European Real Toll Road Deal of the Year 2012: WHSD

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The financing for the Rb123 billion ($4 billion) central section of St Petersburgs Western High Speed Diameter was a make-or-break occasion for the Russian PPP market. A group of Russian financial equity and debt providers brought the re-worked deal to close and established a viable domestic template for the private financing of the countrys infrastructure requirements.

The city had hoped to exploit initial foreign sponsor enthusiasm for Russian infrastructure with a bumper greenfield concession for all three sections of the planned road, which runs 46km through the citys northern, central and southern sections and have a total cost of Rb206 billion.

The city awarded a concession for all three sections to the WHSD-Nevskij Meridian consortium, comprising Strabag, Basic Element, Bouygues, Hochtief, Egis Projects, and Mostoodryad No 19 in June 2008. At that time Russian financial markets were showing signs of shakiness, and by September the global bank market followed.

The city restructured the concession, and decided to procure the northern and southern sections directly using federal government-guaranteed bonds. It would still procure the central section, the most challenging of the three technically, as a PPP, and include the operation of the other two sections in the concession.

The city launched the re-worked 30-year concession in February 2011, and on 9 August 2011 named the Northern Capital Highway consortium, comprising state-linked financial institutions VTB Capital and Gazprombank preferred bidder. The winners are using a joint venture of Astaldi and IC Içtas (with the assistance of Mega Yapi) as engineering, procurement and construction contractor. The losing bidder, First Quantum, planned on using Mostotryad No 19, A-Porr, Jan De Nul, Vinci and Renaissance as contractors.

The city was meeting Rb51 billion of the central sections Rb123 billion cost with the proceeds of a federal grant, leaving the two sponsors with a $2.2 billion equivalent debt and equity requirement. The two sponsors quite probably had the resources to meet this requirement between them, and the project retained some goodwill at domestic, regional and international development finance institutions. But the majority of the projects revenues are in Roubles, limiting the number of potential lenders, and documenting the deal took time.

The sponsors and lenders signed the financing documents in June 2012, some time after a planned December 2011 closing date, and the financing, which still waits on conditions precedent, did not really close until the city, sponsors and lenders signed a set of additional agreements. These included a contract between the city and engineering, procurement and construction contractor Astaldi for the city to step in and take over the project in the event of a concessionaire default. The city also signed a direct agreement with lenders, featuring sharper language covering termination events and payments.

The lenders on the 12-year debt are Vnesheconombank (Rb25 billion), the Eurasian Development Bank (Rb10 billion), VTB and Gazprombank (each with Rb8.5 billion), and the European Bank for Reconstruction and Development, with a small Eu200 million piece linked to the projects Euro-denominated costs. The small size of the loans from the sponsors meant that, beyond the use of Chinese walls between debt and equity groups, the other lenders did not insist upon additional intercreditor documentation.

The sponsors are still negotiating a potential guarantee of some of the debt with Sace, linked to Astaldis work on the road, a wrap that would allow for some secondary debt sales. The sponsors have a letter of interest, and have agreed outline terms, but the agreement has not signed yet.

Lenders benefit from a minimum revenue guarantee of Rb9.67 billion from the city, a contingent commitment that would disappear from the citys balance sheet once traffic levels produce toll revenues that exceed that threshold. Above that level, the city keeps 90% of excess revenues, one reason why it was comparatively relaxed about handing over the operation of the government-built northern and southern sections to the central section concessionaire.

Lenders benefit from an EPC contract that includes standard performance bonding, liquidated damages and parental guarantees. The city retains the responsibility for land acquisition. Northern Capital Highway, with one eye on a potential secondary debt syndication, is careful to point out that despite the make-up of the lender and sponsor group this is a deal documented to international standards.

According to Andrei Kiselev, deputy head of infrastructure capital and project finance at VTB Capital, the sponsors have already received enquiries from potential equity buyers, and once construction completes a partial sell down could be considered. At the same time, a partial refinancing in the domestic bond market will also be possible as construction risk recedes.

Northern Capital Highway
Status
Financing signed June 2012, commercial close December 2012,
waiting on CPs
Size
Rb123 billion
Description
30-year concession for 11.7km toll road running round St Petersburg, Russia, that benefits from a minimum revenue guarantee
Grantor
City of St. Petersburg
Government contribution
Rb51 billion
Sponsors
Gazprombank, VTB Capital
Equity
Rb12 billion
Debt
Rb60 billion
Providers
Gazprombank, VTB, Vnesheconombank, the European Bank for Reconstruction and Development and the Eurasian Development Bank
EPC contractor
Joint venture of IC Içtas and Astaldi
Grantor financial adviser
Ernst & Young
Grantor legal advisers
Herbert Smith (legal), Capital Legal Services (local legal)
Sponsor financial advisers
VTB Capital, Gazprombank

Sponsor legal advisers
Freshfields Bruckhaus Deringer
Lender legal advisers
Linklaters
Insurance adviser
Willis
Sponsor technical consultants
AECOM
O&M consultant
Louis Berger
Traffic consultant
URS Scott Wilson