Middle East Transport Deal of the Year 2011: Salik ETC

09/02/2012

The $800 million Salik electronic toll road collection (ETC) system financing in effect a future flows monetisation is the first of its kind in the MENA region, and proceeds from the deal will be used to support transport projects in Dubai like the Al Sufouh Tram and the upgrade to Interchange One on Sheikh Zayed Road. The financing includes an Islamic tranche, which ranks pari passu with the two commercial debt facilities and is also the first of its kind in the MENA toll road sector.

At a structural level the deal represents an innovative approach to raising funds for transport projects without the loss of ownership and/or control of the receivables to be monetised that is typical of a future flow securitisation.

A future flow securitisation would normally require a sale of receivables (or the grant of security over the receivables) to an SPV, together with control of how the assets are managed and how the receivables are collected.

Salik is different it enables the Dubai government to retain ownership and management control of the assets and receivables, and set the toll rates. In effect the deal is more flexible and therefore more sponsor-friendly than a typical securitisation.

Salik ETC was introduced on the Sheik Zayed Road which runs through Dubai to Abu Dhabi, in July 2007. It is one of Dubais major sources of transport income, generating Dh1.6 billion ($435 million) in the first 2.5 years since it was introduced, and no drop in the 800,000 trips per day it tolls since the start of the economic downturn.

There are currently four Salik gates across Dubai at Al Barsha, Safa Park, Maktoum Bridge and Garhoud Bridge and a further two are planned for Al Ittihad Road and Al Ghusais. Motorists are charged Dh4 each time they pass through a Salik gate with a maximum charge of Dh24 per day.

The Salik financing is not structured as a sale of receivables but an obligation of the government to turn over gross Salik revenues on a weekly basis to an SPV. In exchange the SPV makes an $800 million upfront payment to the government and, on a monthly basis, repatriates to the government any surplus Salik revenues after the SPV has deducted its financing costs, principal and interest, and topped up a liquidity reserve account.

The allocation of gross revenues, rather than net, mitigates to some extent the risk that the assets will be unable to service the senior debt particularly given Salik has a revenue stream track record. In effect the lenders get paid before any operating and maintenance costs incurred by the government for Salik.

The deal comes with a range of defined events that give lenders recourse to the government for payment. For example, in certain scenarios the lenders can lock down Salik surplus revenues until release conditions are met. Furthermore, should Salik not meet funding coverage ratios because of non-traffic risk reasons a change to the tolling formula, or repeated closure of parts the road the government is obliged to restore funding coverage ratios to a pre-determined level. In short, the deal comes with traffic risk and little else.

The financing comprises three tranches a $400 million six-year term loan, an Dh734.5 million ($200 million) six-year loan and an Dh734.5 million six-year Islamic tranche. Bookrunners were Citi (also financial adviser), Commercial Bank of Dubai, Emirates NBD and Dubai Islamic Bank, and syndication pulled in offers of more than twice the amount of commercial debt required.

Banks that joined the initial mandated lead arrangers on the deal include Abu Dhabi Commercial Bank, BAWG, Bank of America Merrill Lynch, Intesa, National Bank of Abu Dhabi, Samba, WestLB, Arab Bank, Mubadala, GE Capital and Natixis.

Because of the deals structure the financing can be termed self- amortising. Cashflows from Salik go into an offshore escrow account before any surplus is repatriated by the SPV. Arguably the whole deal functions as a cash sweep from day one. And in contrast to most infrastructure or corporate financings, the financing obligations owed to the investors under the senior debt facilities are effectively senior to the operating and maintenance costs of the asset.

Pricing on the deal is 325bp over Libor with a 140bp commitment fee a 25bp drop in what was originally asked for due to oversubscription.

Salik One also incorporates mechanisms that allow the Dubai government to raise more debt backed by Salik revenue streams, subject to a cap and compliance with funding coverage tests. Consequently Salik Two or an alternative asset monetisation along the same lines is a strong probability, at least for states like Dubai that lack oil.

Salik One SPC Limited
STATUS: Financial close 28 March 2011; syndication close 5 July 2011
DEBT: $800 million
DESCRIPTION: Monetisation of future Salik toll collection revenues.
SPONSOR: Dubai Department of Finance
FINANCIAL ADVISER: Citi
INITIAL MLAS: Citi, Commercial Bank of Dubai, Dubai Islamic Bank, Emirates NBD
MLAS: Abu Dhabi Commercial Bank, BAWG, Bank of America Merrill Lynch, Intesa, National Bank of Abu Dhabi, Samba, WestLB
LEAD ARRANGERS: Arab Bank, Mubadala, GE Capital, Natixis
SPONSOR LEGAL COUNSEL: Latham & Watkins
LENDER LEGAL COUNSEL: Herbert Smith; Afridi & Angell