

SDR basks in record tenor

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Newport's £69 million PFI shadow toll road scheme – the largest so far in Wales – reached financial close in May 2002, with a record 39-year loan maturity and 40-year concession period.

Lead arranger AXA Investment Managers took on senior debt of £63 million (90.4%) for the full tenor, with joint arranger Depfa providing £20 million (7.9%) syndicated to it with a 33-year tenor for the DBFO project.

Sponsors Morgan Sindall and Vinci SA form a 50/50 joint venture consortium and are providing a total of £6.4m of the total source of funding. Morgan=Vinci is due to begin construction in July this year. The road will operate on a shadow tolled basis, with Newport County Borough Council providing £2,074 for the first three years to cover maintenance costs on road upgrading.

The new Southern Distributor Road (SDR) will run from junctions 24 and 28 of the M4 to the A48 from east to west across Newport, running through an urban regeneration area. A bowstring bridge will run 180 metres over the River Usk.

Thereafter revenue streams will be broken down into: 68% subsidy (in the form of PFI credits and local authority repayments) and 27% traffic payments on a shadow toll basis. The remaining 5% will be in the form of performance-related safety and maintenance payments.

Newport County Borough Council (NCBC) looked for a longer tenor and longer concession in order to get the best value for money (VfM). In this case, the new road and the upgrading of existing roads, plus the additional construction of the bridge, means that the financing of the project would be less expensive over a period of 39 years. NCBC describes this as having 'significant operational advantages in a longer concession period'.

The original concession period was for 30 years, however a number of variant bids received during the tender process were for concession periods of up to 40 years.

The Welsh Assembly awarded £95 million in PFI credits for the project, which has a total development cost over the concession life of £300 million. The project has been given the status of Pathfinder scheme – the original batch of local authority PFIs started up to test the process.

AXA used a combination of two of their subsidiary investment funds and a bank – Sun Life Assurance provided £35.5 million, Sun Life plc came in with £7 million and Depfa Bank AG provided £20 million.

The margin on AXA's loan (construction and operating periods) was 225bp over the 6% 2028 gilt, which roughly matches the average life of the loan. The first repayment will be made in year four after a grace period. The upfront arrangement fee was 100bp and the commitment fee 50bp.

AXA gave the transaction an AAA internal rating for this project. Despite representing a record length of tenor, Jerry Donohue of AXA Investment Managers says he is comfortable lending money over this period of time.

Although the concession period is 40 years, the road is being designed and built to last 50 years. On roads such as this

one, once they are built, the operating risks are relatively low.

Therefore, said Donohue, AXA was comfortable lending to within 12 months of the end of the concession period.

AXA was able to take a very long-term view on commercial viability based on the quality of the government revenues and the experience and financial strength of the sponsors Morgan and Vinci, most recently acknowledged for their two projects on the Channel Tunnel rail link ? a third is underway.

It is hoped the SDR will improve access for residents and businesses in Newport by improving transport links between east and west. The area surrounding SDR is currently part of an urban regeneration programme, which will be relied on to boost traffic volume.

AXA has been involved in 4 PFI deals recently for which it underwrote all the debt itself. In the case of the SDR project AXA syndicated down because of the size of the debt. It typically prices off gilts based on the average life of the loan.

The loan is secured using the typical aspects of a security package: lenders have assignment of borrowers' rights under the principal project's contracts. Additionally the sponsors pledge their equity shares to the lenders. There is a six-month debt reserve account and a major maintenance reserve account.

Revenues will partly be based on usage of the road, which will be affected by the regeneration scheme. Due diligence has been carried out by traffic adviser Oscar Faber for the borrower, and AXA used Symonds Group as traffic and technical adviser.

DLA acted as legal advisers for AXA IM, with Addleshaw Booth acting for the project company. Ringway Highway Services, a wholly owned subsidiary of Vinci SA, step in for operations.

The longest tenor AXA has carried out so far stands at 32 years for Kirklees Council, York, in a £52 million 50/50 joint venture project with Nationwide Building Society. The project closed last year and AXA counts it as one of its most noteworthy achievements.

AXA was also responsible for the Derbyshire Schools deal, which took three months from start to finish, and is prowling for more PFI assets. It has three more road schemes in the pipeline and is priming itself for Europe with longer tenors, shorter deals and fixed rates in most sectors, focussing on education and transport.

Newport SDR scheme

Status: Closed 9 May 2002

Location: Newport, Wales

Description: PFI funding of a distributor road and bridge

Sponsors: Morgan Est, Vinci SA, NCBC

Debt: £63 million (90.4%) senior debt taken on by AXA, £20 million syndicated down to Depfa (7.9%) and consortium providing £6.4 million

Lead arranger: AXA, joint arrangers Depfa

Tenor: 39 years

Lawyers to the lenders: DLA

Lawyers to the borrower: Addleshaw Booth

Traffic/Technical advisers:

Oscar Faber and Symonds Group

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