, are being securitised through the bond issue (search 'IIRSA Norte' for more details).

The first deal featured a \$60 million partial risk guarantee from the Inter-American Development Bank, which provided a measure of first loss protection against default by Peru on its CRPAO obligations. This financing, however, is completely uncovered, since according to sources close to the bookrunner, appetite amongst emerging markets investors for the debt was such that the difference in coupon did not quite justify the price of the guarantee.

The other main difference with the earlier deal is that the Sur bonds can be bought in Peru, and 35% of the buyers of the bonds are Peruvian, with US buyers (40%) and European buyers (25%) making up the remainder.

Fitch gave the bonds a BB+ rating, and Moody's gave them a Ba3 rating, while S&P assigned them a BB rating. These ratings benefited from Fitch's upgrade of Peru's sovereign rating, on which the bonds' credit is based, to BB+, so that even though the Sur bonds do not have the partial guarantee their rating is the same as that of Norte at launch (following the upgrade, Norte is now investment grade, or BBB-). Moody's changed the outlook on Peru's debt to positive, but without the enhancement Sur's rating was a notch lower than Norte. S&P, which has not changed its rating, also notched the deal down.

The IIRSA Ratings

	Peru (Aug)	Peru (Dec)	Norte (at issue)	Sur
Moody's	Ba3	Ba3	Ba2	Ba3
Fitch	BB	BB+	BB+	BB+
S&P	BB	BB	BB+	BB

The bonds break down into a \$475 million Class A-1 tranche, with a maturity of 2018, which priced at 6.22%, and a \$155 million A-2 tranche due 2025, which priced at 7.33%. These figures represent the proceeds from the two tranches, which were sold at a substantial discount, so the face value of the A-1 bonds is \$742 million, and the face value of the A-2 bonds is \$455 million. The A-1 tranche does not pay interest for the first 1.5 years, while the A-2 tranche accrues interest until 2018.

The final difference with the Norte section is that the proceeds of the Sur bonds are invested in IDB notes, to create a small yield, and then enhanced using a cash management agreement from Merrill Lynch to yield 25bp over Libor. These proceeds are used to buy CRPAOs, whose proceeds will repay the bonds.

Conversely, the Norte transaction used Morgan Stanley credit-linked notes to create a return on the proceeds until these are invested in CRPAOs.

The deal is likely to fuel speculation that the Norte deal was enhanced beyond the level necessary for Peru, but Sur benefited not only from upgrades of the sovereign rating, but also from having Norte go to market first. Norte's manager would be the first to admit that most of the hard work on the transaction structure took place in the 18 months before Norte closed rather than the four between the two sections (for more on the work on the CRPAO and partial guarantee structure, please refer to the award description on P54 this issue).

Nevertheless, the Peruvian government is said to be extremely happy that the latest issue was structured to sell to local investors. The Peruvian capital markets have been extensively used for power, mining and oil and gas markets. Future PPP concessions, of which Peru's transport ministry and Proinversion, its investment promotion agency, have several planned, will benefit from Sur's work in educating local investors.

Peru Enhanced Pass-Through Finance Ltd
Status: Closed December 2006
Size: \$630 million (proceeds)
Location: Southern Peru
Description: Securitization of government progress payments for two road concessions with a total length of 700km
Sponsors: Constructora Norberto Odebrecht (25%), Odebrecht Investimentos em Infra-Estrutura (45%), Graña y Montero (19%), JJC Contratistas Generales (7%), and Ingenieros Civiles y Contratistas Generales (4%)
Debt: \$742 million A tranche due 2018, \$455 million B tranche due 2025 (both face value, do not reflect proceeds)
Sponsor legal counsel: Clifford Chance (international), Rubio, Leguia, Normand & Asociados (Peru)
Lender legal counsel: Mayer Brown Rowe & Maw (international) and Roselló Abogados (local)

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