Second rated

01/06/2004

The surprise change of Spanish government after the horrific Al Qaeda attack on Madrid in March is having implications for Spain's ongoing PPP revolution - but not that many.

New prime minister Jose Luis Rodrguez Zapatero's PSOE (socialist workers party) government has put on hold the remaining three real tolls planned by the previous government for Spain's second national toll road plan. But much of Spain's public-private partnership (PPP) long-term Eu103 billion infrastructure investment plan 2000-2010 remains intact - albeit with a twist. The focus is now on achieving the same results but through regional/local government PPP rather than at national level - at least in the roads sector.

The new government is anti real toll on the grounds that the system is not as fair as shadow tolling, where the financial burden is ultimately spread across the tax system. Conversely, it is faced with meeting EU public deficit quotas and does not have the money to do so. Therefore putting shadow tolls on central government books is also not an option. At the moment it is unclear whether the three cancelled real toll roads will still happen. Logic would dictate yes. Politics may dictate no.

Nevertheless, Spain's latest flagship road deals, awarded under the previous administration, are going ahead. In March the Ministry de Fomento awarded four of the five new phase 2 Spanish real toll concessions - total investment Eu1.7 billion. The roads have all been offered as real tolls under 36-year DBFO concessions, extendible to 40 years depending on operational performance.

The ACS/Dragados-Abertis consortium advised by Caja Madrid won the Alicante semi-ring road with a bid of Eu383.2 million under a 25-year financing. And the consortium of medium-size construction companies - widely tipped as a politically preferred winner - comprising Corsan/Corvian, Comsa, Sando and BES won Madrid-Toledo with a Eu373.4 million bid backed by a 30-year loan with a margin of 100bp to 145bp: the consortium has since appointed the ex-CEO of Radiale 4 to make up for its lack of concession experience.

The rest of the winners presented 7-8-year miniperms with average DSCR of 1.3x and without a commitment to refinance. These winners comprise: Ferrovial-Europistas-Budimex with BBVA as financial adviser with a winning bid of Eu482 million for Ocaña-La Roda; and FCC-Ploder, backed by Banesto and ACF (Unicaja and Cajamar), with a bid of Eu531 million for Cartagena-Vera.

Average approximate margin presented in the different offers was 160bp (with the exception of Corsa/Corvian and Comsa).

The Parbayon Zurita (Santander ronda) concession was pulled from the original line up and is now one of the roads on hold despite expectations that it would reappear in the market as a shadow toll. Bankers did not believe the economics on the road stacked up and none of the offers made met the conditions of the RFP.

At least two of the roads are in due diligence with both BBVA and Banesto citing a 2004 to early 2005 close for their deals. And despite the freeze on the remaining three mandates - roads business at both national and regional level is brisk.

Refinancing of the Pantanos Highway and the M45 are under consideration. And most recently (in May) the first of the road deals in phase 1 of Spain's second national road plan closed a small and final retail syndication, confirming that margins (normally in the 135bp-160bp range) are steady despite the plethora of deals around.

The 20.5-year Eu335 million Autopista Eje Barajas real toll financing, sponsored by OHA and ENA, and lead arranged by Caja Madrid, Banesto and Royal Bank of Scotland (RBS), came with a 150bp flat margin. Helaba, Natexis, Banco Sabadell and Unicaja joined the lending group at the third level. La Caixa, Catalunya, BNP Paribas, Fortis, ING, Dexia, BES and HBoS had already committed at sub-underwriting level.

Ratings rumble

Despite the relatively stable market and the willingness to lend, the gap in risk perception between the ratings agencies and the Spanish banks persists - albeit shortening slowly. The ENA acquisition financing in 2003 (see www.projectfinancemagazine.com) demonstrates the gulf between perceived ratings risk and what Spanish banks view as actual lender risk. The deal was placed without a rating after the sponsors grew impatient with the inability of the rating agencies - notably Standard & Poor's - to get comfortable with a revamped deal.

And last month the first publicly rated Spanish toll road - the Eu375 million 70km Autovia del Camino regional shadow toll linking the cities of Pamplona and Logrono in Navarre - only pulled in a preliminary BBB- underlying rating from S&P on its Eu175 million senior EIB loan triple-A wrapped by XL Capital, putting it on the very edge of investment grade despite being a shadow rather than real toll.

According to S&P the rating reflects 'a somewhat aggressive financing structure and the reliance of debt repayment on increased traffic derived from a new road to be built.' The project also has a back-loaded debt profile (45% of the overall debt is amortized between 2024-2027), although the 30-year concession features a long operational tail.

With the deal also featuring Eu165 million in 23-year uncovered debt from lead arrangers Calyon and Caja Navarra (Ahorro Corporacion) that ranks pari passu with the monoline debt, and syndication expected to close this month, the underlying rating seems to have had little impact. According to arrangers, the biggest problem was equating security to the two different packages and structuring an inter-creditor agreement that met the needs of all parties. Similarly, banks were happy with the traffic forecasting produced by Steer Davies Gleave.

