DEAL ANALYSIS: Arctic Infrastructure

31/10/2013

The C$141.98 million ($138 million) bond financing for Arctic Infrastructure almost set a new low in Canadian PPP spreads. Bookrunner and financial adviser CIBC World Markets priced the 34-year issue at 185bp over the interpolated equivalent government of Canada bond, for a 5.092% coupon.

The spread equalled the 185bp spread over benchmark on the C$87 million in 29-year CIBC-led bonds that Hochtief and Concert closed for the Alberta Schools III PPP, in September 2012. But the Arctic issue, for the Iqaluit airport PPP in the Canadian territory of Nunavut, is for an unusual asset.

Arctic Infrastructure Limited Partners

Status

Priced 11 September 2013

Size

C$321 million

Description

Upgrade to Iqaluit airport, Nunavut, Canada

Grantor

Government of Nunavut

Government contributions

C$153.5 million

Sponsors

InfraRed Capital (80%), Bouygues (10%), Sintra (5%), Winnipeg Airports Authority (5%)

Equity

C$22 million

Debt

$141.8 million

Bookrunner and financial adviser

CIBC

Dealers

RBC, Scotia, National Bank, Casgrain

Sponsors legal adviser

Farris

Underwriter legal adviser

Stikeman Elliott

Insurance adviser

Willis

Technical adviser

Faithful+Gould

Grantor financial advisers

Partnerships BC, PwC

If Iqaluit cannot claim to be the cheapest Canadian PPP financing, it can brag that it is the northernmost PPP to reach financial close in Canada (and thus, anywhere), and the first availability payment-based financing for an airport anywhere. Despite these novelties, and perhaps because of a recent scarcity of Canadian PPP bonds, it demonstrates that the Canadian bond is still highly competitive.

The sponsors of the issuer, Arctic Infrastructure Limited Partners, are InfraRed Capitals Infrastructure III General Partner (80%), Bouygues (10%), Bouygues subsidiary Sintra (5%), and Winnipeg Airports Authority (5%). The issuer holds a 30-year design-build-maintain-rehabilitate contract for Iqaluit International Airport in Iqaluit, Nunavut. Winnipeg Airports will be the operator of the new facility.

The project entails building a new terminal and combined services building, rehabilitating the airports runway, apron and taxiway, as well as improvements to the airports electrical and lighting systems, roads, and car park. Bouygues (53%) and Sintra (47%) hold the C$229 million design-build contract for the project, with Bouygues putting up a parental guarantee equivalent to 50% of the contract price and a 10% letter of credit.

The government of Nunavut retained Partnerships BC as procurement adviser, and issued a request for qualifications in June 2012. It received a funding commitment of C$77.3 million from the P3 Canada fund in September 2012, a month before it shortlisted three bidders. Nunavut named Arctic Infrastructure preferred bidder in March 2013.

The airport is too remote, and the territorys population, at 31,000, is too small to support a concession with revenue risk. As such, Partnerships BC adapted its standardised project agreement to pass as much operational risk to the private sector as it could.

Construction at the site is only really possible between May and September, and it is not possible to reach Iqaluit by boat year-round. So, a construction period that would last 18 months in more forgiving conditions has a scheduled in-service date of the end of 2017. The sponsors will try to manage the sporadic construction windows by keeping a years worth of construction materials on-site.

Investors concerns centred on the ability of the sponsors to manage construction risk, and to a lesser extent on the credit of Nunavut. Standard & Poors (S&P) rated the bonds A-, but does not rate Nunavut, though Moodys rates the territory Aa1. In the absence of a history of PPP procurement, and without a visible pipeline, the offtake profile practically resembles the federal government.

The federal government-sourced P3 Canada funding accounts for almost half of the governments pre-completion payments, which break down into progress payments (C$86.5 million), completion payments (C$34 million), operations and maintenance payments (C$33 million). Sponsor equity of C$22 million and C$4 million in interest on cash balances meet the rest of the C$321 million projects total cost.

The availability payments feature some deductions for non-performance, but the operations and maintenance component passes through more costs than is typical, including fuel, shipping, asphalt and labour benchmark changes.

S&P estimates that the deal will have a minimum debt service coverage ratio of 1.24x, and an average DSCR of 1.46x. It also notes that the gearing, at 87%, is slightly lower than the 90% that is market standard in Canada. The gearing, combined with the construction risk mitigation measures, highlights the sponsors willingness to help the bonds reach a single-A rating.