Spain survey: Unstitching Spain

01/12/1999

Spanish sponsors have long had, and still have, a tight relationship with their domestic banks where funds can be raised at 50bp and under. But the prospect of 13,100MW worth of generating power to be developed and a large infrastructure sector to be upgraded over the next five years is pulling in renewed international banking interest - despite the low margins.

Alberto Diaz del Rio, head of project finance at Societe Generale in Madrid agrees: "Spain is less of an international market compared to other countries in the European Union. But its potential makes it very attractive for those international players equipped with long-term vision."

The outlook for foreign project financiers and sponsors interested in Spain has changed. Following the financing in 1994 of the $890 million Elcogas 320MW power plant, progress has been made towards liberalization in key markets such as electricity and gas. And at the end of November 1997 the Spanish parliament approved a law in favour of opening the local electricity network to competition.

Since then major local and international players have been busy sending proposals to the Spanish Ministry of Industry for the development of power projects. Out of the total 13,100MW tendered, foreign sponsors have made requests for 3,000MW worth of generating power. Plans for the development of two 1,200MW power plants in Murcia and Cadiz have been submitted respectively by AES and Enron Europe. And UK's National Power is planning to build a 800MW station in Navarra.

Local sponsors Hydrocantabrico, Iberdrola, Endesa and Union Fenosa are sharing the remaining 10,000MW with proposals for plants to be built across the Spanish territory. All 21 projects are now pending approval from the Spanish Ministry of Environment.

Sponsors are optimistic the plants will be operational between 2003 and 2005 and that the first financial advisory mandates will be awarded early next year.

But two key questions remain over the future liberalization of the Spanish power market. One concerns the possibility of creating oversupply of power. The other is the commitment the Spanish government has to liberalization.

Some international players are skeptical that moves to open the Spanish power sector are no more than lip service to liberalization rules imposed by the European Union. A lawyer in Madrid says: "The fear is that local sponsors and the government share a similar view on the pace the opening of the local power sector should take. There is little indication they are determined to build new plants in the short-term."

Another concern is the supply of gas to future Spanish plants. Despite the drive by the Spanish government to open the gas market to outsiders, there has been no real challenge to the 100% grip that Energas has on the distribution and acquisition market. And for any company taking on Energas, the tussle for market share is likely to be a lengthy and costly process.

But if plans for the development of LNG terminals in Barcelona, Bilbao and Galicia come to fruition, Energas could face its first real competition. BP Amoco is working with local sponsors Repsol, Iberdrola and the Basque Energy Agency on the construction of a regassification terminal in Bilbao to process fuel coming from Trinidad & Tobago. The plant will import 2.7 billion cubic metres a year from the $1 billion Atlantic LNG terminal in Trinidad. BP Amoco and Repsol are working together to determine the exact structure of the consortium before seeking financial advisory. Three power plants generating a total capacity of 1,200MW will also be built next to the Bilbao terminal.

Given the Spanish government's political aim of building self-sufficiency for the Basque country, it is likely the Bilbao project will go ahead first. According to Alfonzo Lopez, partner at Allen & Overy in Madrid: "Spain is a less sophisticated market for project finance. The country still retains some elements of regionalism making it difficult for the central government to implement a common strategy across the territory."

To further encourage the process of liberalization in the gas market the Spanish government wants to diversify the sources of natural gas coming into the country and not to rely for more than 60% on a single source of supply.

However sources in Madrid say it is highly unlikely that the Spanish government will want to review, and cut back, existing contracts with Algeria which is fuelling the Iberian peninsula with gas. And some international sponsors doubt the implementation of the gas-fired power projects is close enough to spend time studying them.

Renewables

Anna Cuartero, head of project finance at ABB in Madrid is convinced there is more money to me made in Spain in projects involving renewable sources of energy such as wind and biomasses. "The outlook for Spain is positive: the country is the fifth largest economy in the European Union with a loan market holding the lowest margins and longest tenors to be found in Europe. Considerably smaller in size compared to gas-fired power plants, projects involving renewable sources of energy provide the ideal opportunity for a local sponsor to structure a project finance deal", she says.

Financing for the $206 million Xistral wind farm by Banco Bilbao Vizcaya, Instituto de Credito Oficial and Chase Manhattan in May this year is the latest close in a sector that has seen seven projects signed over the last two years.

