AdR: three's a company?

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There are few that would choose to refinance an airport against a backdrop of global aviation slump and a three notch long-term corporate downgrade ? yet this is precisely what Aeroporti di Roma (AdR) did last month in what was also Italy's first ever whole-business securitization.

The Eu1.8 billion ($1.92 billion) deal marks a second takeout of acquisition debt, first raised in 2001 by the company's majority shareholder, the Leonardo consortium, for its purchase of AdR the previous year. The new deal, which incorporates Eu490 million in bank debt and a Eu1.2 billion Ambac-wrapped bond, is widely seen as the best way for the sponsors to maximize their flexibility while lowering their financing costs.

The consortium last came to the market in 2001 with what was Italy's largest ever project finance deal. That deal, however, comprised a highly leveraged but somewhat inflexible financial structure. The new framework replaces the project finance bank loan with an arguably more stable capital structure which, crucially, is in place over all 41 remaining years of the concession (total life of 44 years), in contrast to the previous 16-year amortizing loan facility. As Standard & Poor's Jan Willem Plantagie puts it, ?it's basically a corporate finance deal with bells and whistles.?

Nonetheless, says Ambac's Rebecca Pynt, ?it's an excellent landmark.? Aside from being a whole business securitization, the deal incorporates strong project and corporate finance features, and includes all the complexities of a Law 130 securitization.

The Eu490 bank debt portion of the deal was lead-arranged by Barclays and Mediobanca, joined by WestLB and UBM. It comprises a Eu95 million, five year revolver, a five year Eu245 million term loan and a six year, Eu150 million term loan. Pricing across the board is 135bp for the first three years, stepping up to 150bp thereafter. Syndication was launched at the beginning of April, with the following banks signing on: Banca Antonia Popolatre Veneta, BayernLB, Interbanca Cofiri, Dexia, Efibanca, ING, RBS, ABC and Banca di Roma.

In addition, the deal sports bilateral involvement: CIFG, CDC-IXIS's financial guarantee arm, is wrapping a 15-year, Eu85 million amortizing loan arranged by Banca OPI. The EIB is understood to be looking over this portion, though as yet it has not officially committed.

The deal's real innovation is its application of Italian securitization law to an entire business. ?Law 130 is four years old, and it has been tested several times in Italy. But the real beauty of this deal was to stretch the envelope on the back of this piece of legislation,? says Stefano Giacomino, associate director at Barclay's corporate securitization and infrastructure finance department. ?It's also a real boost for the fast- growing Italian securitization market,? he adds.

The borrower for the Eu1.265 billion in bond debt is Romulus Finance, a special purpose vehicle set up under Italian law. The issue, arranged by Barclays and Mediobanca, itself is split into four tranches of Ambac-wrapped Class A notes, and an unwrapped, privately placed Class B tranche. The four comprise a 20-year £215 million sterling tranche priced at Gilts plus 110bp, and swapped into Euro for the term of the notes, a 10-year Eu500 million tranche priced at mid-swaps plus 75bp, a Eu200 million,12-year floating rate tranche priced at Libor plus 90bp, and a Eu175 million, 12-year floating rate portion also priced the same. The Class B debt is a Eu65 million, seven year unwrapped tranche, priced at Libor plus 125bp.

Questions lurk over the company's rating profile. In November last year Moody's downgraded AdR's long term credit rating from A3 to Baa3, citing concerns over the consortium's ability to hit its growth targets and thereby service its very high level of debt. Curiously, that downgrade followed shortly after the ratings agency reaffirmed an A3 rating in September. ?That was quite painful to us. They decided out of the blue to downgrade us three notches,? says a banker close to the deal.

?Moody's basically assumed the war as a given last November,? says Pynt. ?But their downgrade reflected external factors which have nothing to do with the structure of the current deal. S&P kept their rating the same,? Pynt points out. The latter only downgraded AdR's corporate and debt ratings (both A- to BBB+) after hostilities began last month, given the projected immediate impact on cashflow generation. The ratings outlook is stable.

But in this regard, Ambac's involvement is especially telling: the monoline insurer is the real stakeholder in AdR since it will effectively be on the hook for 20 years, well beyond the typical purview of the ratings agencies. ?We got very comfortable on the fundamentals of this deal. We've spent a lot of time looking at the downside sensitivities and we're very happy with the robustness of the cashflows,? says Pynt.

In particular, the creditor protection mechanisms minimize anxieties over cashflow.

Long-term bullets, on both the bank and bond debt, work towards mitigating refinancing risks. The debt service reserve account allows for a moderate, at Eu100 million, piece of liquidity at hand (though possibly insufficient according to S&P). But there is also a retention regime in place, which incentivizes the company to refinance as soon as they run into refinancing risk.

As important is the diversity of revenue sources, both aviation and non-aviation related, across the whole business. So passenger traffic is only part (albeit a large part) of the equation.

Also to AdR's advantage is Macquarie's acquisition last year of a 44.7% minority stake in the company (the actual sale of shares was only made mid-March, since one of the conditions precedent of the sale was completion of the refinancing.) Says Plantagie, ?Macquarie really adds value to the deal. They have built up a lot of experience over the years, but they tend to go for more aggressive, leveraged structures than other [sponsors]. After some consideration we've gotten comfortable with their stance in this regard.?

Interestingly, AdR was the only European airport to have suffered a downgrade by S&P in its recent review of the sector. ?The other major airports have a lot more headroom in their ratings,? says Plantagie. AdR is currently etching a revised budget for 2003.

Aeoroporti di Roma

Refinancing

Status: Signed, 20 February 2003

Location: Rome, Italy

Description: Refinancing of a Eu1.725 billion leveraged loan signed in July 2001

Sponsor: AdR (55.3%): Gemina (42%), Falk (31%), Compangnia Italpetroli (16%), Imreglio (11%); Macquarie Airports Group (44.7%)

Debt: Eu495 million bank loan; Eu1.265 billion bond issue; Eu85 million bilateral debt.

Legal counsel to banks: Clifford Chance

Legal counsel to sponsor: Studio Giliberti e Associati