North Luzon Express: time to toll

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Manila North Tollway Corporation's $377 million financing package is currently undergoing final tweaking and should be signed by the end of the month. Raising debt to the tune of $260 million, this deal marks the Philippine's first ever toll road financing to attract international bank funding.

Originally proposed in 1995, the 30-year concession entails expansion and operation of 83.7km of the existing North Luzon Expressway. This includes construction and rehabilitation of 14 interchanges, 24 bridges and 31 overpasses along the stretch from Manila to Clark Special Economic Zone and operation of an 8km expressway in Subic Special Economic Zone, which was completed in 1996. At the end of the concession period in December 2030, the road will pass back to the Department of Public Works and Highways at no cost.

In 1998, the tender was awarded to the Manila North Tollway Corporation. Through its two subsidiaries First Philippine Infrastructure Development Corp and First Philippine Holdings Corp, Benpres holds 60%. The remainder is currently split between Egis Group (20%) and Philippine National Construction Company (PNCC) (20%). Three additional players are set to join the party once financial contracts are in place. Insufficient funds for the equity component have meant that 20% of the total company is being sold to three investment funds.

An insider stated, however, that despite this, the sponsor base is widely regarded as strong and has inspired confidence within investor communities. Benpres has a long track history in the Philippines and Egis has considerable experience in toll roads on a global scale.

The lenders have been on board since the beginning of 2000. The time lapse between their initial involvement and signing, however, is said not to be due to difficulty in raising the required debt. Delays have rather been caused by the lengthy administrative procedures necessary to secure all of the land rights. This is not an exceptional problem for projects in the Philippines.

The major obstacle for this deal's architects has been political risk associated with the project's host country. Successful close was thus achieved through designing and implementing a highly structured and complex financing structure. A number of multi-laterals were courted and risk spread thinly across a wide base.

The Asian Development Bank is providing a $45 million direct loan and a $25 million B loan. Financial advisor JP Morgan put the latter out to club syndication along with a $30 million Coface covered tranche. Commercial banks joining pro rata on these are Industrial Bank of Japan, Sumitomo Bank, ABB, West LB, Credit Agricole Indosuez, DG and Dai-Ichi Kangyo. They have taken an equal amount each. The remaining debt is comprised of $45 million from IFC, a $55 million loan and $7.5 million letter of credit facility from EFIC and a MIGA covered commercial loan. The Swedish export credit agency is the lender of record on the MIGA facility.

With such watertight political cover in place, the allure for commercial banks is clear. For their part, the multilaterals were allegedly attracted to the project's strong commercial viability. The single most striking feature is that the concession entails rehabilitation of a stretch of road with proven capacity. Running from the centre of Manila to industrial areas in the North, this is not likely to diminish. Moreover, the road has a history of tolling and reviewed rates will not see a significant increase. Compared to a greenfield project, then, the North Luzon Expressway requires minimal upfront investment and solid revenue projections, making it a relatively low risk investment. A spokesperson from JP Morgan adds foreign exchange indexation on tolls to the list of this project's attractions.

The Asian Development Bank also points to socio-economic benefits of renovating the road as part of the rationale for their involvement. It is projected that the improved road will encourage industrial and commercial activities at Clarke, addressing the area's high unemployment levels. In addition to these economic benefits spreading to neighbouring regions, the proper maintenance of an expressway promises improved access to health and education facilities for many in relatively remote surrounding areas.

This is not the first privately financed toll road in the Philippines but it marks a benchmark in attracting international lenders. Of a greater magnitude than its predecessors, it can be seen as the first step towards a government vision of developing the national road network on the back of private sector investment. Indeed, this tender is the first stage of a three-phase plan to expand the expressway.

Toll road project financings will inevitably start up in the Philippines but will probably only trickle out into the market fairly slowly. One player pointed to other large limited recourse financings that will probably beat any further roads to the finishing post. A popular contender is a concession for design, construction and operation of a new international passenger terminal in Manila. The project will cost in the region of $500 million and is currently in tender.

Others predict that it will be a considerable length of time before any sizeable project financings come out of the Philippines, with onlookers watching for a general improvement in the financial and political situation. This notwithstanding, the North Luzon Expressway has broken new ground and will become a template in many respects. For the Philippine market, it is a large, complex deal and its successful closure marks a significant and positive step.