

Costanera: Norte but nice

01/12/2003

The sponsors of the Costanera Norte concession in Chile have completed a \$265 million local currency financing - the first of the urban concessions for capital Santiago to close this year. The deal, which features a wrap from the Inter-American Development Bank and Ambac Assurance, finances the \$442 million Costanera Norte section - the first in Latin America to use electronic tolling.

The 30km road has been a priority project for the Chilean Ministerio de Obras Publicas (Ministry of Public Works, or MOP) since 1997, when it began to examine plans for the alleviation of traffic pressure in Santiago. This section, running east-west, 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 Tecsca (10%) and Empresa Constructora Fe Grande (10%) in 1999.

Impregilo has some experience with projects in Chile, including a desalination plant, and toll roads, elsewhere, but this is a first Chilean road for it. Simest is an Italian export promotion bank that takes equity stakes in projects that further the country's economic interest, while the last two sponsors are Chilean construction firms to which some of the work will be subcontracted by the lead.

The project almost immediately became much more complicated than first envisaged, when the sponsors proposed to the MOP that 4km of the road might be routed under the river Mapocho, and thus minimise the disruption potential for local businesses and properties. It did, however, add 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, which fell outside of the original bid parameters, 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%.

This hefty addition to the project's economics pales next to the key element of government support for the project - the minimum revenue guarantee (MRG). This is a mechanism by which the project company earns a guaranteed revenue from the MOP regardless of traffic levels. Impregilo and its partners won the bid by keeping this guarantee as low as possible, excess revenues earned above a threshold will be shared between the two parties 50/50.

The MRG has been encountered before in Chile, although, despite some MOP support for project economics, lenders have usually been required to take some traffic risk. While a concession such as the Santiago-Valparaiso road (also wrapped by the IDB) had a variable length because the government was so confident in its performance, this road has a few more alternatives, although few as attractive as the proposed tolled section. The eastern section runs through one of the wealthiest neighbourhoods in the country.

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.

Perhaps the biggest risk factor is the introduction of Free Flow Electronic Toll Collection 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. Readers in New York will find the technology analogous to the EZ-Pass system, while those in London will note that the firm collecting the congestion charge relies on photographing licence plates.

Implementation of the system, which relies on electronic signals noting a vehicle's location and then billing a user's account, is not an established art. All the new urban section will use the technology, although it is not sure how much prescription there will about how the technology will work together. Costanera, which is likely to be the first section in operation, will probably have an edge in setting up how the technology works, although how billing is handled for the four separate concessionaires has not been set in stone.

The toll structure is fairly complex, with charges varying by 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, where the guarantors wanted a financial buffer, and required a strong debt service reserve (of 12 months, which can be cut to six months if the coverages are strong enough) and operations and maintenance reserve. A contingency reserve is covered by a letter of credit, provided by the bookrunner, ABN Amro, and the performance of Impregilo as lead EPC contractor is backstopped through a letter of credit from Banca IMI.

The insurance for the bonds comes 15% from the IDB, and 85% from Ambac, although the IDB's preferred creditor status, and its longer history with the road make it likely to take the lead if a restructuring was required. That said, Ambac's other investments in the country, booked through the MBIA-Ambac joint-venture, have required some restructuring, so Ambac will bring some useful skills to the table.

The bonds gained a record BBB/Baa2 rating and sold strongly to investors with two maturities. 80% of the UF9.5 million issue is due in 21 years and priced at 56bp over the equivalent government bond, and a 12.5-year piece priced slightly wider, at 80bp over the equivalent. This is a stark demonstration of how mature the country's capital markets are - demand was stronger for the long paper than for a tenor that until recently represented the limits of liquidity.

Attention will now turn to the cross-border Autopista Central issue, for the north-south urban section, whose bookrunners say will close before year-end.

Sociedad Concesionara Costanera Norte, S.A.

Status: closed 11 December 2003

Size: \$442 million

Description: 42km urban toll road using electronic toll collection

Location: Santiago, Chile

Sponsors: Impregilo, Simest, Fe Grande, Tecsa

Debt: \$265 million equivalent

Bookrunner: ABN Amro

Monoline: Ambac

Insurer of record: IDB

Lawyers to the lenders: White & Case (international) Clara y Compania (local)

Lenders' consultants: Jacobs Consulting

Sponsors' consultants: Steer Davies Gleave

Engineer: Ove Arup.

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