

DEAL ANALYSIS: Gebze-Izmir

09/05/2013

A consortium of five Turkish sponsors and Italian contractor Alstaldi closed the financing for the first phase of the Gebze-Izmir toll road project on 15 March. The \$1.4 billion debt came entirely from the domestic market, split equally between a group of eight lenders. The deal features a debt assumption guarantee that the Turkish government has provided, and the sponsors were able to persuade Turkish lenders to give them an option to refinance.

Alstaldi and local firms Nurol Holding, Ozaltin, Makyol and Yuksel have equal stakes in the project company Oyotol, with Gocay holding less than 1%. Gocay has the option to increase its share in the project once construction has been completed. The sponsors won the 22.3-year (excluding construction) concession in July 2009, but did not sign the agreement until the following September.

The deal took so long to close because of changes to its lender group, a restructuring of the concession, concerns about global banking liquidity and the complexities of the government guarantee mechanism. The \$9 billion concession is to build, operate and transfer of 421km of highway, including a 1.5km suspension bridge connecting the two sides of the Gulf of Izmit.

A large lending group assembled for a 16-year deal in March 2011, a group that included eight local banks and international participants BIIS, Citibank, Credit Agricole, EBRD, IFC, UniCredit and WestLB. JBIC and SACE were set to provide a \$1.5 billion export credit facility, IFC and EBRD a \$400 million tranche, local banks were to provide \$2-\$2.5 billion, and international banks \$1.5-\$2 billion.

Allocating project risk between sponsors, foreign lenders and domestic banks proved difficult. The international lenders required the sponsors to raise letters of guarantee from domestic banks for their equity commitments, but the local banks lacked the required investment grade rating. A simpler solution would have been for the sponsors to pay in their equity upfront, but would have struggled to write such large equity tickets in one installment.

By the end of 2011 the concession had been split into two separate phases, with the first section to include the construction of 58km of road, from Gebze to Orhangazi, and the Izmit Bay Bridge. In early 2012 the sponsors decided to restructure the financing as a local-only facility. The sponsors could then strip the deal of the international banks debt service reserve account, standby facilities and other contingencies. This dropped the equity and debt requirements down from around \$2 billion for each phase to just \$1.4 billion.

Akbank, Finansbank, Garanti, Halkbank, Isbank, Vakifbank, Yapi Kredi and Ziraat Bank provided the \$1.4 billion seven-year debt facility, which was priced at around 550bp over Libor. The use of purely local debt did not have a significant impact on pricing, although an ECA facility would have allowed the sponsors to include a slightly cheaper debt tranche. Improvements in Turkish loan market conditions allowed the sponsors to push pricing down from an initial level of 700bp.

The debt assumption agreement means the Turkish treasury will assume all of the liabilities, apart from certain exceptions, if the concession contract is cancelled. Some deferred interest for late payment is exempt and if the hedging is broken the debt assumption only pays for a capped amount of the unwinding costs. All principal and normal interest is

covered. The guarantee only becomes active if the concession is cancelled and does not immediately kick in in the event of a default on the debt.

The sponsors wanted international lenders to argue the case for the debt assumption provision. They believed that the Turkish government would require experienced international banks to ensure the sponsors stuck to the provisions of the financing documents. By the time the deal was split into two phases the government had become more comfortable with providing the debt assumption on a deal with just local lenders, but the banks were still concerned about the limitations of the guarantee. Negotiations covered linking default on the debt to a cancellation of the contract, providing the banks with more protection.

Phase one will take around 33 months to complete, after which the sponsors will go back to the bank market for a further \$3.7 billion in debt for phase two. The sponsors may use the same lenders for the second phase but have not ruled out international institutions joining the deal. The estimated value of toll revenues over the concession is \$24 billion, with the first phase accounting for \$11 billion, or \$570 million per year. The sponsors will not have to contribute as much equity on the second phase to give the two phases a combined 75/25 debt/equity ratio. The high equity requirement for the first phase offsets the risks posed by the lack of a debt service reserve account and other contingencies.

The sponsor consortium has an option to refinance the phase one debt as part of the financing for phase two, but may instead seek a top-up loan for phase two. Debt refinancings are unusual in the Turkish banking market, because domestic lenders prefer to keep loans on their books. If the Gebze-Izmir sponsors pursue a refinancing it would set a precedent for future deals in the country, though any refinancing is likely to involve some kind of fee being paid to the lenders.

Otoyol Yatirim Ve Isletme

STATUS

Closed 15 March 2013

SIZE

\$2.8 billion

DESCRIPTION

Construction of the 58km first section of the Gebze-Izmir toll road project, which will run between Gebze and Orhangazi and includes the Izmit Bay Crossing Bridge.

DEBT

\$1.4 billion

SPONSORS

Astaldi, Nurol Holding, Ozaltin, Makyol, Yuksel, Gocay.

LENDERS

Akbank, Finansbank, Garanti, Halkbank, Isbank, Vakifbank, Yapi Kredi, Ziraat Bank.

SPONSORS FINANCIAL ADVISER

Herguner Bilgen Ozeke

LENDERS LOCAL LEGAL ADVISER

Can Verdi

LENDERS INTERNATIONAL LEGAL ADVISER

Clifford Chance

TECHNICAL ADVISER

Dolsar

EPC CONTRACTOR

NOMAYG (sponsor consortium)

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