Aquasure: Liquidity bridging

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Everything about Aquasure's A$4.5 billion ($4 billion) Victorian Desalination project is big or a first – with a capacity of 150 billion litres per year it is the largest project of its kind to date, the biggest PPP in the Asia-Pacific region in 2009 and Australia's first desalination PPP.

But more significantly the project financing employed a unique debt syndication strategy – a split-financing model, featuring part club and part traditional syndication backed by a Victorian government syndication guarantee, which attracted a total of 34 lenders at a time when liquidity was very tight. This unique approach was both symptomatic of the project's importance to the State of Victoria and the pragmatism employed by the government in getting the deal banked.

Aquasure (Ondeo Degremont/Suez Environment/Macquarie/Thiess) won the 30 year DBFO concession in July 2009, and brought equity commitments from UniSuper (a Victoria-based superannuation fund), HSBC Environmental Infrastructure Fund, Itochu and Samsung C&T, which raised co-funding from the Korean Development Bank, Korea Life Insurance and the Korean Teachers Credit Union.

The A$3.7 project debt was initially split into a A$2 billion senior loan, provided by a club of 12 banks that supported the winning AquaSure bid, and a A$1.7 billion tranche provided by joint mandated lead arrangers and bookrunners National Australia Bank (NAB) and Westpac. The A$1.7 billion tranche was to be syndicated after financial close and was backed by a full syndication guarantee from the State of Victoria which would provide any of the debt that could not be sold on.

The A$2 billion senior debt has a seven-year tenor, with margins of 350bp over the Australian bank bill swap rate (BBSW), 375bp over BBSW during year six and 400bp during year seven. NAB, Westpac, BBVA, Banco Santander, Bank of Tokyo-Mitsubishi, SMBC, Intesa Sanpaolo, Dexia, HSBC, ICBC, Macquarie Bank and Mizuho all took tickets of between A$100 million and A$250 million. The debt to equity ratio was 80:20, the average debt service coverage ratio was 1.35x, and the loan life coverage ratio was 1.38x.

The A$1.7 billion tranche was presented by NAB and Westpac to the market as a special syndication to participate on a pari-passu basis (inclusive of margins and tenor) with the initial 12 lenders of the A$2 billion tranche, and upon completion to create a single final tranche of A$3.7 billion.

Twenty-two banks took tickets, bringing the total number in the overall A$3.7 billion to 34. Uptake was spread across east Asia, Europe, the US and Canada, with banks taking tickets at all fee levels but averaging at around the A$110 million mark. The deal was oversubscribed by around 50%, which led to all banks being scaled back proportionately. As at the time of writing, lenders from various regions are still expressing an interest in buying into the debt.

Apart from RBS, all the banks that backed Bass Water, the losing consortium, came into the deal – ANZ, Bank of Ireland, Banco Espirito Santo, BNP Paribas, Calyon, CBA, CIC, ING and WestLB – along with Societe Generale, AustralianSuper, Bank of Ireland, Bank of Nova Scotia, Bayerische Landesbank, Development Bank of Singapore, GE Capital, IFM Alternative Fixed Income Fund, United Overseas Bank, Natixis, Helaba Landesbank, Mega International Commercial Bank Co, Taiwan Business Bank and KEB Asia Finance.

Fees were as follows – lenders could take a A$200 million-plus ticket for 240bp; A$150 million to A$200 million for 220bp; A$100 million to A$150 million for 200bp; A$75 million to A$100 million for 175bp; A$50 million to A$75 million for 150bp and A$35 million to A$50 million for 125bp. Early-bird tickets carried a fee of 15bp, with a 16 October deadline that was extended by one week.

Notional repayment is profiled over the life of the assets. The debt-to-equity ratio is around 80:20, and the ADSCR is around 1.7x, based on secure offtake agreements with the Victorian government.

The 30-year DBFO concession involves building a 150 billion litres per year reverse osmosis plant (with the possibility of future expansion to 200 billion) in the Wonthaggi region, south-east of Melbourne, as well as building an 86km transfer pipeline to connect Melbourne's existing water network and the underground power cables co-located with the pipeline. Construction will take three years, and the plant will be operational in 2012. The construction and operations contractors are both joint ventures of Thiess and Degremont.

Victorian Desalination is seen as a pathfinder for major Australian PPPs, and has stimulated strong interest in the sector – not only from banks but also from institutional investors. The deals to watch over the next 6 to 12 months will be the A$1.7 billion New Royal Adelaide Hospital and the A$1.7 billion Gold Coast Rapid Transit, among others, all of which are likely to see healthy competition from investors.

Chris Herbert, CEO of Aquasure, says this of the deal: "Some of the success factors for us were the global reach of the transaction, the teamwork and value-added that all parties brought to the table to create a winning structure and bid, and the insightful approach and support of the Department of Sustainability and Environment (DSE) and the State of Victoria. With 10 equity investors from five countries and 34 banks from 15 countries, the transaction was clearly of global reach, innovation and importance. The speed to reach financial close, and the subsequent successful syndication testified to how the market viewed the attributes of the project. Overarching this was the way the state and DSE supported the financing structure to compensate for the market dislocation caused by financial turbulence. Investors were attracted by this strong government commitment to the project."

Victorian Desalination
Status: Financial close 2 September 2009
Description: 30-year design-build-finance-operate PPP contract to build a 150 billion litres per year reverse osmosis plant in Victoria, Australia
Sponsor: Aquasure (Ondeo Degremont, Suez Environment, Macquarie and Thiess)
Mandated lead arrangers: NAB, Westpac, BBVA, Banco Santander, Bank of Tokyo-Mitsubishi, SMBC, Intesa Sanpaolo, Dexia, HSBC, ICBC, Macquarie Bank and Mizuho
Financial adviser to the State of Victoria: PwC
Financial adviser to Aquasure: Macquarie Capital
Legal adviser to Aquasure: Clayton Utz
Legal adviser to lenders: Mallesons Stephen Jaques
Legal adviser to the government: Corrs Chambers Westgarth
Technical adviser to the government: GHD/Maunsell
Technical adviser to Aquasure and the lenders: Hyder Consulting
Tax advisory: KPMG