

# European Refinancing Deal of the Year 2001 - Aeroporti Di Roma

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Last year's Eu1.725 billion (\$1.5 billion) non-recourse financing for Aeroporti di Roma marks three notable firsts. The deal was Italy's largest ever project finance transaction. It was also the first project financing of an Italian airport and the first project financing in the country's transport sector. Having demonstrated the capacity and appetite for privately funding this type of asset, the deal paves the way for future European airport financings.

Barclays, Mediobanca, Banca Monte dei Paschi di Siena, Banco Nazionale del Lavoro and Unicredit Italiano closed the 16-year facility in August 2001 for sponsor Aeroporti di Roma (AdR), owned by Gemina holding company (42%) and Falck (31%), Italcementi (16%), and Impregilo (11%) known as the Leonardo Consortium. AdR is the concessionaire of Rome's two airports, Fiumicino-Leonardo da Vinci and Ciampino.

The deal was initially planned in 2000, at the time of Leonardo consortium's successful acquisition financing of AdR. The facility was, however, only put together in May, 2001. It swiftly made up for lost time though and due diligence to drawdown took a mere three months.

"At the time we acquired AdR we had the view to refinance the acquisition with this project finance facility. We wanted to take out a more structured non-recourse loan because of the sheer size of the debt," explains Gemina holding company's finance director, Andrea Ciffo.

The transaction involves the take out of a hybrid Eu1.725 billion facility for the Leonardo consortium's acquisition last year of AdR. Beyond a Eu17.5 million bridge at the level of the project company, the bulk of that sum was made up from a Eu1.55 billion acquisition financing, recourse to the sponsors. The new deal moves the entire sum of Eu1.725 billion to the project company level, refinancing AdR's existing debt and debt raised by the consortium to acquire AdR. Financing is split between a Eu1.635 billion 16-year term loan and a Eu90 million, 16-year revolving credit.

The term loan pays a margin (linked to the company's investment grade credit rating) of 125bp over Euribor from years one to four, 140bp from years four to eight, 165bp from years nine to 13 and 190bp from years 14 to 16. It has a bullet repayment schedule. The step-up pricing mechanism is the same on the revolving credit tranche. The deal has been described as "very tight" in terms of covenants and distributions.

The terms of the bank facility "significantly restrict [AdR] management's ability to take action that may prejudice the position of the bank lenders," according to Moody's. In particular, the consortium is restricted from further leveraging AdR, making investments beyond AdR's lender-approved business plan or making shareholder distributions without the proper DSCRs being met. "These structural enhancements are an important contributor to the A3 rating," says the rating agency.

The company is currently considering another refinancing, possibly in the euromarkets. "We may convert the financing

through a bond issue to reduce some of the constraints on the current bank loan," suggests Ciffo. Mediobanca is understood to be evaluating several refinancing approaches. AdR owns a concession to exclusively operate airports serving Rome until 2044, although the ownership of the physical airport assets remains with the Italian State.

Key to AdR's success will be its traffic base. The company's revenues derive mostly from charges levied on passengers using the airports, aircraft take-off and landing charges and other aeronautical charges. Since September 11, however, traffic flow dropped by 18% before experiencing a slight upturn at the end of December. "We expect this upward trend to continue. We're quite sure that the situation is temporary," says Ciffo. Traffic flow projections are 8% to 10% less for this year than 2001 but Ciffo claims that they are expected to recover fully in 2003. Moody's Investors Service assigned a (P)A3 long term debt rating to the facility, but placed it on creditwatch in light of the downturn in global airport traffic flow.

Nonetheless, AdR expects to achieve some significant increases in passenger growth over the medium term.

Interestingly, AdR has invested in ACSA, the South African Airports Corporation – itself a target for several airports and consortia throughout Europe. The move is intended to shore up AdR's broader strategy of becoming the hub for connections to and from the Southern Hemisphere. This Southern Hemisphere strategy is itself carefully crafted to combat possible threats to traffic flow. Alitalia, Italy's main state airline, shifted 26% of its international frequencies and 57% of its intercontinental frequencies from Rome to Milan in 1998.

The company may even take the lead from some of its peers by expanding its activities outside the Rome airport system.

But lenders remain very confident about AdR's ability to meet its financial obligations. It is a solid company operating in a reasonably and, in the long-term, stable business in a major city. "At the end of the day, even if traffic flow drops temporarily, the cashflow of an airport in a capital city is very reliable. Our returns are very strong," says Ciffo.

Privatization is rapidly reshaping the European airport industry – far advanced from its US and Asian counterparts in relinquishing state control. This is a significant change from a few years ago when continental airports were struggling against the European Commission's attempt to split their monopolies. Airport privatizations have also been drawing a wide array of investors from outside the industry – among those bidding for AdR in 2000 were Benetton and Pirelli.

The attraction, of course, is simple enough. Airports are low-risk, high-return businesses. After runways and terminals are built, fixed costs are relatively stable while in the long-term passenger traffic is rising at around 5% to 6% annually. AdR's business model going forward will be to evolve from a local company, focused on handling services, to a global company, tasked with the management and planning of infrastructure and the co-ordination of services rendered at its airports by specialist operators.

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