

Kaohsiung Arena: Sporting transfer

01/09/2005

Taiwan Cooperative Bank and First Commercial Bank have closed a NT\$4.3 billion (\$130 million) 18-year financing for Kaohsiung Arena Development Corp (KADC), a project company that is building a stadium and shopping complex in the island's southern city of Kaohsiung.

The project is a build, operate and transfer (BOT) scheme, the borrower having signed a 50-year BOT agreement with the Kaohsiung city government. The main investors in KADC are major Taiwanese corporates, with the three largest shareholders being Da Shin Engineering (35%), Han Shin Department Store Group (35%) and China Steel (18%).

The debt raised will provide funds for the construction of the stadium and ancillary facilities and working capital for the operating period. The total project cost is NT\$8.15 billion.

In addition to the bank loan, approximately NT\$1.2 billion will be provided by the government with the remaining funds in the form of sponsor equity. The bank loan is priced at 125.5bp over Taiwan Cooperative Bank's three-year savings rate.

As usual in Taiwanese infrastructure financings, the bank debt deal is an all-Taiwanese affair. Taiwan's bank market has ample liquidity in both domestic and foreign currency, and with exceptionally thin margins, foreign participants are rare.

Apart from Taiwan Cooperative Bank and First Commercial Bank, five other local banks joined the financing for a commitment fee of 15bp. The respective takes are: Taiwan Cooperative Bank (NT\$1.5 billion), First Commercial Bank (NT\$0.9 billion), Taiwan Business Bank (NT\$0.6 billion), Land Bank of Taiwan (NT\$300 million), Chang Hwa Commercial Bank (NT\$300 million), Agricultural Bank of Taiwan (NT\$300 million), Bank of Taiwan (NT\$200 million) and Hua Nan Commercial Bank (NT\$200 million). Taiwan Cooperative Bank was facility agent for the financing.

The 18-year project loan includes the construction period, which is expected to be about 2.5 years. The loan terms and conditions remain the same throughout the construction period and after.

Apart from a few exceptions – including the limited recourse financing which funded the Ever Power 960MW Combined Cycle Gas Turbine IPP project – there have been relatively few genuine project finance transactions in the Taiwanese market. That is changing.

The KADC deal is fully non-recourse and the financing ring-fences project cash flows as in any genuine project financing. The security package includes pledges over all the assets and machinery, leasing contracts and insurance assignments.

The stadium, dubbed the Kaohsiung dome, is a multifunctional sports facility, will seat 50,000 spectators and will include a 400m track and field arena. The dome itself is scheduled for completion in 2006 and is being built in preparation for the 2009 Eighth World Games, which are being hosted by Kaohsiung. Groundbreaking for the development has already taken place.

A number of other BOT projects are also underway in Taiwan, most of which will be financed on a limited or non-recourse basis.

In June, a tender was announced for the core mechanical and electrical system of the Chiang Kai Shek airport-link Mass Rapid Transit (MRT) project, to be built on a BOT basis. Meanwhile, work on Taipei MRT's Hsin-Yi Line has been divided into two BOT construction projects and two sponsors, Continental Engineering Company and Fu-Tsu Construction Company have won the bids.

In the case of the Kaohsiung Arena project, the risk sharing structure is relatively straightforward but more intricate risk sharing structures have been established in the more complex BOT projects.

Other major BOT projects are being considered in the transport and power sectors. A 17km Kaohsiung City Light Rail project, with an estimated cost of \$385 million, is likely to be bid on a BOT basis. A separate Kaohsiung County Light Rail project is also going to receive BOT treatment. The total cost of the project is estimated to be \$421 million. At the same time, Taiwan Power Company has proposed a 2x800MW coal-fired power plant be built in mid-western Taiwan and a harbor project for transporting coal for use by the 4,326 MW Hsinta power plant in southern Taiwan.

Although Taiwan's BOT Law, put in place in 2000, allows a whole range of variations including, build-transfer-operate, renovate-operate-transfer, operate-transfer (OT), and build-own-operate (BOO), BOT schemes account for most public participation in infrastructure projects signed to date. But, BOT Law aside, Taiwan is still far from developing a centralized approach similar to the Private Finance Initiative (PFI) in the UK.

Kaohsiung Arena Development

Status: Closed August 2005

Size: NT\$8.15 billion (\$250 million)

Debt: NT\$4.3 billion

Location: Taiwan

Description: Project financing for the construction of a sports stadium and shopping mall.

Lead sponsors: Da Shin Engineering (35%), Han Shin Department Store Group (35%), China Steel (18%)

Lead arrangers: Taiwan Cooperative Bank, First Commercial Bank

Participating banks: Taiwan Business Bank, Land Bank of Taiwan, Chang Hwa Commercial Bank, Agricultural Bank of Taiwan, Bank of Taiwan, Hua Nan Commercial Bank

EPC: Hwa Da Chen Engineering Corp

Legal counsel to sponsors: Lee and Li

Legal counsel to the lenders: Wen Shin Law Firm

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