C2C: shining syndication

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Financing for the C2C Asian submarine cable system, which is scheduled to close as Project Finance goes to press, has attracted a level of interest from the banking community that has surprised even the arrangers. The C2C financing is notable for being one of the first to take true market risk at a time when banks remain hesitant about new telecoms exposure. Citigroup, (lead arranger and bookrunner), Bayerische Landesbank, Industrial Commercial Bank of China and Sumitomo Mitsui Banking Corporation are arranging the transaction.

Banks have taken comfort from the fact that project equity and cash from pre-sales contracts has paid for several significant project milestones already, leaving almost nothing in the way of construction risk for the debt financing. The term loan, $660 million market risk tranche which is being raised will add to nearly $550 million in equity and $900 million in pre-sales funds.

The basic roll out is almost compete and the system will be ready for service, the sponsors say, in the first quarter next year, ?that's about a ninety nine percent certainty? says a source close to the deal. Unusually, deal participants will also have the benefit of a 100% cash flow sweep mechanism, meaning that, once all monthly obligations have been paid, the remaining cash surplus will go to the banks. In previous submarine and terrestrial cable projects, (such as the recent Hutchison Global Crossing deal), the cash flow sweep has often been split evenly between sponsors and lenders.

The deal is rumoured to be priced at between 175 to 200bps over Libor, higher than the 135bps over that Australia Japan Cable's sponsors were able to get on the market risk tranche when their financing closed last year. But 135bps was a pricing low for submarine fiber optic cable deals, say bankers. Like the current C2C financing, market risk debt for other submarine cable deals has also been priced at between 175 and 200bps. And, as one financier points out, ?the AJC market risk tranche was pretty small, $159.1 million. The higher pricing for the C2C project partly reflects the increased debt volume.?

Adding to its attractions, therefore, the deal will enable banks to book Singapore Telecommunications assets at generous pricing relative to the 17bps on offer for the recent A$3 billion ($1.5 billion) bridging facility to support the takeover bid for Cable & Wireless Optus ? or the 3bps over swaps that the SingTel S$1 billion bond was paying in March.

According to the sponsors, C2C is the first Asian cable development to have city to city interconnectivity. It is also likely to be one of the last jumbo project financings for submarine cable projects in Asia for the next 12 months. As one banker in Hong Kong says, ?lenders are asking how many more deals the market is going to want to finance following on from C2C and projects like Asia Crossing.? C2C's arrangers (who would hardly say otherwise) nevertheless point to a good market prospect for the C2C venture. ?Since it's very hard to get capital markets funding for these ventures at the moment, some of the lesser cable projects are going to find it very hard to get financed and that reduces the new market entrant risk,? says one arranger.

The C2C network is expected to begin carrying traffic in the third quarter of 2001. The system which uses dense wavelength division multiplexing (DWDM) technology will be a fully redundant and will have a diversified network with a design capacity of 7.5 Terabits. This implies that, once completed, the system will be able to carry one-quarter of the region's data traffic. Financiers say that C2C's sponsors are now considering extending the cable network coverage to other countries including Malaysia and Vietnam.

C2C Ltd was incorporated on 24 July last year, to build one of the first private submarine cable systems in Asia Pacific. Singapore Telecommunications has a majority, 59.5% share in the company. Other investors are iAdvantage, a subsidiary of Sun Hong Kai Properties, GB21Limited, a licensed external FTNS operator from Hong Kong, KDDI Corporation, Philippine's Globe Telecom, South Korea's GNG Networks, Taiwan's New Century InfoComm Tech, Tycom Asia Networks and Norwest Equity Capital. n