Cintra takes toll road cross-border

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Local currency financing for Chilean infrastructure projects is now so commonplace that few market observers expect many surprises from the sector. The country's growing and healthy pensions and insurance sector has provided seemingly endless liquidity to four deals so far, all of which have been sold on by Banco Santander. Competition, if there were to be any, would come from returning international landing banks, some of which are indeed looking at projects in the country.

Cintra's funding of the Autopista del Maipo, however, has changed several of these perceptions and demonstrated some of the shortcomings of the still-nascent Peso-denominated bond market. Morgan Stanley, Cintra's advisor on the project, has sold on $421 million in Rule 144A-registered securities, and sources close to the bookrunner say that the deal sets a new emerging market benchmark. And speculation will instead shift to how long Cintra's dominance of the infrastructure market can last.

The main reason for the use of cross-border, dollar-denominated debt is the sheer size of the funding requirement ? previous deals have been in the $200 million to $250 million range. The sponsor's assumption when it won the concession in 1998 was that the total financing requirement would be around $750 million. To obtain a reasonable amount of leverage, therefore, Cintra needed to tap the international dollar market.

Autopista del Maipo is the concessionaire for the Talca-Santiago section of Ruta 5, which comprises the Chilean section of the Pan-American Highway. The total length of the route is 193km, of which 80km is new construction work and the remainder is rehabilitation. The new work consists of a bypass round the town of Angostura and the Accesso Sur, which will link up the south and east of the Chilean capital, Santiago de Chile. The concession also involves doubling the number of toll plazas on the stretch.

The revenue structure of the concession is unchanged from previous deals, and involves a combination of toll revenues and a guaranteed minimum payment from the government, which is not enough to cover debt service. The road, however, is an existing and important route, largely because of its closeness to the capital, and because of the high level of road freight that uses Ruta 5. The situation is pretty much unique to Chile, since although it is a relatively developed country it is simply the wrong shape to build a large-scale rail network.

The Chilean government, through the ministry of public works (MOP), has usually been very receptive to new, lender-friendly, tweaks to concession and financing agreements. The initial domestic issues were driven by a twin policy of creating a suitable product for the local bond market and increasing private investment in infrastructure. To access the dollar markets, the MOP has had to go further.

To provide the stability required by foreign investors, the government has provided a swap for the project to offset fluctuations in the value of the Chilean peso. The swap is structured so that the government receives the gains from any positive movement in the currency. In this way it has provided a guarantee that the private sector will not receive any windfall gains from the government's generosity.

The bonds priced on 22 August 2001, and were sold under rule 144A, although not registered. The initial pricing was at a 186bp spread over the 30-year US Treasury, with a coupon of 7.3%. This compares favourably with the 6.3% achieved with the local currency Chillan-Collipuli issue. They received a rating of AAA from Standard & Poor's and Aaa from Moody's Investors Service.

The main reason for the pricing and rating was a monoline insurance wrap from MBIA, which is now back in the Chilean toll road game after rapidly losing ground to XL Capital Assurance. MBIA unconditionally guarantees the repayment of principal and interest on the bonds, and therefore undertook most of the commercial risk on the deal. Nevertheless, investors wanted to look behind the wrap, if only because default would leave them holding a shorter-term bond than the one that they had bought. MBIA was appointed through negotiation rather than a formal beauty contest.

There is a small possibility that the bond could have been structured to sell without the wrap, but this grew ever smaller as the Argentinean crisis developed. Chile's isolation from it's neighbours' troubles is not absolute, and the country itself has yet to divest itself of emerging market status. Other underwriters have managed to get bonds out this year, but always using enhancements, whether it was the devaluation policy used by AES Tiete in Brazil, or the MBIA wrap provided to Chilquinta Energia.

As the source close to the bookrunners notes, toll roads have a very poor reputation as assets in the institutional market. Mexican and Peruvian roads have mostly defaulted, as have several Chinese projects. Many of these were based on traffic projections that were wildly optimistic. Investors were provided with a report from Volmer that noted, essentially, the strong operating history of the road and the fact that only 20% of revenues were to come from the new sections of the road. As an essential transport artery, on the other hand, the section is less vulnerable to cyclical economic changes, although demographics might conceivably alter this situation.

The deal was followed by another important announcement from Cintra, which has now filled out its funding requirements for its four roads and one airport concession. Ferrovial, Cintra's parent, has sold 40% of the subsidiary to Macquarie Infrastructure Group for Eu816 million. The deal has been presented as a chance to leverage the experience of th two investors in the developed world, and market rumour suggests that the Latin American assets could be up for sale. Certainly, interests in the 407 International consortium in Canada and the Birmingham Northern Relief Road in the United Kingdom have been more frequently cited in analyst valuations.

It may be possible for the bookrunners to emulate this feat elsewhere, providing there exists a similarly supportive government framework.