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EMEA Transport/ Aviation Deal of the Year 2005

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Ankara Airport: The long and the short

Airport assets have become the latest objects of lender and sponsor affection, the site of frenzied bidding wars between investors, and equally competitive debt financings. Those located in less developed markets have found it much easier to raise financing than five years ago. The financing of Ankara Esenboga Airport, however, looks like opening up Turkey's infrastructure market to much wider attention.

The deal features comfortably the longest tenor for a transport project in Turkey, closed within an extremely tight timeframe, and clears the way for more attractive terms and cheaper pricing for subsequent infrastructure financings. Future airport and port concessions, as well as the country's ongoing pre-accession privatization programme, will benefit from Ankara's experience.

Ankara's sponsor is TAV Esenboga, a joint venture between two large Turkish construction groups – Akfen and Tepe. It won the concession to build and operate the domestic and international passenger terminal for Ankara in August 2004. The sponsors, which bid on the concession on the basis of price, then mandated HVB to provide financing for the concession.

The new terminal replaces two small terminals that date back to the 1950s, and a third temporary structure that has been demolished. The old terminals are the victims of robust economic growth and therefore passenger numbers. The new terminal will have a capacity of 10 million passengers per year, and resemble the Western European norm. The project also includes car parking facilities and a 30-stand apron.

The airport primarily carries passengers from Turkey overseas, particularly to Germany, and domestic passengers to points east and west, particularly to Istanbul. It produces revenue from passenger departure fees and retail operations, both of which produce offshore currency streams in Euros and dollars. The single terminal will replace the three old terminals.

The challenges to a successful financing lay less in the concession's fundamentals than in the conditions for financing an infrastructure asset in Turkey. The winning bidder had to put in place a financing within 90 days of the award of the concession. While the sponsor could likely have put in place a bridge loan, and this would have satisfied the concession awarded the DHMI, the cost and time would have been prohibitive.

Instead the lead arranger carried out a due diligence process at breakneck speed, which enabled the sponsor to sign the concession agreement on 18 November 2004. The financing documents were signed in May 2005, and the deal syndicated in July. But construction started on 19 December using sponsor equity, to enable the sponsor to benefit from as much of the concession's 18-year, 8-month term as possible.

The main contractor for the project is TAV, while Lincas, a Siemens subsidiary, was the principal supplier. Lincas bundled together equipment from several other suppliers originating from more than one country. This maximised the amount of

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export cover that would be available, although this required Euler-Hermes's adviser, PwC, to sign off on the concept.

Moreover, to comply with the tax provisions of the Turkish BOT law, Lincas signed a supply contract with the project company rather than the contractor. Since the contractor and sponsor are owned by the same entity, the contract needed to be adjusted to take care of lender concerns about the proper allocation of supply and completion risk.

Lenders have in most other respects been very comfortable with the Ankara credit. While Hermes ultimately covered 15% of the debt, the most that German content would justify, the arranger is confident that the deal would have been possible even completely uncovered. However, the arranger was able to offer syndicate banks the opportunity of buying into either the covered or the uncovered piece, and thus bring in both Turkish banks, regional and international development banks and commercial lenders.

The final syndicate consisted of AK Bank, Garantibank, and Halk Bank from Turkey, DVB, National Bank of Greece, Caterpillar Finance, Proparco of France and the Black Sea Trade and Development Bank. They were motivated by such diverse concerns as regional economic integration, sponsor relationships, and content provision.

The 12-year tenor on the debt equalled that on the InterGen/Enka power financing from 2001, but that deal had heavy support from US Ex-Im and Opic, and an international sponsor. It consequently attracted a larger commercial bank presence. Moreover, this deal has been assembled robustly to deal with the occasional, but normally short-lived, economic shocks that can affect passenger numbers dramatically.

This financing dealt with the normal aversion of Turkish banks to lending at tenors beyond those at which they can raise capital by providing some external benefits, such as onshore trust work and advertising opportunities at the airport. The loan also features dividend locks linked to debt service coverage ratios, a 6-month debt service reserve account, and a cash sweep mechanism. These combine to produce base case coverages of 1.6x, and a much shorter average life than the headline tenor.

The debt breaks down into a Eu149.5 million ($177 million) commercial bank piece, a Eu28.5 million ECA facility and a Eu8.0 million working capital loan. The loan is priced at 350bp over Euribor during construction, 325bp post-completion, and then ratchets up to 375bp over the life of the loan. Subsequent financings, albeit those without construction risk, have come in at much lower levels – as low as 250bp. But, as the arranger notes, they benefit from the work done on Ankara in getting lenders comfortable with such long tenors. Since the bulk of Turkish financings coming up – for ports and for airports – are likely to have a similar revenue profile, the experience will be useful. Akfen and Singapore Ports, for instance, are developing the Mersin port project.

Ankara Esenboga Airport
Status: Concession signed November 2004, financing closed May 2005
Size: Eu237 million
Location: Ankara, Turkey
Description: Build-operate-transfer concession for a new domestic and international passenger terminal
Sponsor: TAV, a Tepe/Akfen joint venture
Debt: Eu178 million
Lead arranger: HVB Group
Lender legal: Clifford Chance (international), Pekin & Pekin (local)
Sponsor legal: In-house
Technical, traffic and environmental adviser: Mott MacDonald
Insurance adviser: Miller Services
Model auditor: PwC

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