Middle Eastern Transport Deal of the Year 2012: Medina Airport

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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. The deal was the first airport privatisation deal to close in Saudi Arabia and the first ever PPP deal in the region to be entirely Sharia-compliant. The consortium was able to close despite challenges that included making the deal Sharia-compliant, taking over existing airport operations, and the lack of precedent projects in Saudi Arabia with traffic risk.

The project involves the construction of a new terminal, as well as the renovation, operation and maintenance of the existing runway and all airside facilities. The airport serves as a hub for millions of pilgrims travelling to the region, and is part of a wider effort on the part of government to develop and improve the infrastructure in the area. With demand expected to double by 2020, existing facilities at the airport are strained and unable to accommodate further growth.

Saudi Arabias General Authority of Civil Aviation (GACA) launched a plan to modernise and expand the airport with private sector participation. GACA awarded TIBAH the 25-year build-transfer-operate (BTO) concession for Medina Airport on 8 August 2011.

The airport is a key pilgrimage hub, says Goker Kose, head of project and structured finance at TAV Airport Holdings, but due to the lack of infrastructure it was not readily used by many passengers. With the new development the airport will be able to handle annual passenger numbers of 8 million, compared to 3.8 million last year, and its capacity could rise to as many as 16 million by the end of the concession.

Despite this large increase in capacity, the Saudi government did not offer any traffic guarantees. The sponsors accepted this after extensive due diligence, noting the current lack of capacity for the millions of pilgrims making the Hajj each year. Lenders were also willing to take on the operational risks of a PPP contract because of the way the deal was structured. This arrangement borrowed concepts from musharakah structures to create a new hybrid.

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, legal adviser to the sponsors, sought to negate this problem by incorporating a form of participation financing, or musharakah, into the senior debt facility.

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, the agent then passes on the obligation to develop the site back to the project company under an istisna arrangement. By accepting that role, the project company receives milestone payments.

With no tangible assets that could be demised under a lease, the lenders appointed the project company to manage the rights under the concession agreement they had acquired from the project company. This created an obligation to pay profits from this management agreement to the banks, effectively covering the repayment profile. 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.

The creation of a shariah-compliant financing structure for a PPP project has, according to deal participants created a template for future such deals in the region. The deal can indeed be taken as a working template says Kose, and since this structure has received approval from relevant authorities this provides a workable base for future such projects in the region.

Each of the three lenders participated in the 18-year R2.839 billion ($757 million) main procurement facility, which was priced to yield the equivalent of between 175-225bp above Sibor, although NCB provided the largest share (R1.225 billion). All lenders contributed an equal amount to the 3-year R1.635 billion 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.

Construction on the first phase of the development is due to be completed by the first half of 2015. The Saudi government may procure additional infrastructure using methods that would allow sponsors to repeat TIBAHs success.

TIBAH
STATUS
Financial Close 30 June 2012
TOTAL PROJECT COST
$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
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