

# Atami: line's a beach

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Financiers are divided over the significance of Japan's first toll road securitization, sold to Japanese investors at the end of last month. The new asset class is a welcome option for infrastructure developers. But it may be difficult to replicate in a government-dominated roads sector

The ¥12 billion (\$95 million) deal, arranged and underwritten by Nikko Salomon Smith Barney (NSSB) securitizes receivables from Mitsui Kanko Kaihatsu's 6 km Atami Beachline road. As Project Finance went to press, the deal was assigned a prospective rating in four tranches from Aaa, down to A2, with a Baa2 rating for the mezzanine piece. NSSB forecast the deal would close on May 31.

Bankers not involved in the transaction noted the unusual status of Mitsui Kanko, which is one of the few private operators of toll roads in Japan. Interest from the government sector will therefore be vital if the market is to take off. But, predicts one banker, "government owned Japan Highway Public Corp, the biggest toll road operator, and other Japanese municipalities typically have a cheap and plentiful supply of funds, and will see little need to securitize." Atami Beachline road is also notable for being one of the most popular and oldest toll roads in the country, having been in operation for the last 37 years.

A source at NSSB claims that view is wrong. "We've already been receiving calls from government entities about the securitization," he says. Driving the government sector to the market might be a change in the way postal savings funds are deployed. Postal funds have traditionally been used by the public sector in Japan for transport and other infrastructure projects but reforms are underway to reform the government-run fiscal investment and loan programme. "As a result, these government organizations don't enjoy the same lavish funding lines as before and are increasingly concerned about balance sheet and funding costs," says the NSSB banker.

For Mitsui Kanko, a relatively small and unlisted company, the securitization was a way to tap into the capital markets relatively cheaply. "For other owners, especially those who own more than one road or are going to add more roads in the future it can make sense to securitize in order to ring fence assets and obtain better financing than they might otherwise have done," says the source at NSSB.

The Samurai Bond package consists of a ¥4 billion, controlled amortization, triple A-rated tranche maturing in 2007 and three bullet tranches worth ¥6 billion (rated triple-A), ¥1.4 billion (Aa2) and ¥700 million (A2) with legal maturities of June 2010. The ¥3.5 billion mezzanine piece, issued from a separate vehicle, has a legal maturity of June 2030, according to Shunsuke Ishihara, analyst at Moody's. Bond trustee in the transaction is Sumitomo Mitsui Banking Corporation.

Ishihara says the ratings agency looked closely at the location and type of road as well as standard measures such as the debt service coverage ratio before issuing the ratings.

The deal was priced on 22 May although pricing details were not revealed at the time. NSSB reports strong investor interest, despite, or perhaps because of, the novel nature of the asset class.

According to Moody's, the four tranches of bonds issued by Atami Beach Line Funding Limited are being placed on a limited recourse basis with qualified institutional investors. The bonds issued by Atami Beach Line Mezzanine Funding Limited are also limited recourse, but have a private placement with a smaller number of investors.

Ishihara expects that the higher rated bonds will be well received amongst ordinary investors, including commercial banks, reflecting a very stable expected cash flow, "more stable," he says, "than standard asset classes."

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Even if Atami Beachline is in a class of its own in terms of ownership, length of operation and popularity (the road carries 3.54 million vehicles every year), Ishihara says there are a number of other good candidates for securitization deals. But the next logical step after the development of a toll road securitization market in Japan might be transactions for new toll road developments.

Apart from the fact that new toll roads in Japan are few and far between, bankers recognize that a securitization for a new road will be more tricky. "In the absence of a reasonable operating track record a straight-forward project financing would be more likely than another securitization here (or elsewhere for that matter)," says a banker. "But," he continues, "most of the upcoming road projects aren't expected to enjoy particularly strong demand and even a limited recourse bank deal would be quite difficult in this environment," he says.

### **Atami Beachline Funding**

Status: priced 22 May 2002

Size: ¥12 billion (\$95 million)

Location: Japan

Description: Securitization of toll receivables by private operator

Sponsor: Mitsui Kanko

Bookrunner: Nikko Salomon Smith Barney

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