

Chile reception

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Chile's status as the model for emerging markets infrastructure deals has taken a beating in the last few months. The most high-profile corruption scandal in Chile, a country until recently known as probably the most honest in the region, centred on the Ministerio de Obras Publicas (MOP). And additional costs, and traffic volumes that did not match the forecasts, have hit hard some of the road concessions awarded, and financed, thus far.

The corruption scandal centres on former minister for public works Carlos Cruz, widely regarded as the architect, inspiration, and driving force behind the toll roads programme. Cruz had a strong following among sponsors and bankers, who praised his creativity, approachability and charm. Cruz was also a key friend and ally of Chilean President Ricardo Lagos.

Cruz, and the former transportation finance head, Sergio Cortés, who both spent some time earlier in 2003 in jail for their apparent involvement in the scandal, are accused of illegally using a front company, Empresa Gestión Territorial y Ambiental (GATE), to siphon off MOP funds, which were then used to pay unauthorised bonuses, as well as possible campaign contributions. While there is no suggestion that the scandal has touched the concession bidding process, it has led to a new broom, provided by minister Javier Etcheberry and roads superintendent Sergio Gavila, and a distraction while negotiating concessions with sponsors.

Bankers covering the sector prefer to explain the hiatus since last year's Rutas del Pacifico financing in terms of the debt market needing to digest the debt that it has issued. Rutas certainly took a long time to explain to investors, and stretched concession structures to an unparalleled degree. The \$300 million equivalent issue, denominated in the inflation-adjusted Chilean Unidades de Fomento, featured a co-guarantee mechanism from FSA and the Inter-American Development Bank.

Rutas, which links the capital Santiago to the country's main port, Valparaiso, is one of the strongest, and certainly the strongest non Pan-American highway stretch, concession on offer. As such, the government pioneered a mechanism by which the length of the concession varies according to the strength of traffic volumes and, therefore, revenues. The deal, led by Santander and sponsored by ACS and Sacyr, stretched out to 23 years, with a coupon of 5.8%, despite possible prepayment concerns.

The government's attitude towards concession lengths is certainly flexible, and those that deal with the MOP say that its case-by-case approach is one of the strengths of the programme. Moreover, they also note that the GATE scandal, largely high-level and political in nature, has not touched those dealing with toll concessions on a daily basis. Nevertheless, some of the earlier concessions that closed several years ago are believed to have been the subject of renegotiation.

These concessions are for shorter stretches of the Pan-American highway (known domestically as Ruta 5) in areas further from the capital. As such these shorter stretches, while signed on better terms than the prize urban stretches, have experienced slightly more disappointing traffic volumes, and have in some cases been extended after the government asked for additional works to be completed, often beyond the 20% limit that is typically included in an agreement.

In this context, prospective bondholders will be looking at how the government treats the prospect of new work on some of its more populous sections. Those stretches financed so far require less work and are in less densely populated areas - the economics of some of the forthcoming deals will be much more tight. The two roads to the coast Autopistas del Sol, and Rutas del Pacifico, have performed strongly. Autopistas del Maipo, a large stretch leading into the capital, is the sole cross-border issue in the Chilean infrastructure sector.

Maipo, a \$421 million dollar-denominated issue led by Morgan Stanley and wrapped by MBIA, financed the 193km section of the Ruta 5 between Talca and Santiago. The bonds had a thirty-year term, a coupon of 7.3%, and are apparently trading well, according to sources close to the bookrunner. Maipo, which featured a one-off currency hedge, was a reaction to the fact that until recently the perceived limit for financings in the Chilean market was roughly \$250 million.

The imminent Autopista Central deal looks set to advance both the domestic and cross-border state of the art. This concession, for the 61km stretch of Ruta 5 inside metropolitan Santiago, will be among the biggest deals yet. The deal's sponsors are Dragados and Skanska, the latter of which says the project's total cost will be roughly \$900 million.

The details of the financing have so far been sketchy, and deal participants have declined to comment, citing Chilean and SEC regulatory concerns. The SEC's interest means that a 144A issue is a certainty, although neither the advisor and bookrunner, Citigroup, nor the insurer of the bonds, MBIA, have suggested a size, although it is likely to be the largest issue out of Chile yet. The Chilean element, denominated in UF, will be equivalent to \$300 million, and have a coupon of 5.75%, according to statements made to the Chilean press.

This wariness on the part of participants may also stem from the length of time that the deal has been gestating. Citi and the sponsors have been working on a financing package since at least 2001, and the advisor had initially envisaged a bank debt deal. In this, Citi's march towards global retail banking dominance may have been a favourable factor - its stockbroking unit is now better established, compared to a veteran such as Santander. But one banker who has examined the deal said "there is not much room for wriggle, and the concession may have as little as 30-50bp to play with." Nevertheless, those bankers familiar with the market say that MBIA's experience has gone much of the way to creating a viable structure.

The other metropolitan section looking for finance is the Costanera Norte concession, which runs east-west through the city. Costanera's sponsors are Impregilo (70%), Tecsa of Chile (10%) Contstructora fe Grande (10%) and Simest, a state-owned equity sponsor that supports Italian investments abroad (10%). They beat further bidders, including ACS, Agroman, Cintra, Sacyr and Bouygues. The tightness of the contest can be estimated by the fact that it has signed up to a revenue guarantee from the government that is only certain to service debt.