And even S&P concedes that the risks 'are adequately offset by the project's sound rationale, a supportive toll road concession framework, and the long traffic history of the existing road.'

So why an underlying BBB? In fairness to the ratings agencies - notably more jumpy post-Enron - the concession dynamic in Spain is unique. In effect it is based on the strong corporate relationships between the Spanish banking sector and the country's huge construction companies, the majority of which have strong balance sheets. For example, the Pamplona sponsor group comprises FCC, Caja Navara and Navarra Empresas de Construccion (NEC), so Spanish lenders are unlikely to be wary about the back-ended portion of the debt.

Despite the relatively small impact that ratings have had on the market to date, the divergence between the rating and market perceptions of risk could begin to present tangible problems - particularly if the Spanish government wants to go down the regional road PPP route and shadows come in below investment grade

Many of the regional shadow tolls to date have been looked at with a view to a wrapped bond deal. But many have been rated below investment grade, making such a deal a non-starter (monolines are unable to wrap anything less than investment grade).

If a bond emerges from the Pamplona deal it will likely be the first. However Caja Madrid is also in negotiations for an EIB/XL wrapped bond deal on its portion of the two stage Autovia de los Vinedos shadow toll. Caja Madrid is acting for Acciona with Caja Castilla La Mancha as equity partner on the Eu295 million Tomelloso-Consuegra stage, while Banesto is arranging for Dragados and Cyposa on the Eu332 million Toledo-Consuegra stage.

Both stages were originally looked at as potential bond deals but the sponsors on Toledo-Consuegra have opted for straight project debt which is expected to be fully underwritten this month and drawn down before the end of the month. Caja Madrid is believed to still be in negotiations with the EIB and XL Capital.

Whatever the outcome in the race to be the first regional road bond, the development of the bond markets will be key to further regional road development as well as refinancing the existing national roads - the majority of national roads in the market are mini-perms, designed for bond refinancing at a future date. And if those bonds are to be sold outside Spanish institutional investors - thereby spreading the risk - the ratings may begin to sway buyer opinion. Unfair or fair - the ratings issue needs sorting out, particularly if shadow tolls are not making the grade.

Breaking new PPP ground

Beyond the roads sector, Spanish PPP is breaking new ground with Spain's new PPP concession law, which came into force on 24 August 2003 and was welcomed by the rating agencies, showing the first signs of having the desired effect.

In Madrid there are eight hospital deals up for grabs - the first healthcare deals in Spain - with a total estimated value of Eu800 million. Bidding for the first deal - an estimated Eu350 million-Eu400 million mandate for Majadahonda in north-west Madrid - is due to start this month.

The Madrid government is aware of the UK and Italian healthcare experience and has indicated that it will not be looking for deals along Portuguese lines that incorporate clinical services.

Part one of the biggest PPP-style water deals in Europe also closed late last year. The country's National Hydrographic plan has been kickstarted, with financing for the Canal Primario Segarra Garrigues - the main channel from the Segarra river for the irrigation of 65,000 Ha in Lerida, Catalonia. Sponsored by CASEGA (ultimately 100% government owned) and structured by Caja Madrid, the Eu445 million project comprises Eu222 million in government lending with the remainder coming from the community of farmers that use the water. The 12-year project debt totals Eu115 million and was syndicated among 18 domestic banks.

A further Eu1 billion for secondary channels will be in the market this year once the Canal is completed. This may be at least partially funded by a future flow deal that Dexia and Caja Madrid are working on, which will be similar to that arranged by Dexia for EMASESA (see www.projectfinancemagazine.com) in 2002.

In the port sector the first port project financing under Spain's new PPP regime is also set to come to market this year. BBVA is arranging a Eu70 million project financing for sponsor Dragados' container terminal expansion at Porto de Malaga. The deal is in due diligence and could be the first of many. Increased Spanish port capacity is becoming a major problem, given that every single major Spanish port is an independent authority and that they all compete with each other.

With the proliferation of PPP into second-tier markets the influx of foreign advisory firms into Spain has picked up. However, new business may not be as brisk as expected. Madrid has decided not to appoint an advisor for its healthcare programme. And although many small- and medium-size companies lack concession experience, home-grown Spanish boutiques are already emerging to bridge the gap - notably Assessor de Infrastructuras recently started by ex-PricewaterhouseCoopers' Andres Rebollo and Ramon Espelt, former commercial director at Cintra.

Nevertheless, with deal flow continuing to boom, new sectors opening up and a potential thawing in the ratings cold war, Spain looks set to continue to be the hottest PPP market in Europe for the coming year.