# M5: Changes at a cost?

20/12/2004

The latest and second M5 refinancing in Hungary has syndicated. And despite a change in concession terms from real toll to availability payments, and the state taking a stake in the project company, the participating institutions closed the deal relatively quickly.

However that very speed, and no new rounds of funding competition, have prompted some bankers to question whether the structural changes to the deal came at a premium - particularly given the similarity in pricing between the two deals and the fact that the second deal has no real toll risk.

The original M5 refinancing real toll closed in December 2003 as a Eu205 million facility led by the same arrangers as the current deal - BES, EBRD, WestLB and, Banca Intesa subsidiary, CIB - and pulled seven banks into syndication. The facility priced at 120bp over Euribor for the first five years, rising to 130bp for years 6-10, 140bp for 11-15, and 160bp for years 16-20.

The second refinancing incorporates funding for construction of the 48km Phase 2 of the motorway and is therefore much larger - Eu750 million in total. Despite the payment regime changing from a real toll to availability, the pricing mirrors the original refinancing. The deal is priced at 130bp over Euribor during construction, 120bp for the first five years of operation, 130bp for the next five, 140bp for the next five and 160bp for the remaining 3.5 years.

The arrangers have come to a neutral view that the added risks in terms of scale are balanced by mitigating credit factors. Although the debt-to-equity ratio has shunted from 75:25 to 90:10 - the need for more equity was provided in the form of "equity in kind" through an element of AKA's foregone return in the switch from tolls to availability payments - revenues are now much more secure.

But given there is now minimal commercial risk and that the EBRD's participation provides soft mitigation against political interference, is M5 Phase 2 expensive compared with the original deal? The answer is no. M5 Phase 2 comes with construction risk and lower equity ratios. In effect the deals are not comparable.

Furthermore, the banks are taking sovereign risk, and fatter margins can be made in other sovereign credits across CEE.

The closest benchmark and useful comparator is the M6 deal that is priced and also in the throes of reaching financial close.

The M6 project is backed by 22-year Eu450 million debt, lead arranged by Bayerische, MKB, KfW, Commerzbank and KBC. The margin is 120bp over Euribor during the two-year construction, reducing to 115bp during operations then ratcheting up to 125bp. Given that the M6 is a wholly greenfield project and that it shares the same availability regime, many expected the M5 refinancing to come in under its pricing. Then again, much of the groundwork for M6 has been done on M5, so pricing is bound to be slightly higher.

The M5 refinancing is largely viewed as packing significant marketing kudos, and participating banks and law firms have feathered their caps for forthcoming road projects in Hungary and Eastern Europe. The participating banks are: BancaOPI, Unicredit, Bank Austria, KBC, OTP, AIB, Bank of Ireland, CDC, Depfa, Dexia, IKB, ING, Islandibanki, KfW, Helaba, Mizuho, Natexis, RBS, and SMBC.

Syndication of the 20-year Eu750 million project debt for the M5 project signed 14 December. Of the 20 banks invited, 19 placed commitments with two ticket sizes: Eu30 million for 30bp and Eu20 million for 20bp - MCC declined. These allotments were significantly scaled back.

All nine participating banks in the original refinancing came in on the second refinancing, being familiar with the deal and having run the deal through their respective credit committees. The upside to the buyback of the syndication by the lead arrangers was that the banks retained their upfront fees and recouped a small amount in repayments.

Intesa took Eu80 million; WestLB and BES took Eu50 million a piece; MFB took Eu100 million; and the EBRD took Eu130 million. At sub-underwriting stage 17 of the banks took Eu18.545 million each, and BancaOPI and IKB took Eu12.363 million.

The financing is split into five tranches, each with the same pricing, with a further sixth tranche to finance the 15km phase 3 of the motorway in negotiation. Stage 3 of M5 is expected to come to market at the beginning of 2005. The financing requirement will be about Eu150 million.

The state-owned motorway operator Allami Autopalya Kezelo (AAK) took a 39.48% in March 2004, in the project company as negotiations were underway to change the concession. AAK has an option to buy the remaining equity by December 2009, when the construction is complete.

The principal driver for the conversion from a real toll to an availability-based project was the Hungarian government's wish to bring their entire motorway network under a vignette system. Under the system, road users buy stickers so that they can use the motorways for a specified period of time. Sticker revenue collection and enforcement using mobile cameras is wholly decoupled from the payment regime to M5 and is the responsibility of the government.

The project consortium AKA had to weather a number of shocks in the early years of operation including war in Kosovo, legal challenges to the toll levels and the collapse of the comparable M1-M15 in northern Hungary. And although it is doubtful the second refinancing achieved the best possible deal for AKA it has smoothed the way for the third phase of M5 and each phase of M6.

Unlike M5, each phase of M6 will be tendered separately. Given the pricing it is likely M5 will be refinanced again, and given its size the capital markets could be tapped.

**M5 Motorway (phase 1 and 2)**
Status: Financial close 21 September 2004; syndication signed 14 December 2004
Size: Eu750 million
Location: Budepest-Szeged, Hungary
Description: Refinancing and extension of M5
Sponsors: AKA Holding - Bouygues (17.58%); Colas (7.53%); A-Way (25.11%); CDC Ixis (4.26%); EGIS (1.06%); Magyar Intertoll (3.47%); MOL (1.5%); AAK (39.48%)
Mandated lead arrangers: BES; CIB; EBRD; MFB; WestLB
Financial adviser to state: ING
Legal counsel to state: Clifford Chance
Legal counsel to lenders: White & Case
Technical adviser to the consortium: Kellogg Brown & Root
Insurance consultant: Willis

*Thank you for printing this article from IJGlobal.*

*As the leading online publication serving the infrastructure investment market, IJGlobal is read daily by decision-makers within investment banks, international law firms, advisory firms, institutional investors and governments.*

*If you have been given this article by a subscriber, you can contact us through **www.ijglobal.com/sign-in**, or call our London office on +44 (0)20 7779 8870 to discuss our subscription options.*