This is a bold move, one that puts sponsor equity on the line based largely on the strength of traffic forecasts. These would with luck be a little more nuanced than those produced for the more remote Ruta 5 stages. These tended to say that traffic volumes would rise in line with GDP growth. The rough correlation has a little truth, although when a recession hits (as it has recently in Chile) some financings get hit likewise.

Costanera runs through the centre of a built-up area. The majority of the work is situated on the Oriente-Poniente section of 30.4km and runs along the north coast of the Rio Mapocho with a number of bridges, over- and under-passes and a 4km cut-and-cover tunnel. The project also consists of the upgrade of 7.4km of John F. Kennedy Avenue and the upgrade and expansion of a 4.3km extension to Route 68.

The road will largely be used to ferry traffic between some of the more prosperous parts of the city. The 30-year concession should benefit from strong pent-up demand, the result of serious congestion in the centre of the city. Moreover, the road is apparently 75% complete.

Adding to these promising fundamentals, the financing will also feature a wrap from the IDB for \$75 million (the IDB maximum) of a proposed \$200 million equivalent in UF. The remainder of the financing group is a refreshingly new cast - Ambac will be providing a monoline guarantee for the remainder of the bonds, which will be placed through ABN Amro

locally. The deal, if it matches Pacifico's profile, should gain a shadow Baa2 rating, and reach AAA/Aaa with the monoline's assistance.

This financing, like Central, is in front of the Chilean regulators, although participants are more willing to go into the details of the transaction. Part of this is the fact that the IDB's involvement has raised the profile of the project - flagged heavily as the first in the region to use electronic tolling. The use of this technology, which required congressional approval as related to collection, gives a clue as to the more sophisticated profile of the section's potential users. It also explains, however, why the minimum revenue guarantee survived even on the most competitive bid.

The deal's total cost is \$383 million, a sizeable increase on the \$276 million originally bid out. However, grants from the MOP have consumed much of this increase, and will essentially be treated as equity, and corresponding allowances have been included in the revenue guarantee. It should be noted that the guarantee lasts for a corresponding period to the 20-year tenor of the bonds. The proceeds of the issue will go towards repaying a bridge loan from ABN Amro, which has found a way to leverage its growing domestic banking business into the more profitable underwriting sector.

This leaves a further two concessions in the city looking for financing - the northern and southern sections of the Americo Vespucio Ringroad. The southern section will be developed under the auspices of Acciona and Sacyr of Spain, and will feature a wrap in some form from MBIA, while the northern part went to Dragados, Hochtief, Belfi and Brotec, which fought off competition from ACS, Acciona and Sacyr and Impregilo. The north has an estimated capital cost of \$550 million, and involves construction of a new 29.5km road to the north and west of the capital.

Chile's financing pipeline

Original Funding/ Project Cost (m) /Route /Status

Autopista Central \$500 Local and Bondsinternational registered

Autopista del Aconcagua UF7 Local Evaluating

alternatives

Américo Vespucio Sur UF8 Local Awarded

Américo Vespucio Norte UF8 Local Awarded

Costanera Norte UF8 Local Bonds

registered

Total Size: \$1.433 billion

Source: Citigroup, September 2002

In the meantime, those hoping for an expansion in activity to other sectors will be disappointed for now. The government has again delayed bidding on the light rail projects after finding it hard to bring in high enough quality bids.

The first project was to involve a \$175 million concession with two rail lines each on the north-south routes of Recoleta and Independencia avenues serving northern Santiago, which could carry up to 230,000 people per day. The second is a \$200 million line that was to connect Santiago with the town of Melipilla 63km to the southwest, under a 30-year concession. None of the prequalified bidders, which included Agencias Universales, Obrascon Huarte Lain (OHL), Alstom Chile, Dragados, Jarvis Facilities with FCC, Ferrostaal and Sacyr, submitted final bids.

Aside from these remaining big ticket examples, forthcoming infrastructure deals will rely on international banks and monolines to a far smaller degree, with the Sociedad Concesionaria Melipilla road deal likely to be a more enduring template than the four urban sections. This deal, for the Variante Melipilla section, at UF660,000, is only equivalent to \$25 million, but it gained a AA- local rating from Fitch and S&P affiliate Feller, and a coupon of 6.5%. The concessionaire,

Besalco, required only the government's minimum revenue guarantee for repayment of principal and interest to sell down, although construction risk was mitigated through a performance bond.

Monoline/multilateral exposure to Chile

Guarantor Exposure Expected (2003)

AMBAC 55 55

MBIA 689 889

XL Capital 345 495

FSA 330 330

IDB 51 51

Source: Citigroup, September 2002

Future prisons and hospitals deals, which will be exposed to risk only from the government payments and construction, and not traffic risk, will increasingly be able to work around the monolines. As such, the new international insurance players now operating in Chile, and increased sophistication on the part of domestic investors, will accelerate this trend. No longer simply looking at a monoline rating in line with government guidelines, funds want to look behind the credit, and even adjust their exposure to the various monolines. This in part explains the resurgence of Ambac, as well as the warm reception of the FSA-wrapped Pacifico deal.

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