

Citi wins survival of the fittest

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Startled by the figures? Or did you expect to see Citibank/Salomon Smith Barney at the top every global league table for 1998? The bank's glowing success in one of the toughest years for project finance, owes much to the bank's strategy of being as flexible as possible and diverse as possible in the range of types of financing that it offers.

Certainly Chris Beale, global head of project finance at Citibank/Salomon Smith Barney in New York is not surprised by the bank's status in 1998. He attributes the bank's success to its presence in over a 100 countries and its extensive product range. "Our integrated group covers loans, bonds, export credit agency transactions and local currency financing."

Flagship deals for Citibank in 1998 include the FertNitro fertilizer project in Venezuela which Beale points out "reopened the project finance bond market in April". Other deals in which Citibank took a leading role include the AIOC transaction in Azerbaijan, Sabic's Kemya transaction in Saudi Arabia, the Partners telecom deal in Israel, the Comcel bond issue in Colombia, the Shanghai General Motors project in China and the Tri-Energy deal in Thailand. In Tri Energy and Shanghai General Motors, the bank's local currency capabilities proved.

Such transactions undoubtably reinforce the bank's strong emerging market capabilities but, in common with many of the leaders in project finance, the focus of deal activity has already shifted towards the more established developed markets such as the UK and the US. Says Beale: "This year the number of countries we are involved in will be smaller because of the illiquidity in the markets. But Citibank casts a wide net and we are still expecting to complete transactions in over 20 countries." He adds: "One significant feature of our 1999 work is our substantial increase of activity in the US."

But Beale maintains that the shift in focus does not pose a problem for Citibank and Salomon Smith Barney's project finance group. "We haven't had to change our team," says Beale. "We already have an existing Americas team headed by Sanjay Kettry which covers North and South America." Citibank already holds a number of arranging mandates for projects in the US. Among the deals which the bank is working on "together with Credit Suisse First Boston, Lehman Brothers and SG" is the \$1.8 billion loan to finance the acquisition of the 1,884MW coal-fired Homer City power plant.

But while those at Citibank are patting themselves on the back, what is happening to the merged Salomon Smith Barney? The message from Citibank is that the two firms compliment each other. Citibank benefits from Salomon's bond capabilities and the niche which project finance head, Barry Gold had established. The \$213 million MBIA wrap project bond issue which Salomon lead managed at the end of December is expected to set a template for future emerging market bond issues in 1999. But some are questioning how long the two institutions can act independently.

Says a source at a leading US industrial company who worked on an emerging market deal with the bank: "There is no doubt that in our case we couldn't have done our deal without Citibank." But he adds: "They can be very obnoxious. Sometimes, I sigh when I realise that we will have to work with them again. Having said that they offer such a broad array of services that if you are in a spot you know you can usually rely on them."

Says a UK sponsor: "They are a desirable party to have simply because they have a lot of reach and because of their syndication capabilities."

Watch out

But Citibank's success comes in one of the most difficult years for bankers and consequently for project financiers. With many still reeling from the currency devaluations of Asia, the crises in Russia and Brazil have severely reduced bank appetite for emerging market debt. A glance at the US dollar amounts for the top arranging banks in 1998 stands in stark contrast to figures for 1997. Citibank, while top, has half the dollar volume of the previous year. While 1997's leader Chase had arranging deals totalling \$14.325 billion in 1997, compared with \$5.274 billion in 1998 and the bank does not even rank on the bookrunner table – although admittedly had the table included domestic bonds, the bank might have appeared. Credit Suisse First Boston has dropped from fourth in the arrangers for 1997 with \$4.865 billion to twelfth with half as much. And even ABN AMRO, third in the 1997 global arrangers table, has dropped to sixth this year although it managed to maintain a fairly steady deal flow and has probably been more influenced by the bank mergers pushing it down the table rather than poor performance.

Some banks have been fierce competitors in 1998. Bank of America's high ranking in both arranging and providing tables owes much to its merger with NationsBank. But Peter Luchetti, co-head of project finance at the bank in San Francisco says this "is only part of the story." He adds: "Both banks maintained a solid flow of deals in 1998. Neither bank pulled back in this difficult year."

