

European Real Toll Deal of the Year 2004

01/02/2005

Litoral Centro: When will it end?

The Eu795 million Litoral Centro, the first new Portuguese road project to close for two years, presented bankers with a new type of concession for the Portuguese market ? a 30-year variable-term real toll.

Litoral Centro involves the construction of 98.4km of highway along the Atlantic coast, from the north end of the West concession to the South end of the Costa da Prata road. The combined concessions will form a motorway corridor from Lisbon to Oporto, an alternative route to the existing A1 motorway, currently operated by Brisa ? Auto-Estradas de Portugal.

The West and the Costa da Prata concessions are already in operation (except for one stretch of Costa de Prata), and are waiting for the completion of the Litoral Centro, projected for January 2008, to complete the IC1 link between Lisbon and Oporto and ease congestion on the A1.

The variable term deal is the first demonstration of the Portuguese government's ambition to move beyond curtailing its liability under the SCUT shadow road regime (for more details see ?Big freeze? December/Jan 2004 on www.projectfinancemagazine.com), and on to limiting the upside to the private sector on real toll projects.

Consequently it is a structure that will reappear, and although it has precedents in Spain and Chile, it was unfamiliar to Portuguese lenders and a structure they had to get comfortable with.

Advised by Millennium BCP, the Brisal consortium ? comprising Brisa Auto-Estrades de Portugal (80%), BCP Investimento (10%) and SMLN Concessoes Rodoviaras de Portugal (9.9%) ? won the concession and reached financial close on the deal on 30 September 2004.

Together the sponsors provided Eu177 million in project equity and committed to inject additional standby equity ? to top up any shortfall in the Debt Service Reserve Account ? and traffic support equity, if the traffic levels are less than forecast in the base case, and up to a 30% traffic volume fall.

The variable term of the concession limits the amount of upside for Brisal. The concession will come to an end when the net present value (NPV) total toll revenue aggregated amount reaches Eu784 million, subject to a minimum period of 22 years and a maximum period of 30 years. The concession ends after 30 years, regardless of whether the consortium reaches the revenue threshold.

One of the quirky features of the variable term mechanism is that it provides the project with a natural interest rate hedge ? increasing the 12-month Euribor will reduce the NPV of toll revenues and therefore extend the concession term. In addition, the project also benefits from a natural hedge from Brisal's ability to increase the tolls annually in line with Portuguese CPI.

The financing comprises both commercial and EIB facilities. The EIB has made available a Eu264 million facility with a maximum tenor of 27 years at a fixed 5.05% rate without breakage cost after year 21, backed by a commercial bank guarantee that covers up to 110% of the EIB Loan amount for 25 years.

The EIB guarantee release mechanism allows for partial release of this facility on year 10, and then gradually after years 15 and 20, with full release by year 25 provided that certain financial conditions are verified.

Because the EIB lends at a fixed rate, a reserve account is in place solely to service any penalties that accrue for early repayment of the EIB loan on the attainment of the NPV by the sponsors. The amount required in the reserve account is adjusted on the findings of periodic look-forward tests that project when the concession is likely to end. The tenor of the debt will be the earlier of December 2029 or one year before the end of the concession agreement.

The 25-year commercial bank facilities ? lead arranged by Millennium BCP Investimento, Caixa Banco de Investimento, Mizuho, Banco Totta, Depfa and Banco Santander de Negocios Portugal (SCH) ? comprise the following: a term loan of Eu262 million, Eu7.5 million of working capital (only 4.5 years) and a Eu15.5 million performance bond. The margin is 120bp over Euribor during construction, stepping to between 115bp to 130bp depending on performance. The term loan has been 100% hedged by way of an interest rate swap from financial close to the end of grace period.

Brisa has set an aggressive benchmark for the rest of the Portuguese market to follow in Litoral Centro. Both the Eu700 million Douro Litoral highway, just south of Porto, and the Eu300 million Grande Lisboa, which involves the completion of a ring road around Lisbon, may yet come to market with the same terms, making Brisa a firm favourite for any future tenders.



Litoral Centro

Status: Financial close 30 September 2004

Size: Eu795 million

Description: Variable term (30-year max.) DBFO real toll concession financing.

Sponsors: Brisa Auto-Estrades de Portugal; BCP Investimento; SMLN Concessionaires Rodovias de Portugal

Financial adviser: BCP Investimento

Lead arrangers: Millennium BCP Investimento, Caixa Banco de Investimento, Mizuho, Banco Totta, Depfa and Banco Santander de Negocios Portugal (SCH)

EPC contractors: Somague Engenharia

Interest rate hedging: Banco Totta & Acores

Legal counsel to the sponsors: Lovells; Vieira de Almeida

Legal counsel to commercial banks: Linklaters; Miguel Galvao Teles; Joao Soares da Silva

Legal counsel to EIB: Vinson & Elkins

Legal counsel to the contractors: Goncalves Pereira, Castelo Branco

Legal counsel to the government: Flaminho Roza

Traffic and technical: Symonds

Insurance: JLT

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