

Pinhal Interior: Downgrade dodged

24/05/2010

The Eu1.2 billion (\$1.59 billion) debt financing backing Mota-Engils Pinhal Interior highway PPP closed on 28 April, despite the market turmoil after Standard & Poors downgraded Portugal from A+ to A-.

The deal is the high-water mark for Estradas de Portugals (EP) new roads programme: Pinhal Interior is the largest project and will eclipse the AE Centro concession, which has been dramatically reduced in scope and will likely be the last in the wave of new road concessions.

The deal signed despite the dispute between the Portuguese Accounts Court and EP over five previously financed concessions under the new road programme. The reasoning behind the Accounts Court decision not to grant ratifying visas to the new road concessions was that under the tendering documentation the best and final offer bid could not be higher than the indicative bid. Given that EP became aware of the Courts stance during the original tender for Pinhal Interior, EP requested a re-BAFO to lower the bids.

The re-BAFO in late October 2009 had the intended effect of reducing the net present value of the bids but to nowhere near the Eu770 million (\$1.12 billion) value of the preliminary indicative proposal. In the re-BAFO Mota jumped ahead of the lowest bidder in the original BAFO, Edifer/ Dragados. Mota bid an NPV of Eu1.187 billion versus Edifer/Dragados Eu1.226 billion. Motas adviser was BES.

The Pinhal Interior financing ultimately comprises a Eu900 million 22-year term loan from a club of 10 commercial banks and a Eu300 million direct loan from the European Investment Bank. The bank club comprises BES, CaixaBI, Caja Madrid, Barclays, Banesto, BPI, BBVA, Banif, LaCaixa and Populare.

The commercial tranche has a margin over 6-month Euribor starting at 275bp rising to 350bp, stepping up by 25bp every five years. Upfront fees are 250bp. The average life is 15 years and the average debt service coverage ratio is 1.22x.

Under the base case the availability payments make up 80% of the project companys revenues with the traffic component contributing 20%. Without the traffic component the availability payments meet the debt service 1:1. The debt to equity ratio is 85/15 with the Eu212 million equity back-ended in construction to compensate for the lack of an equity bridge.

Although during the financing process the sovereign rating of Portugal came under increasing pressure, bank appetite for project debt also began to recover. BES, together with CaixaBI and Caja Madrid had explored the possibility at the beginning of 2010 of underwriting the deal with Eu300 million tickets each and received positive feedback from the Portuguese and Spanish secondary markets. Eventually BES went for the safer club option, given banks concerns about the credit of EP, which is not directly guaranteed by the state and could theoretically go insolvent or be privatised.

During market testing for syndication bank appetite for the club was strong. So strong, in fact, that the initial financing plan which incorporated a 50% government guarantee for the commercial bank tranche was dropped in favour of a

Eu900 million uncovered tranche. Notable also is the inclusion of Barclays within the 10-strong club, new to both the roads programme and EP risk, and only the third non-Iberian bank behind Societe Generale and Fortis.

As a condition of disbursement the project must receive a visto previo from the Portuguese Accounts Court. This provision is designed to avoid the problems that hit six earlier road deals, which were denied consents after the banks started funding, causing draw stops. The commercial banks are, however, providing a counter-guarantee to a Eu45 million EIB corporate bridge so that construction can begin. BES and Millennium BCP are counter-guaranteeing the sponsors obligations under the concession.

In the post-award negotiations with EP there had been some legal uncertainty as to whether Mota, as concessionaire, could make payments back to EP towards the end of the concession to lower its NPV. This was resolved in favour of Mota as there is nothing explicit in the bidding documentation that prohibits such a device. From around year 27 to 30, the concessionaire will pay EP the same amount it receives in availability payments a device that has been used to lower NPV bids in other Portuguese road projects.

As in the Accounts Court compromise for the Douro Interior concession, and is expected for all subsequent Court agreements, EP is entitled to 100% of the refinancing upside on Pinhal Interior and can call a refinancing at any time to reduce the NPV of the project.

Swaps were signed at financial close and shared pro rata according to bank tickets. Banks envisage the granting of the visto previo after five to seven months, and can hold out for up to 12 months. After this time the financing will lapse and EP will compensate the sponsors and banks for all costs including swap breakage costs.

After the seven new road projects in 2008-2010, project finance banks will have to get used to slimmer pickings after Pinhal Interior as the Portuguese austerity plan kicks in. EP has intimated that is unlikely to proceed with the Eu230 million Rota Oeste concession. However, the reduced and re-tendered AE Centro concession, which is likely to have a capex of around Eu700 million, still needs financing, as does the Eu600 million ViaMadeira road, on which the Madeira government is the grantor rather than EP.

Ascendi Pinhal Interior

Status: Financial close 28 April 2010

Description: Eu1.2 billion debt financing package supporting a 30-year highway concession

Sponsor: Ascendi (Mota-Engil)

Financial adviser: BES

Mandated lead arrangers: BES, CaixaBI, Caja Madrid, Barclays, Banesto, BPI, BBVA, Banif, LaCaixa and Populare

Multilateral lender: EIB

Sponsor legal counsel: PLMJ, Campos Ferreira, Sá Carneiro & Assoc.

Commercial bank legal counsel: Morais Leitão Galvão Teles Soares da Silva & Assoc.

EIB legal counsel: Linklaters

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