If 1998 was a tough year, Luchetti says that sponsors can expect "more of the same approach in 1999 but with some real innovations" although he declined to say what form that would take.

This is a feeling reiterated by SG's global head in New York, Jacob Worenklein. He says "Banks will need every ounce of creativity to get through 1999." SG's merger with Paribas, which has been delayed by the latest bid by Banque National de Paris for the two banks, will create a powerful European bank. With Paribas and SG jostling for eighth and ninth positions on the global league table, the merged bank will be a considerable force in project finance.

Even without the merger, SG has taken an aggressive approach to increasing its project finance team. Since the last quarter of 1997, SG has employed four from Chase, four from ABN AMRO, one from UBS, one from Credit Suisse First Boston and one from Greenwich NatWest. Worenklein says that this together with a focus on 20 top clients has helped push the bank up the table.

Worenklein believes that there needs to be a broader definition of the project finance business. "We are increasingly solving project finance problems with corporate finance techniques," he says. "In some cases the project sponsors may love us but they hate project finance, with its delay, costs and complexities." He adds: "So we are using acquisition bridge loan approaches to expand the debt market, pooled projects in multiple countries to diversify risk and expand country limits and applied commodity financing approaches to the merchant power market place. And in emerging market projects, such as the Azito project in Côte d'Ivoire, we expanded the limits of what the World Bank, other multilaterals and the export credit agencies could do."

Maintaining a similar ranking to 1997, Crédit Lyonnais is a strong player in project finance. Jean-Pascal Orcel, head of power and telecoms and deputy-head of project finance at the bank in Paris says that the bank will focus in its core sectors but he sees specific opportunities for development in new telecom services and merchant power plants. "You need to be able to offer sponsors creativity and professionalism but you also need some specific qualities," says Orcel. "There are new types of market risk emerging. Demand for internet services, for example, is booming and but it is not always easy to predict how fast it will grow. If it is possible to say you have some kind of insider knowledge it is a real advantage over competitors." Crédit Lyonnais' activities in 1999 could, in part, depend on the outcome of its privatization – scheduled to take place by the end of June this year.

But with mergers, privatization, financial turmoil and the absence of the Japanese banks influencing the league tables, some banks have proved that even a difficult year cannot hold them back. Barclays Capital may have been the centre of bank gossip in the middle of 1998 when its Nodco deal stumbled in syndication but despite the criticism, the bank has pushed its way up to fourth position in the global arrangers table from fourteenth in the previous year. Peter Luthy, global head of investment banking at Barclays Capital in London highlights the Southern Cross deal as one of the flagship deals of 1998. "This was a deal which combined telecoms and technology in one deal," says Luthy. "Such projects can be quite complicated to structure. Although sponsors can sell capacity in advance this means they will get a lower price because the offtakers are bearing the risk of the project."

In 1999, Luthy thinks that a big part of the bank's push is going to be in the European bond market. "There is no real project bond market in Europe, other than in the UK," says Luthy.

A short glance at the global bookrunners table for international bonds, however, demonstrates the slow year which project bonds have had. With delays to the Sincor and Mega bond issuances, to name just two of the Latin Ameican deals (for more information see page 15), banks managing the deals have been challenged. Credit Suisse First Boston in particular, while it maintains second position in the table, has come under particular attack for its concentration on project bonds. One project sponsors commented that Credit Suisse First Boston has placed too much emphasis on its bond capibilities and not enough on lending. "We looked at their bid for deal recently and they were just way off," says the source.

Details of an infrastructure fund and of the second round of their securitization of project finance assets have emerged in the past two months. And while the some are scathing about the financial benefits of a securitization, nearly all of the banks Project Finance has spoken to in the past few months claim that they are, at least, looking at doing something similar.

But while the leading project finance banks are taking a differing approaches to the same problem, all are certain that what may have worked for 1998, may not work in 1999. Citibank's flexibility and strong client relationships will inevitably provide the bank with a firm base to go into the US but this is a country which the bank the only ranked twentieth in the US in 1998. It has some way to go before it meets Bank of America, Chase and Barclays in the North American lead arrangers table.

