

Taiwan's High Speed Rail: Huge and hybrid

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The bulk of the financing for the Taiwan High Speed Rail project was secured at the beginning of February with the signing of a NT\$323.3 billion (\$10.5 billion) multi-tranche syndicated loan. The deal notched up two memorable records - the largest amount for a single syndicated loan and the highest number of participating banks.

The joint-lending consortium comprised three coordinating banks, Chiao Tung Bank, Bank of Taiwan and International Commercial Bank of China, and 22 other banks. The three leads hold NT\$34.7 billion each of the loan. Pricing and fees were not revealed.

The rail development linking Taipei in the north of Taiwan with Kaoshiung in the south is being sponsored by the Taiwan High Speed Rail Consortium (THSRC) comprised of local corporates, Fubon Insurance, Evergreen Marine, Pacific Electric Wire & Cable, Teco Electric & Machinery and Continental Engineering. Once the THSRC is able to draw on the new credit facility, NT\$15 billion of the sponsor's cash, which has been put forward as a performance guarantee, can be withdrawn and the cash used for construction. NT\$15 billion of the syndicated loan amount will therefore serve as a new performance bond and the remaining NT\$308.3 billion as a 20 year term loan, say sources close to the financing.

Jessica Wu, vice-president of Global Financial Services, the Taipei-based financial advisers to the consortium, says that the financing is a hybrid project finance deal rather than a limited recourse project financing. "Lenders are primarily relying on the tripartite agreement between the THSRC, the Taiwanese government and the syndicate loan's agent bank [Chiao Tung Bank] for security." For such a large and complex development the projects lenders were not satisfied with lending on the basis of cash flow analysis or the concession agreement between THSRC and the Ministry of Transport and Communications. The banks therefore negotiated a direct contractual agreement between Chiao Tung, THSRC and the state with charges over the projects assets pledged to Chiao Tung.

Wu says the most important provision in the tripartite agreement is that, should the THSRC default on repayments and the default not be cured within six months, then the concession is terminated and government is obliged to step in and assume in full the remaining debts of the THSRC.

The THSRC now has its work cut out to raise an extra NT\$10 billion in project equity by June this year. Wu says NT\$20 billion of sponsor's equity is already committed and that the target over the five year construction period is to raise a total equity amount of NT\$132.2 billion. Other investors who will be brought in shortly are expected to include Japanese corporates and banks involved in putting together the Japanese rail bid. "These potential investors," says Wu, "include insurance companies and companies with interests in the operation and construction of the rail link."

According to banking participants, the THSRC is expected to replace an unspecified portion of the syndicated loan with a bond program in the next few years in the wake of a new build operate transfer law in Taiwan that allows a project consortium to issue bonds. Wu reveals that the THSRC is also beginning negotiations with domestic insurance firms for long term fixed rates funds and is in the midst of negotiations with the Japanese Export Import Bank and other Japanese financial institutions for export credit financing. Given the recent uproar over the switch to Japanese technology instead

of the Siemens and GEC-Alsthom backed bid, details of the Japanese finance offer are not likely to be revealed for several months.

According to Wu, direct construction cost of the project is now estimated at NT\$372 billion of which NT\$95 billion will be for the core Japanese rail system. An additional NT\$66.2 billion is expected to be incurred in financing costs.

The syndicated loan, will be on-lent by the banks from a variety of sources including government pension funds, state-run postal remittances and savings banks, life insurance companies, and the lending banks themselves.

The other participants include; Taiwan Cooperative Bank and Taiwan Business Bank lending NT\$30 apiece, Chang Hwa Commercial Bank, Land Bank of Taiwan, First Commercial Bank, taking NT\$24 billion each, Fubon Commercial Bank, Central Trust of China, Chinatrust Commercial Bank, Hua Nan Commercial Bank, Cosmos Bank, United World Chinese Bank, Bank of Overseas Chinese, ESun Commercial Bank, Farmers Bank of China, Grand Commercial Bank, Hsinchu International Bank, Union Bank of Taiwan, Taiwan Development & Trust, Ta Chong Bank, Makoto Bank and International Bank of Taiwan.

Interestingly, Wu says that the THSRC is still negotiating with suppliers for the core system, despite the fact that the Japanese bid led by Mitsui & Co now has preferred bidder status. The possibility still remains of yet another spectacular switch in core system supplier.

The high speed rail link is scheduled for completion on October 31, 2005.

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