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Marginal pressure

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The margin war between domestic and international lenders that has ebbed and flowed in the Spanish wind market since the mid-1990s is showing the first signs of spilling over into other sectors - notably roads.

The majority of Spanish bankers believe the Eu522 million ($638 million) Ocana La Roda real toll, closed in August (search 'Ocana' on www.projectfinancemagazine.com for more details) has set a new pricing benchmark that the rest of the banking market may have to follow - albeit grudgingly.

The tight pricing on the deal - a flat 110bp over Euribor over 8.5 years, compared to the 140-160bp pricing norm for Spanish tolls - was surprising, given that the original bid was awarded at 160bp and that the road was not an especially attractive credit because traffic volume, and hence revenue, is seasonal.

According to bankers, the margin is symptomatic of a highly liquid domestic market and pressure on margins from foreign banks, as evidenced in the even split between domestic and foreign banks on the deal - lead arrangers were BBVA (which was also bid adviser to the sponsors), Royal Bank of Scotland (RBS), Santander Central Hispano (SCH) and SG, with La Caixa, Banco Sabadell, HSBC and Caixa Geral as co-arrangers.

The other deal that recently sent shivers through credit committees was the Enel Union Fenosa Renovables wind/hydro portfolio financing. The Eu237 million deal funds eight wind farms and three mini hydros (total capacity 242MW) and is being underwritten by BBVA, SCH and Mediocredito Centrale. Margin on the deal is rumoured to be a flat 90bp throughout the 16-year tenor - again a big drop on the Spanish windfarm norm of 120-140bp.

What's the margin reality?

However, such margins are not unknown. In the late 1990s the Spanish domestic banks had been pushed out of the wind sector by international banks pricing at this level. The market corrected itself when the internationals pulled out again in search of fatter returns.

This time around the price war looks set to take the form of skirmishes rather than an all-out campaign.

While it is true that a number of foreign banks have either set up shop or moved into Spanish project finance in the past two years - for example Ocana La Roda is HSBC's first dip into the Spanish toll market - the willingness to lend at low rates appears to be driven not by a desire for Spanish market share, but lack of opportunity elsewhere in Europe and relationship building with the major Spanish sponsors.

With Italy and the new accession countries opening up the emphasis on Spain will diminish. And although Spanish sponsors have become desirable banking clients as their international profiles grow - for example Cintra, with MIG, has just won the Chicago Skyway concession in the US - the bonds between the Spanish banks, many of which are major shareholders in Spain's large corporates, and Spanish sponsors are unlikely to be broken.

The Ocana and Renovables deals are probably blips - symptomatic of a market that has got so big that a short lull in deal flow results in aggressive competition for the few credits around at any given time: the fact that ACF has turned down participation perhaps illustrates the blip is probably over. Furthermore, strip out the Eu4.5 billion Auna telecoms refinancing (for more details search 'Auna' on www.projectfinancemagazine.com) from this year and deal volume is down on the heady flow of 2003, while expectation at bank board level is not.

Since the domestic banks have spent much of 2004 winning mandates, a sustained downturn in margins looks unlikely as liquidity ebbs again. Margins will become more competitive - but not unrealistic.

Spain's growing global footprint

Ironically, while the rest of Europe looks to Spain, and to a lesser extent Italy, for infrastructure business, Spain's banks and sponsors are creating a bigger footprint on the international market, winning and bidding for projects in what are relatively new or changed markets for them - the US, Ireland, Portugal, Italy and the UK.

BBVA arranged the first US road PPP - the MIG-sponsored SR125 - in 2003. Now BBVA, SCH and Caja Madrid are all competing for the Chicago Skyway mandate

Neighbouring Portugal is also again offering up more deals. SCH co-led on the recently-closed Eu795 million Litoral Centro toll road financing (for more details see p.9 this issue). Banesto and BBVA are supporting Spanish sponsor bids for the Douro Litoral, which will be awarded in March 2005. Caja Madrid has also recently closed two water deals in Portugal: the Pacos de Ferreira water concession, comprising a 23-year Eu37.5 million long-term facility that closed in June. And the Eu60 million Barcelos water deal closed at end of September. Both deals were co-arranged with BCP and sponsored by Somague.

In Ireland, Caja Madrid is supporting FCC, while Banesto is backing Dragados and BBVA is supporting Ferrovial on the N3 Clonee Kells toll. BBVA is also supporting Dragados on the Waterford Bypass. And in Italy a number of the Messina Straits Bridge bids come with Spanish bank support.

Despite the pressure on domestic margins, the exploration of new foreign markets in the wake of Spanish sponsors, and the fact that domestic national infrastructure deals are diminishing in size and number, demand for PPP and innovation at regional government level is growing.

New tools for tolls

In the regional toll sector there are at least 13 realistic potential projects - three in Murcia, one in Valencia, two in Alicante and seven in Madrid - that could come to market in the coming year. The largest is the Eu222 million Valencia project, which is expected to be out to tender this month. A further Eu120 million deal from Murcia is expected in the next five to eight weeks. All the roads are shadow tolls except for one real toll in Madrid.

