# DEAL ANALYSIS: Medina Airport

07/09/2012

The TIBAH consortium, comprising TAV Airports, Saudi Oger and Al Rajhi Group, closed the $1.2 billion debt facility for the Medina Airport PPP in Saudi Arabia on 30 June 2012. National Commercial Bank (NCB), Arab National Bank (ANB) and Saudi British Bank (SABB) provided all of the debt, which was entirely denominated in Saudi riyals. The deal is the first airport privatisation deal to close in Saudi Arabia and the first ever PPP deal in the region to be entirely Sharia-compliant.

Saudi Arabias General Authority of Civil Aviation awarded TIBAH the 25-year build- transfer-operate (BTO) concession for Medina Airport on 8 August 2011. The project involves the construction of a new terminal at the transport hub, as well as the renovation, operation and maintenance of the existing runway and all airside facilities. The project will have a total cost of $1.5 billion, with a debt/equity split of 80:20. The expansion is expected to increase annual passenger numbers at the airport from 3.5 million to 8 million by 2015.

Despite this large increase in capacity, the Saudi government did not offer any traffic guarantees to help offset construction risk. The sponsors accepted this after extensive due diligence and by noting the current lack of capacity for the millions of pilgrims travelling to the holy city every year. Lenders were also willing to take on the operational risks of a PPP contract because of the unique way the deal was structured. Lenders and sponsors are familiar with long-term government payment obligations to projects in Saudi Arabia, but these have tended to be for independent power and water projects, in the form of take-or-pay agreements.

Islamic financing structures have not previously been used for PPP deals because under the traditional Istisna structure lenders own and then lease back the assets of a project. Since PPPs usually involve the procurement of essential public infrastructure, governments are wary of allowing lenders to effectively own them. NCB, the Islamic structuring bank on the deal, and Norton Rose, which was legal adviser to the sponsors, sought to negate this problem by incorporating a form of participation financing, or Musharakah, into the senior debt facility. Advisers on the Medina deal believe that it could be used as a template for future PPP projects in the region where it is not possible to own key infrastructure assets.

The banks, instead of effectively taking ownership of the assets, as in a traditional Istisna/forward Ijarah structure, acquired certain rights that the project company holds under the concession agreement by way of assignment specifically, the right to develop the site. These rights were passed across to the agent representing the financing syndicate, and then the agent passes on the obligation to develop the site back to the project company under an Istisna arrangement. By accepting that role, the project company would receive milestone payments.

With no tangible assets which could be demised under a lease, the lenders appointed the project company to manage the rights under the concession agreement acquired from the project company. This created an obligation to pay profits from this management agreement to the banks, effectively covering the repayment profile. This arrangement borrowed concepts from Musharakah structures to create a new hybrid.

Each of the three lenders participated in the 18-year R2.696 billion ($719 million) main procurement facility, which was priced to yield the equivalent of between 175-225bp above Sibor, although NCB provided the largest share (R1.131 billion). All lenders contributed an equal amount to the 3-year R1.635billion equity bridge, priced at 100bp above Sibor, which was structured as a commodity Murabaha. SABB also provided a separate R85 million working capital facility.

HSBC Saudi Arabia was traffic, technical, modelling and environmental bank on the deal. SMBC and IFC were financial advisers, while Norton Rose and White & Case provided legal counsel.

Construction on the first phase of the development is due to be completed by the first half of 2015. As the second most popular pilgrimage destination in the Islamic world, after Mecca, the Saudi government hopes that the airports capacity can then be extended further to 16 million passengers per year by the end of the concession period.

**TIBAH**
STATUS: Closed 30 June 2012
SIZE: $1.5 billion
DESCRIPTION: BTO concession for the transfer and expansion of Medina Airport
GRANTOR: Saudi Arabias General Authority of Civil Aviation (GACA)
SPONSORS: TAV Airports, Saudi Oger, Al Rajhi
ISLAMIC FINANCE: $1.2 billion
MANDATED LEAD ARRANGERS: ANB, NCB, SABB
SPONSORS FINANCIAL ADVISER: SMBC
SPONSORS LEGAL ADVISER: Norton Rose
SPONSORS TECHNICAL ADVISER: Mott MacDonald
GRANTORS FINANCIAL ADVISER: International Finance Corporation
GRANTORS LEGAL ADVISER: White & Case
LENDERS LEGAL ADVISER: Linklaters
LENDERS TRAFFIC, TECHNICAL & ENVIRONMENTAL ADVISER: InterVISTAS Consulting