Balard MoD: Dailly du jour

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The Balard Ministry of Defence headquarters PPP is the largest availability-backed deal to close in the French market so far this year. The Eu3.4 billion ($4.8 billion) Bretagne-Pays de la Loire high-speed rail PPP is likely to overtake it shortly, but Balards Dailly tranche is much higher proportionately, at the very top of the allowed limit. International banks scramble to get a piece of the tranche in syndication attests to the appetite for this low-margin but equally low-risk French financing mechanism.

The 30-year design-build-finance-operate concession entails the development of a new headquarters for the French Ministry of Defence in the Balard area on the outskirts of Paris. The project will consolidate the various French armed services operations at a single site, and the ministry intends to recoup some of the project costs from selling off the 12 sites it supersedes. Construction is set to start in December and operations in 2014.

The Ministry of Defence selected the Opale consortium (comprised of Bouygues, Thales, Sodexo, Dalkia Energy and Exprimm, with Dexia and Natixis as financial advisers) as preferred bidder for the project in March 2011. The Bouygues-led consortium beat off competition from a Vinci/GDF Suez consortium, advised by BNP Paribas, and Eiffage, advised by HSBC, at the best and final offer stage. The architectural proposals of the bidders had a large bearing on the final decision.

Opale had oversubscribed support from Dexia, Natixis, BBVA, CIC and Societe Generale at the BAFO stage. This left no shortfall to be met through a funding competition, leaving no room for banks that backed other bidders to get a piece of the debt. All banks took equal takes on the club deal, give or take Eu10 million.

The project closed on 30 May with just over Eu800 million in debt. Initially the bulk of this is made up of a Eu712 million construction loan, with a tenor of just under 5 years and carrying a 195bp over Euribor margin. This is accompanied by a Eu78 million equity bridge loan with a similar tenor, and a Eu16 million VAT revolver.

This construction loan is then replaced in the operation phase with long-term debt split between a Dailly tranche, repaid by the government during operation, and a tranche carrying project risk. There is an 80% cap on the amount of Dailly debt allowed on each PPP and, given the projects minimal operational risk, Balards Dailly tranche is at the top end of this scale. As such, the Eu712 million construction debt converts into a Eu648 million Dailly tranche and a Eu64 million project tranche. The Dailly tranches tenor matches the full 30 years of the concession.

Margins on the Dailly tranche are low. During the pre-crisis boom they inched below 10bp on some transactions, but following the crisis they have consistently remained above 100bp, sometimes nudging 150bp. As such, the Dailly debts 120bp margin is not unusual. The portions carrying project debt, in comparison, carry margins of just over 200bp.

Debt service coverage ratios are essentially inapplicable to the Dailly tranche, though despite the guarantee, the project has an overall DSCR of 1.2x, or roughly in line with the PPP market as a whole. A lender on the deal notes that for Dailly debt your DSCR is effectively 1x. To view it any other way would suggest you think its possible the government will not be able repay its debt! But with the Dailly debt a flat 1x, the ratios on tranches carrying project risk need to be relatively high in order for the average DSCR to be in the standard range. As a result, the project tranches on Balard have a DSCR of close to 1.7x.

All five banks took part in the hedging, with Linklaters advising in this regard. Swaps were not traded at financial close, however, and will be traded four months after close instead. This is the decision of the Ministry of Defence, though it is not uncommon for the grantor in PPP projects to postpone swap trades until the middle or even the end of construction.

The project is geared at 90%, typical for an accommodation PPP, with equity coming from sponsors Bouygues and Thales, as well as FIDEPPP, SEIEF and Caisse des Depot et Consignations. FIDEPPP is an infrastructure fund managed by Natixis Environment and Infrastructure (NEI), SEIEF is a Dexia-affiliated fund and CDC is a lending arm of the French state.

The Ministry of Defence also awarded Opale a portion of land attached to the site for real estate development. The real estate portion is ring-fenced from the main project, as it carries very different risks, but the project company sells the land to a developer and uses the proceeds to finance the main project. Opale has selected AXA Real Estate Investment Managers to develop a large office project on the site. There is a suite of corporate guarantees in place to ensure lenders see these proceeds because they are built into the projects financing.

With the project closed, the debt is now out in the syndication market with Dexia, Natixis and CIC as bookrunners. The three are syndicating between Eu200 million and Eu300 million, offering tickets of either Eu75 million or Eu50 million to prospective banks. Lenders on the deal are expecting syndication to draw to a close by the end of July.

When asked about the syndication a lender at a major French bank explained Its something that were looking at, but I dont think well take a piece in the end. Foreign banks seem to be really hungry for the deal, however. I wouldnt be surprised if you see five banks of a similar nature to the second-tier lenders on Bretagne-Pays de la Loire.

Opale
Status: Financial close 30 May 2011
Size: Eu800 million
Location: Paris, France
Description: 30-year DBFO concession for a new headquarters for the French Ministry of Defence in the Balard area on the outskirts of Paris.
Sponsors: Bouygues, Thales, FIDEPPP, SEIEF and Caisse des Depot et Consignations.
Lenders: Credit Industriel et Commercial, BBVA, Dexia, Natixis, Societe Generale
Lender legal: Salans and Linklaters (hedging)
Sponsor legal: Jones Day and Orrick Rambaud Martel
Sponsor financial advisers: Dexia and Natixis
Grantor financial adviser: Deloitte
Grantor legal: Hogan Lovells