The long anticipated bond-financed tranche of the Autovia de los Vinedos shadow toll project will also close this month - the first bond for a greenfield Spanish road (for more details see Transport, p.10).

The deal has taken arranger Caja Madrid a long series of negotiations to put together. However, and for the first time, both Standard & Poor's and Moody's have given the deal an investment grade symptomatic perhaps of a growing understanding between the ratings agencies and the Spanish project sector.

The bond finances the Eu295 million Tomelloso-Consuegra stage of Vinedos, sponsored by Acciona with Caja Castilla La Mancha as equity partner.

Banesto arranged and closed the Eu332 million Toledo-Consuegra stage for Dragados and Cyposa earlier in the year with a straight debt package after talks between the sponsors and ratings agencies over a similar bond deal broke down.

Further greenfield bonds look unlikely in the short term, with bank miniperms being the preferred option. However there is the possibility of unwrapped bond refinancings of existing concessions.

Tranche 1 of the M45 refinancing closed earlier this year with bank debt. Tranche 3 looks set to be the next in line and lead arranger Caja Madrid is considering a bond. However the deal is not a straightforward refinancing - it will involve raising more investment than the existing debt to build further link/slip roads with Central Madrid; negotiating with two different sets of sponsors; and bartering over the link roads between Madrid's regional and central governments. And the arranger concedes that time constraints make a bank debt deal more likely.

Nevertheless, Vinedos has proven that bonds can be done and sponsors may start pressuring for them if the economics stack up: both Dragados and Acciona are the most likely issuers, since they have experience of Latin American project bonds.

The greenfield national real toll market, put on hold over the summer by the new Spanish government which favours shadows for idealogical reasons, may also be returning with its last tenders.

Market rumour suggests that the 24.5km Alto de Las Pedrizas-Torremolinos project may be put out to tender in the next two months in its original 36-year concession form. This extension to the Autopista del Sol was one of the three remaining real toll concessions under Spain's second national toll road plan not tendered by the previous government late last year (for more details see www.projectfinancemagazine.com).

The other two remaining projects on hold are the 63km Soria-Tudela and the 235km Toledo-Ciudad Real-N IV. They are also expected to reappear in their original form. The Parbayon-Zurita concession, which proved unbankable when tendered, is likely to return as a shadow toll - if it returns at all.

Regional PPP acceptance

As the roads sector begins to lessen in importance to lenders, other PPP markets are building - albeit with smaller deals - and the first margins to appear from these sectors will make for interesting reading.

It was never certain that city or regional governments would accept PPP in healthcare on political grounds. However, Spain has adopted the UK model, keeping clinical services out of the equation, and Spain's healthcare sector is picking up since the introduction of PPP legislation last year (for more details see www.projectfinancemagazine.com).

The bidding term sheet for the first healthcare PPP - the 900-bed Puerta de Hierro hospital in Majadahonda, Madrid - went out at end of last month. Initial responses are due 9 December with a preferred bidder by February 2005.

Bidders include Ferrovial, backed by SG and Banesto; OHL with FCC, supported by Caja Madrid; ACS-Dragados with BBVA; Sacyr with SCH; and Teconsa. But widely tipped to win is OHL, which has a lot of health experience and potential additional equity backing from Caja Madrid.

The deal is a regional concession awarded by the Communidad de Madrid and will be around Eu300 million. The concession is part of a much larger eight-hospital programme modelled on the UK, where the concessionaire builds the hospital and takes performance risk on provision of non-clinical maintenance and services.

The remaining seven hospitals - Hospital del Norte, Vallecas Hospital, Parla Hospital, Valdemoro Hospital, Henares Hospital, the Hospital del Sureste and the Aranjuez Hospital - are all much smaller, around Eu50-Eu70 million, and are expected to be tendered before close on Majadahonda.

Madrid is not alone in embracing PPP. Barcelona has awarded the tender for its Ciudad de la Justicia project (a new court complex comprising 11 new buildings): the 35-year concession is sponsored by FCC, Copisa, Ferrovial and OHL with Banco Sabadell and SCH in the frame for debt provision. And the governments of the Balearics, Castilla y Leon, La Rioja and Galicia are all also tendering for PPP hospital advisors.

But of all the PPP projects in the pipeline it is the Eu1.2 billion Perpignan-Figueras High Speed Rail Link that is most anticipated. Due diligence closes this month and the deal must reach financial close before 17 February 2005 or be re-tendered.

ING, BBVA, Banesto, Caja Madrid, and Royal Bank of Scotland are lead arranging the 11-year miniperm, which is rumoured to be around Eu600 million with the remaining 50% in the form of government and EU subsidies.

The Spanish infrastructure business looks set to continue to enjoy its renaissance into the coming year. But the headlinegrabbing deals of the past are not going to be around much longer and the shape of the market is likely to change - Spanish sponsors and banks taking more international market share, secure in the knowledge that in their domestic markets there is a hard core of PPP and general infrastructure flow. The current pressure on margins is overstated - if the Spanish banks can compete abroad then they can also compete at home - and symptomatic not of undercutting by foreign lenders but a market reaching full maturity.