Andromeda: Selling solar

02/02/2011

SunPower closed Italys first ever project bond, and the first publicly rated and listed solar project bond in the world, on 15 December. It simultaneously sold the equity in the project to a consortium of investors that includes MetLife, Fondo PPP and Voigt & Collegen.

The deal is structured as a securitisation of loan receivables. BNP Paribas and Societe Generale arranged 18-year loan facilities of Eu195.2 million ($261 million), split into two equal tranches of Eu97.6 million, and were bookrunners for the bond. Each loan tranche corresponds to the 18-year fixed-rate class A1 and A2 bonds.

The Eu97.6 million class A1 bonds are guaranteed by Italian export credit agency SACE and sold to institutional investors and the Eu97.6 million class A2 bonds were entirely placed with the European Investment Bank the first time the EIB has bought project bonds. SG also provided two 5-year VAT facilities of Eu22 million.

The A1 SACE-wrapped paper, which is rated by Moodys at the same level as SACE, Aa2, is priced at a fixed rate of 5.715%. The A2 bond placed with EIB is priced at a fixed rate of 4.839%.

Why did the EIB not simply provide a direct loan? EIB would not typically provide direct loans to solar projects due to their relatively small size, says Tim Corfield, managing director, project finance, at SunPower. By moving to the bond solution we were able to attract a direct EIB investment and its associated funding cost, and this formed part of the unprecedented aspect of this effort.

The investors in the SACE-wrapped paper included European-based pension funds, insurance companies and fund managers. The success of this deal was the culmination of an exhaustive due diligence process which resulted in these various independent parties recognising the technical, financial and operating expertise that SunPower delivers, says Corfield.

Volatility in European fixed-income markets, a factor of European sovereign debt default fears, did affect pricing on the bond, but the paper, despite being a new asset class, was still fully allocated. There was strong investor interest in the market for the bonds, with us marketing to roughly 10 accounts, adds Corfield. SunPower had good feedback from investors on the risk of the project, notwithstanding the difficult market conditions for a December issue, the ongoing Eurozone issues and short marketing period required to be able to fund by mid-December.

The project consists of the development, construction, operation and maintenance of two photovoltaic plants with capacities of 45.3MW and 6.1MW located at two adjacent sites in Montalto di Castro. SunRay, SunPowers project development arm, is sponsor, while NASDAQ-listed SunPower is also engineering, procurement and construction and operations and maintenance contractor for the two plants.

Project revenues mostly consist of a 20-year fixed feed-in tariff, which is paid by GSE (a state-owned entity) on top of the electricity market price. Both plants are mechanically completed and grid connected (thus eligible for the 0.346 Eu per kWh 2010 feed-in tariff). Commissioning and aceptance tests will be completed by Q1 2010, when the provisional acceptance certificates are due to be signed.

The sponsors sized the debt to produce a minimum average debt service coverage ratio of at least 1.40x under the base case, a maximum tenor of 18 years from commercial operation date (in order to have a 2-year tail before the expiration of the feed-in tariff period) and gearing of 85%.

The structure of the deal largely nullified the typical drawbacks of a bond financing over a bank deal, including negative carry, the difficulty of seeking waivers and refinancing. The negative carry was very limited in the project due to the fact that the construction was largely completed before the bonds were issued so the construction period was relatively short, says Corfield.

Having EIB and SACE as controlling creditors means that they, rather than a diverse group of bondholders, will assess any waivers during the construction or operations period, except for major waivers outlined as restricted discretions in the financing documentation. This process is similar to that on a bank financing. But the bonds, unlike a bank deal, are to all intents and purposes permanent debt. Corfield notes: With the current costs of funds, leverage and the fixed maturity of the feed-in tariff versus the maturity of the bonds (2-year tail) it is unlikely that a refinancing will be considered for the project.

The deals structure combines a standard project financing and an Italian Law 130 securitisation. Sponsor and arrangers had to structure the deal to avoid a potential claw-back of loan guarantee payments in the event of a project insolvency, and also to make sure that SACEs Aa2 rating carried over to the A1 bonds even though its guarantee is applied at the A1 loan level. The EPC contracts and insurance package were also carefully drafted to manage tariff change risk. SunPower, by working with the rating agencies directly rather than through the banks, helped move the process along immensely.

Andromeda Finance
Status: Underlying project financing signed on 26 November 2010 and disbursed in full 29 November. Bond issue date 15 December.
Size: Eu230 million
Location: Montalto di Castro, Viterbo, Italy
Description: Securitisation of loan receivables to finance 51MW PV plants in
Sponsor: SunPower Corporation
Debt: Eu195.2 million in bond debt, Eu22 million in VAT facilities
Lead arrangers: BNP Paribas and Societe Generale
Sponsors legal adviser: Allen & Overy
Lenders legal adviser: Linklaters
Lenders technical adviser: Fichtner
Lenders insurance adviser: Marsh
Lenders tax adviser: Maisto e Associati
Electricity market adviser: Pöyry
Model auditor: Operis
Accounting/tax issues: Studio Tributario e Societario in association with DeloitteTouche Tohmatsu
EPC contractors: SunPower Italia (backed by SunPower) as plant contractor and Terna as substation contractor