

Latin American Transport and Overall Latin American Deal of the Year 2003

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There have been other monoline wrapped local project bond issues in Latin America. And there have been other toll road projects in Chile. But there has never been a Chilean project bond with a 20-year tenor - until Costanera Norte.

Financing for the 30km Chilean toll road - the first of Santiago's four urban concessions under the Plan de Transporte Urbano de Santiago - closed on 11 December 2003. Total project cost is \$442 million, of which \$265 million (dollar equivalent) is funded through a local currency bond lead managed by ABN Amro and wrapped by IADB (15%) and Ambac (85%).

The bonds gained a record Baa2 shadow rating from Moody's and triple A final rating from Fitch IBCA and Standard & Poor's, and sold strongly. Two maturities were offered: 80% of the issue is due in 21 years and priced at 56bp over the equivalent government bond; the remaining 12.5-year piece priced slightly wider, at 80bp over the equivalent. The deal is a testament to the rapid maturity of Chile's capital markets. Demand was stronger for the longer paper despite the fact that the shorter tenor was closer to what had been perceived as the normal maximum tenor. The enthusiastic response to the deal also indicates new opportunities for the Chilean capital markets. By pulling in domestic savings held by pension funds and insurance companies, Costanera Norte demonstrates that the local market is a tangible solution to the currency mismatch that has complicated international financing for infrastructure projects elsewhere in the region.

Costanera Norte consists of a 30.4km expressway that will link north-east and west Santiago. The project also includes a 4.75km extension to connect the expressway with Route 68 that connects Santiago with Valparaíso and the neighbouring coastal city of Viña del Mar. The road has been a priority project for the Chilean Ministerio de Obras Públicas (Ministry of Public Works (MOP)) since 1997, when it began to examine plans for the alleviation of traffic pressure in Santiago. This section, complements the norte-sur section, as well as the two parts of the ring-road round the city. The government awarded it to a consortium led by Impregilo (70%), Simest (10%), Empresa Constructora Tecsá (10%) and Empresa Constructora Fe Grande (10%) in 1999.

The project was not without problems. After winning the mandate the sponsors proposed that 4km of the road should be routed under the river Mapocho, thus minimising the disruption for local businesses and residents. However, the proposal added substantially to the costs of the project. It also complicated the construction risk, although by the time of financing this work had been completed. The government agreed to pay for this additional work in cash over the life of the concession. These payments have been securitised upfront by the sponsors in a separate transaction.

While the bond issue makes up just over half of the cost of the road, the government money makes up a further 28%, with sponsor equity providing 12%, and sponsor subordinated loans another 3%. The project also comes with a minimum revenue guarantee (MRG) from the government. Impregilo and its partners won the bid by keeping this guarantee as low as possible. Nevertheless, the MRG covers a minimum 1.1x debt service coverage, at levels set in the concession documentation.

The studies commissioned by Steer Davies Gleave for the sponsors and Jacobs for the lenders, however, show average coverages of 3 and 4, respectively. Sponsors get a dividend if coverages exceed 1.2x over a year. On the up side for the government, excess revenues earned above a threshold will be shared between the two parties 50/50. And that is a very real possibility given the eastern toll section runs through one of the wealthiest neighbourhoods in the country.

The toll structure is fairly complex. Charges vary according to distance travelled, time of day, and level of congestion. And, while the government has given stiff legislative backing to toll collection, the sponsors do have some leeway to change toll rates, which currently average between 40 and 50 cents equivalent. This will be the key to flexibly operating the road in the ramp-up period.

The guarantors wanted a financial buffer, and required a strong debt service reserve (12 months down to six if the coverages are strong enough) and operations and maintenance reserve. A contingency reserve is covered by a letter of credit provided by bookrunner ABN Amro. And the performance of Impregilo as lead EPC contractor is also backstopped through a letter of credit from Banca IMI.

Perhaps the biggest risk factor is the introduction of Free Flow Electronic Toll Collection (ETC) technology, for the first time in Latin America. It has been used on Highway 407 in Canada, the Cross-Israel Highway, and the Highway 91 project in the US, the last also wrapped by Ambac. Ironically one of the projects biggest selling points is also one of its most intangible risks. Costanera Norte will be the first 'smart' toll road system of its kind in Latin America. The ETC technology relies on electronic signals noting a vehicle's location and then billing a user's account.

The technology is not new - but it is also not mature. All the new urban sections in Santiago will use the technology. And Costanera, which is likely to be the first section in operation, will have the technological edge - in theory. However, how billing is handled for the four separate concessionaires has not been finalised and how each system will interact is also unclear.

Costanera Norte

Status: Closed 11 December 2003

Size: \$442 million

Description: Bond financing for 42km urban toll road using electronic toll collection

Location: Santiago, Chile

Sponsors: Impregilo (70%); Simest (10%); Empresa Constructora Tecsca (10%); Empresa Constructora Fe Grande (10%)

Debt: \$265 million equivalent

Bookrunner: ABN Amro

Monoline: Ambac

Insurer of record: IADB

Legal counsel to lenders: White & Case (international); Clara y Compania (local)

Legal counsel to sponsors: Allen & Overly (international); Morales, Noguera, Valdivieso & Besa (local)

Lenders' consultants: Jacobs Consulting

Sponsors' consultants: Steer Davies Gleave

Engineer: Ove Arup

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