

Canadian and commercial

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For an ECA with probably the most commercial reputation in the business, the Export Development Corporation is remarkably unfazed by the changes occurring amongst its peers. The last twelve months, however, have demonstrated the advantage that the ability to act as an arranger has in supporting domestic exporters. In essence the EDC has been able to take part in continuing the European telecoms boom.

A glance at its most recent deals throws up some interesting names. It is not that the EDC has been neglecting the mining sector, as varied roles in Antamina, Cerro Matoso and the recent Bulyanhulu deals have shown. And Siemens Westinghouse's gas turbines have made it a large player in US power deals, including last year's \$1 billion Calpine construction revolver.

The names equally likely to appear under the EDC banner are the alternative mobile operators. The most high profile of these was the innovative, albeit untested, Jazztel deal. The \$300 million deal had the EDC coming in as a co-arranger. It also gives a clue as to the success of what is rapidly becoming one of Canada's premier exporters ? Nortel Networks.

Nortel had assembled a vendor finance package to back Jazztel's plans for an Iberian fibre-optic network, but Jazztel decided to go to the banks instead. Banks with a record of managing the competitive local exchange carrier's corporate finance activities got a look-in, but the EDC came in as a co-arranger. A Nortel-Sainco joint venture is carrying out installation, although Jazztel's continued preference for the high-yields market makes full draw-down less of a possibility.

Other arranger roles came in for the Completel CLEC deal, a \$265 million package backing a French urban telecoms network, and the Dolphin ESMR network, also in France, sponsored by Canada's Telesystem International Wireless. It also took a co-arranger role on the \$190 million Esat Irish fixed line network, where Nortel are installing the country's first next-generation optical network.

Sandy Reid, head of project finance at the EDC, says that the agency has been taking arranger roles on new telecoms operator deals for around five years, and has been involved with such high profile deals as the Sprint PCS network refinancing in the US and BCP in Brazil. The volume of business this year, coupled with the EDC's flexibility, has clearly helped Nortel stay in the telecoms supplier top draw.

EDC's strategy is now to keep landing the lead arranger roles, largely for the influence that they bring. 'It's one of the trends we're seeing?', says Reid, 'because if we get into the lead arranging group we can maximise Canadian involvement, sometimes after we've joined a deal'. In this recent structural changes in underwriting practice have helped, since as more and more banks feel their underwriting capacity strained, they are more likely to welcome an arranger, no matter what its conditions.

Reid points to the Venezuelan heavy crude projects as examples of this approach, where the EDC came in to back a core of Canadian suppliers and managed to maximise additional sourcing further down the supply chain. It also arranged on the \$377.5 million Sidi Krir deal in Egypt, and the Q-Chem deal in Qatar ? both deals of the year for 1999.

The agency has yet to find a worthy successor to the challenge posed by the Antamina financing ? a \$1.32 billion mining deal that stretched bank appetite to its limits and provided an example for co-operation in political risk insurance (PRI) policies. It built upon the requirements for the earlier Alumbra deal, but recent deals have not needed the sort of co-operation that the Peruvian project required.

At the end of 1999 the \$240 million Cerro Matoso deal signed, with the EDC acting in this instance as an arranger with a third party providing political risk insurance to the Colombian mining deal. Considering the structural enhancements and guarantees provided by sponsor Billiton this was a good side of the fence upon which to be, with pricing between 250bp and 375bp over libor according to the level of cover.

And big-ticket mining made a return to Africa in the last quarter with the Bulyanhulu deal, a \$200 million gold project in which the EDC and MIGA shared PRI duties equally. Sponsor Barrick Gold, which instituted a novel gold price support structure for the deal, is believed to be looking at the development of other properties in Africa, and others are looking for ways to refinance their properties. According to Reid the Latin American arena is where the EDC's main mining prospects are for the next 12 months with some potential activity in Africa and Asia. The stalled San Christobal silver project in Bolivia for one is tipped to hit the market soon.

Latin America is still looking promising for telecoms, with the standout financing for Brazilian telco BCP, a BellSouth/Grupo Safra venture that included both a vendor finance credit of \$175 million from Nortel and \$175 million cover and a \$150 million credit from the EDC elsewhere. The deal, which also used local debentures, is likely to be the trigger for a wave of refinancings of Latin operators as they start to build up impressive operating histories. Opic, MIGA and AIG all covered separate parts of the financing because of their conflicting requirements.

The EDC can afford to be flexible, since it does not have any requirements for underwriting, such as MIGA's CUP programme. This flexibility extends to the way that it deals with other insurers. It informs the way it approaches risk-sharing, in that it sells down commitments as any other commercial bank would do. It also avoids the formal ?one-stop-shop? arrangements that have characterised much ECA manoeuvring over the last few years.

Its experience of re-insurance is that this happens on a deal-by deal basis. Discussions with the other ECAs have led to some memoranda of understanding. From a practical perspective it tends to have more knowledge of the other agencies and private insurers than many commercial banks. A formal selling on of packaged commitments such as securitization is not imminent, however.

Future areas of growth include the US and Mexican power markets (although the EDC is not acting as a lead arranger on the recently announced \$2.5 billion Son of Calpine deal) and the region's telecoms sector. And, of course, there are the capital requirements of the third generation mobile licences. Nortel, and the EDC, will be fielding a lot of telco requests soon.

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