

Tradeport Hong Kong

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Asia-Pacific Transport Deal of the Year 2002

Tradeport Hong Kong

Logistics centres are not among the most suitable of assets for a project financing. They involve a value-added service, and are neither commodities nor government based businesses. In this respect, WestLB's financing for the Tradeport Hong Kong logistics centre is unusual and innovative. It is a bold move in a market undergoing profound change but, nevertheless, a one-off project.

Tradeport is designed to process some of the freight that comes through the Hong Kong International Airport Chep Lap Kok, on Lantau Island. The airport authority invited bids from all of the main players in logistics, and a few of the smaller firms, to submit bids. The ultimately successful bidder, unsupported by a financing plan, was a consortium of Hong Kong Land Property, Jardine Logistics Services (both part of Jardine Matheson), Fraport, Schipol Airport (the privatised operators of Frankfurt and Schipol Airports, respectively, through the Pantares joint venture) and China National Aviation Corporation.

Since then Jardine has transferred all of the Jardine logistics stake to Hong Kong Land, which now holds a 37.5% stake through HKL Tradeport, with Pantares holding another 37.5%, and CNAC holding the remainder. The sponsors dealt with an airport authority that drove a hard bargain ? they did not get ownership of the land, just the concession to operate for 27 years. Moreover, there is nothing in theory to stop the authority handing out a rival concession.

The key advantage possessed by Tradeport is its location. The new airport was recently completed on an artificial island, and is some distance from the main commercial and industrial centres in the special administrative region. The logistics centre is built on a 1.38 hectare site in the South Commercial District of the airport. It will have three floors with a total gross floor area of 28,200 m². The centre is designed to provide a wide range of logistics and supply chain management services such as inventory/stock management, specialist cargo handling, order processing and assembly configuring.

Given the distances involved, the logistics centre is in a strong position to provide value-added services to large corporates not merely within Hong Kong, but throughout Southern China. For, while Hong Kong itself is going through a downturn, the airport provides an air freight hub for all of the region. The Pearl River Delta, a fast-growing zone that accounts for around 40% of Chinese GNP, is the real target.

The logistics business usually grows in a more organic fashion. Providers tend to build new space nearby and to compete on price and service. When they have a full enough book of contracts, and need more space, they go out and build a new facility. This facility is driven by the timetable and requirements of the airport authority, which has offered this concession, like its other landside operations, on a build-operate-transfer basis.

However, Tradeport does not have a book of business to transfer, although this might have made lenders more

comfortable. Pricing, and therefore revenue streams, are activity based rather than volume based, so market risk is critical, as soon became apparent to the operator.

'We have five factors that we need to get right,' says David Oldridge, CEO of Tradeport. 'We need to have the best location, the best facility and buildings, have the best systems in place, particularly in IT, the best people working for us, and become the provider of the best service.' The proposition, with the elements put together in this order, was a necessary by-product of the way the concession has been awarded, and is probably the order in which WestLB and its co-arrangers analyse the business proposition.

However, Oldridge says that Tradeport, realised that it needed to work back from the last position to create a robust and growing business. Lenders have an interest over the whole proposition rather than the core business, and benefit from limited guarantees from the sponsors during construction. However, the basic credit story is one that the arranger was able to get comfortable with.

The EPC contractor for the facility, which takes up over 80% of the total project costs, is Gammon Construction. As the authority did with Tradeport, so did Tradeport with its builder. Gammon is locked into a very aggressive, maximum price contract. However, the facility is up and running, and opens on 8 March 2003, just after this report went to press.

WestLB won the mandate after a competitive process, and was present for the final round of negotiations with the airport authority. This served to gain a few lender-friendly tweaks to the contract. The lead brought in DZ Bank and KBC Bank as co-arrangers, largely on the strength of their links with some of the sponsors. The HK\$425 million (\$50 million) deal did not require any further retail participation.

The deal was priced at around 175bp over Hibor, and benefited from a 60/40 debt/equity ratio. According to the lenders the base case that they used was reasonably conservative. And the long-term proposition for the business, that manufacturers in the Pearl River region will move towards high-margin products such as electronics with short life cycles, was compelling.

The project will be looking to lobby for an exemption from the GST if it is imposed in the SAR. This could prove a major boost to Tradeport's business if, like its peers in Singapore, it gains an exemption. This tax regime will probably not affect the financing, however.

Tradeport Hong Kong Limited

Status: closed 23 March 2002

Size: HK\$425 million

Location: Hong Kong SAR

Description: logistics concession at Chek Lap Kok International Airport

Sponsors: Hong Kong Land, Fraport, Schipol airport, China National Aviation Corporation

Lead arranger: WestLB

Lawyers to the lenders: Allen & Overy

Lawyers to the borrower: Linklaters

Consultants: GHK, Scott Wilson

Insurance advisor: HSBC

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