

SRC II: Italy's new model

01/11/2004

The first financing of an Italian general contractor (GC) scheme has closed. Financing for phase two of the Salerno Reggio Calabria highway cuts a swathe through the uncertainty in the market over whether GC schemes are bankable, and is all the more impressive for the legal holes that it needed to plug ? more specific legislation is anticipated to place meat on the bones of the Legge Obiettivo, which introduced the GC scheme in 2001.

The general contractor is an SPV comprising two Italian constructors: Impregilo (51%) and Condotte d'Acqua (49%). Depfa advised Condotte in May 2002 on phase one of the highway project ? a concession that was ultimately won by CMC, backed by BancaOPI and Dexia but has yet to reach financial close ? and thus has had a fair while to assess the issues surrounding the scheme.

On this second phase, Depfa and the public-private hybrid company, Infrastrutture, have 50-50 underwritten Eu300 million (\$380 million). The margin is thought to be in excess of 100bp over Euribor. The loan matures in January 2009, but with an automatic extension mechanism in the case of force majeure or other specified problems.

One of the major contentions regarding the GC scheme is that the payments due on the achievement of predetermined milestones in the construction, owed by the awarding public body, are not legally recognised credits ? they are interim payments recognised formally only on completion. Also there was concern over the timely payments of these credits.

Yet Depfa and Infrastrutture have gained comfort by structuring flexibility into the transaction to allow for the early or late payment of invoices. More challenging was the relationship with the awarding public body, ANAS ? the entity responsible for managing the road network. Negotiations were believed to have been at arm's length, with the lenders' lawyers acting as intermediaries.

Nevertheless the structuring was still pulled together relatively quickly: ANAS awarded the project 12 March 2004, the GC contract was signed 16 June, and financing closed 26 October. The structure is a hybrid of factoring and project finance, and provides a good deal of protection to the lenders. In this factoring-type agreement, whereby the lenders act as a conduit for the settlement of invoices and retentions from ANAS, the lenders subtract debt service before the SPV receives its money, effectively placing the interests of the debt at the top of the cash waterfall. In the event of complete collapse, ANAS will have recourse to the constructor's balance sheets for the work outstanding plus costs minus the value of the work to date.

The project itself entails the construction and refurbishment of certain sections of the A3 between Gioia Tauro and Scilla, which includes the construction of a 450m bridge.

The financing represents about 30% of an original tender value that ANAS will reimburse in full only at completion. The total project value is in the region of Eu900 million. Syndication is expected early next year, with both Depfa and Infrastrutture expected to hold on to a portion of the debt.

It is not the first time Infrastrutture and Depfa have worked together, albeit on opposite sides ? Depfa participated in the first issue of Eu5 billion in TAV high-speed rail bonds issued by Infrastrutture. And this is the second time Depfa has been

involved as a senior lender in a project in Italy since it kicked off its project finance marketing campaign in April 2002. The first was a small mini metro project in Perugia.

It is possible Depfa may be using Italy to source infrastructure project debt for a diversified European asset-backed securitisation, depending on how its market testing £390 million (\$725 million) CLO fares. (see last issue's Deals and Developments). The CLO is backed by 25 loans to PFI projects and is sponsored by KfW.

The next GC scheme to close is likely to be the phase one of the same highway. CMC is the constructor, and BancaOPI and Dexia are pulling together the financing, expected to be about Eu200 million, with total project value of around Eu500 million.

Whilst the financing should be welcomed for setting a precedent for future GC projects, it is unclear how projects with less clearly defined interim values will fare. While Salerno Reggio Calabria is largely a refurbishment scheme, where the value of the works upon premature termination is simple to calculate, a project such as the Messina bridge has a small residual value until close to completion, a partially built bridge is of little value to the awarding company (see Deals and Developments for latest news about the Messina bridge project).

Salerno Reggio Calabria II

Size: Eu300 million

Status: closed 26 October 2004, to be syndicated in 2005.

Location: Salerno Reggio Calabria, Italy

Description: Phase II of a five-stage project. This phase involves the refurbishment and addition of extra lanes of sections of the A3 between Gioia Tauro and Scilla

Constructors: Impregilo (51%) and Condotte d'Acqua (49%)

Arrangers: Depfa, Infrastrutture SpA

Tenor: Until January 2009, with automatic extension mechanism in the event of force majeure.

Legal counsel to lenders: Linklaters, Gianni Origoni Grippo & Partners

Technical: Proto

Insurance: Marsh & McLennan

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