EMEA Transport/Rail Deal of the Year 2005

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Perpignan-Figueras: Price tracking

It took two attempts and four years to get from tender launch to financial close, but 2005 witnessed the first European joint-nation rail financing since the Channel Tunnel – the Eu1.1 billion ($1.3 billion) Perpignan-Figueras high-speed rail link between France and Spain.

The deal is heavily subsidised by the Spanish and French governments, which between them are providing around half of the construction costs, together with the EU which contributed 5%.
ACS/Dragados and Eiffage, the sponsors behind the TP Ferro consortium building the project, have provided Eu110 million in combined equity. The project debt, lead arranged by Banesto, BBVA, Caja Madrid, ING and Royal Bank of Scotland, totals Eu532 million.

The project was originally awarded in July 2002 to the Euroferro consortium led by Dragados and Bouygues, But talks broke down in April 2003 and the project was re-tendered.
TP Ferro signed the 50-year concession contract with the French and Spanish ministries of public works on 17 February 2004, having been selected preferred bidder two months previously ahead of the Ferromed consortium (Ferrovial, Vinci, RFF, Setec, Ineco and GIF) and a group comprising Bouygues, Sacyr, Acciona and FCC.

The project was subsequently underwritten on 10 February 2005, but it did not syndicate until 22 June. The delay was due to the pressure to get the deal underwritten by early February, which left banks too busy to decide beforehand how best to proceed with syndication. Under the terms of the contract, the deal had to be syndicated within a year or be retendered for the second time – an event that would probably have put the project on hold indefinitely.

The centrepiece of the debt package is a Eu410 million mini-perm with a 10-year tenor and amortization in one bullet payment. With an undertaking in place to refinance the debt in 2015, the underlying tenor is 35 years. The debt is priced at 135bp over Euribor during construction, rising to 150bp in operation.
Additional debt tranches include a Eu62 million five-year bridge, priced at 125bp, to finance the final state-subsidy payment; a Eu35 million 10-year standby facility, paying 150bp; and a six-year Eu25 million VAT tranche, which has a margin of 60bp.

The deal's structure includes long-term interest rate hedges, with derivatives provided by CDC Ixis, which together with Banesto acted as financial advisor to the sponsors.

The deal was legally challenging as it had to comply with both Spanish and French law. The financing was carried out under Spanish law but included a package of French guarantees and lawyers concede that the process could have been simplified by spelling out points of conflict between the legal systems in the concession agreement instead of the financing documents.

Construction began on the project late in 2004, funded by the constructors' equity and the subsidies. The 44.5km rail link forms the international section of a high-speed rail network that will carry both passengers and freight traffic. This in turn is part of the Trans European Network (TENS). When the project is completed in 2009, it will reduce journey times between Barcelona and Toulouse by more than 2 hours. It will also mean passengers won't have to change trains at the border, as is currently the case owing to the different track gauges used in France and Spain.

The project was driven by more Spain, which geographically is near the edge of Europe, than France (although both governments contribute equally financially). For Spaniards, the railway will provide the only high-speed rail link with the rest of the continent.

Construction risk is considered fairly insignificant, despite the fact that the railway crosses the Pyrenees mountain range and includes the construction of an 8.2km tunnel, which represents a third of the total costs. Since work began late in 2004, it has been moving more or less to schedule.

The project carries traffic risk, however, and this was something some bankers were wary of presenting to their credit committees. Those that did get involved insist that the level of risk is acceptable. Forecasts predict that even without the connection 920,000 passengers would cross the border in 2009, a number that would only have to increase to 1.65 million to meet the stress case. Freight volume is harder to predict, but lenders see its development as an upside – passenger numbers is key to repayment.

The banks joining the MLAs at selldown were: ICO, AIB, Barclays, BES, BPI, Caixa Catalunya, Caixa Geral, Commerzbank, HSBC, HVB, La Caixa, Mizuho and Banco Sabadell.

Despite the presence of several international banks, no French banks participated in the debt. This was partly because the Spanish government provided greater support for the project but also because the Spanish project finance market places a greater emphasis on relationship banking.

Perpignan-Figueras
Status: Financial close 10 February 2004, syndication 22 June 2004
Size: Eu1.1 billion total project cost
Description: Combined subsidy and commercial debt financing for the construction of a Franco-Spanish cross-border high speed rail link
Project debt: Eu532 million
Sponsors: ACS/Dragados, Eiffage
Financial advisors to the sponsors: Banesto, CDC Ixis
Mandated Lead Arrangers: BBVA, Caja Madrid, Royal Bank of Scotland, Banesto, ING Bank
Legal counsel to the sponsors: Ashurst Morris Crisp
Legal counsel to the lenders: Garrigues, White & Case
Legal counsel to the concession awarder: Clifford Chance