With fewer banks in the project finance market "UBS, for example, have now confirmed its departure from the busniess" there is still expected to be a strong enough flow of deals for all the leading banks "even in north America. Says Beale: "1999 will be different not just because of the reduced liquidity but becaues there are fewer firms participating in project finance. And not just fewer firms, there are also fewer professionals engaged in advising or arranging."

The question is whether Citibanks flexible package of products will be enough for the year ahead. Says Barclays Capital's Luthy: "Bank balance sheets are relatively short-term. Where as the life and pension companies are long-term investors and they can tolerate long-term assets. I think we will increasingly see long-term loans on bank balance sheets migrating to the balance sheets of the institutional investors via the bond the market."

Source: Capital DATA ProjectFinanceWare

Global Arrangers

Rank	Arranger (exc. Co-arranger)	name	amount (\$m)	No.
1	Citibank/Salomon Smith Barney		5,672.75	50
2	Bank of America		5,386.68	39
3	Chase		5,274.32	32
4	Barclays Capital		4,600.56	27
5	Deutsche		3,858.02	32
6	ABN Amro		3,710.45	42

7	Credit Lyonnais	3,328.48	51
8	Paribas	3,025.65	21
9	Societe Generale	2,682.63	28
10	Warburg Dillon Read	2,388.17	12
11	Jexim	2,296.47	10
12	Credit Suisse First Boston	2,293.89	15
13	ANZ Banking Group	2,166.07	18
14	HSBC	2,102.30	14
15	National Australia Bank	2,063.55	11
16	WestLB	2,047.89	17
17	JP Morgan	2,031.97	10
18	Toronto-Dominion	2,015.77	15
19	Banque Nationale de Paris	1,789.10	12
20	Bank of Montreal	1,783.75	12

Global Providers

Rank	Provider name	amount (\$m)	No.
1	Citibank/Salomon Smith Barney	3,919.25	64
2	Bank of America	3,592.14	55
3	Barclays Capital	2,743.50	44
4	Chase	2,645.28	40
5	Credit Lyonnais	2,577.18	80
6	ABN Amro	2,411.96	71
7	SG	2,173.07	60
8	Deutsche	2,095.79	47
9	WestLB	2,061.43	62
10	HypoVereinsbank	2,044.47	68
11	Dresdner	2,028.76	71
12	Warburg Dillon Read	1,800.95	23
13	BNP	1,666.78	46
14	EIB	1,490.37	11
15	Sumitomo	1,474.89	42
16	Royal Bank of Scotland	1,447.93	38
17	ANZ	1,440.79	33
18	Paribas	1,431.01	46
19	Credit Suisse First Boston	1,344.69	19
20	Toronto-Dominion	1,277.47	29

Source: Capital DATA ProjectFinanceWare

Bookrunners of International Project Bonds

Rank	BookRunner name	amount (\$m)	No.
1	Citibank/Salomon Smith Barney	1,240.85	6
2	Credit Suisse First Boston	1,077.34	4
3	Morgan Stanley Dean Witter	822.77	2
4	Bankers Trust	605.84	2
5	JP Morgan	350	1
6	Barclays Capital	334.53	2
7	Warburg Dillon Read	333.56	2
8	Merrill Lynch	244	2
9	Paribas	144.38	1
10	Deutsche	59.67	1

Source: Capital DATA ProjectFinanceWare

Explaining the league tables

All information contained in these league tables is provided by Capital DATA's ProjectFinanceWare. The league tables are based on deals which have reached financial close between January 1 1998 and December 31 1998. The tables include deals which are underwritten and deals which have been signed and syndicated. It excludes government borrowings and corporate loans.

All the arranger tables include data on lead arrangers only, excluding banks which are co-arranging participants. The providers tables includes all providers for project finance transactions. The bookrunners table includes only information on international project bonds and not domestic or private placements.

For more information on these and other league tables and project finance information call Capital DATA's ProjectFinanceWare on +44-171-440-6440.

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