The next project coming up is the financing of the $156 million Energias Eolicas Europeas wind farm. The project involves 11 wind farms for a total capacity of 160MW to be built in the southeastern part of the country. Sponsored by Energia Hidroelectrica de Navarra and Iberdrola the project is being financed by Banco Bilbao Vizcaya (BBV), Banco Santander, Barclays, Caja de Ahorros de Navarra and Caja de Ahorros Castilla de la Mancha. Financing for the project will be signed on December 13 in Pamplona.

Infrastructure

The Spanish infrastructure sector is in need of even more cash than the power sector - an estimated $100 billion over the next seven years.

After the launch in 1997 of a program involving 6+2 real and shadow toll roads, the Spanish government will tender an additional 12-road scheme at the beginning of next year. The first projects to come through involve road concessions around Madrid, Murcia and Castillia.

Financing for the M45 toll road around the Spanish capital is one example of how limited recourse financing can be applied. Divided into three sections the project has been sponsored by different consortia made of local contractors.

Dragados, Formento de Construcciones and the local savings bank, Caja Madrid, won the $160 million first section that was financed in July this year by Caja Madrid with a 2-year bridge loan. The concession will be valid for 25 years.

Actividades de Construccion and Grupo Ferovial have won the $173 million second section. BBV, Banco Espanol de Credito and Instituto de Credito Oficial are arranging. Financial close is expected by the end of December and syndication will be launched in the first quarter of 2000.

The $80 million third section is sponsored by Obrascon, Sacyr, Argentaria and Banco Santander Central Hispano. Argentaria and Banco Santander are arranging the financing with syndication to close early next year. PriceWaterhouseCoopers (PwC) is financial adviser to the concession awarder, Communidad de Madrid.

The winner for the development of the Pta18 billion A6 real toll road between Leon and Astorga below the Cordillera Cantabrica in northern Spain is expected in January next year. The 28km road will link the existing highway in Galicia to the motorway in Asturias. Advised by SG, Dragados is one of the shortlisted bidders.

Other infrastructure projects coming up in Spain include the development of the metro and tram systems in Barcelona. The Barcelona tram project is worth $200 million and SG is advising Tramnet, a consortium made of local contractors. Other shortlisted bidders include ADTranz/Cerco, Group Via and Tramnou (see Project Finance, November 1999).

SG's Diaz del Rio is expecting a decision on the tram will be announced on December 10. Tendering for the metro project has not started yet with both contractors and financiers waiting to bid.

The water sector is also offering opportunities for non-recourse financing. So far regional governments have dominated the water market. But given the central government's need to keep debt levels in compliance with the Maastricht level, private players will get involved.

The first example of non-recourse financing of water projects in Spain is the $61million Catalonia Water. Signed in May 1999 it was lead arranged by Societe Generale and co-arranged by Instituto de Credito Oficial and La Caixa. SG acted also as agent and co-underwriter for the deal.

But is non-recourse project financing the the way forward in Spain? No, says Juan Pablo Lopez-Bravo, head of corporate finance at Barclays in Madrid: "I am not very keen on project finance. Corporate finance is still the present and future in the financing of most projects in Spain. Foreign banks have very limited access to the Spanish market and its increasing competitiveness has not significantly affected the structure of deals."

And according to Jose Ignacio Moscoso del Prado, director of finance at Dragados in Madrid: "Spain has no history of real project finance and there is no interest in developing it either. The use of syndicated loans before construction and the launch of bonds after is still the way local sponsors prefer to finance their projects".

As for foreign sponsors trying to break into the market, Moscoso does "not see opportunities for outside sponsors since there will be limited benefit for somebody local to team up with non-Spanish sponsors."

Guillermo Masso, head of project finance at PwC in Madrid concurs: "In a scenario where you have the same person sitting in a meeting both as representative of the sponsor and the financier it is difficult to see how foreign players could succeed," he says.

But Javier Guzman, vice-president in corporate finance at Citibank in Madrid believes change is a certainty. "The outlook for project finance in Spain is going to change. More sponsors will look at their balance sheet. Despite the strong appetite for equity financing, the formation of larger consortia in the market will force them to consider project finance as the best option rather than spending time discussing which consortium member will provide the financing." That should open the door to international players.