DEAL ANALYSIS: L2 Marseille

14/11/2013

The Eu591.5 million ($802 million) L2 Marseille Bypass marks two firsts for the French PPP market. The deal is the first securitisation of Dailly receivables and the first uncovered bond financing for a greenfield French PPP. The Bouygues-led consortium Phoceale closed with Allianz Global Investors as sole lender, but the financing required the presence of Crédit Agricole as fronting bank to satisfy the legal requirements of the cession Dailly, the post-construction guarantee of receivables that the French state offers to PPP lenders.

This new structure is a progression from the Seguin City of Music concert hall PPP that closed in July. That deal similarly featured Bouygues as a sponsor and Allianz as a debt provider, but Allianz refinanced commercial bank debt post-construction, and benefitted from a full Dailly guarantee. On the L2, Allianz is sole debt provider, and only half of its commitment will benefit from Dailly cover, with the rest featuring operational risk.

The grantors are the French state through the Ministry of Transport, and the local authorities of Provence-Alpes-Côtes dAzur, Bouches-du-Rhône, and Marseille Provence Métropole. In October 2012 they issued the tender, which also attracted responses from Eiffage and a Vinci-led consortium. Phoceales 30-year design-build-finance-upgrade-maintain concession covers a 10.9km motorway bypassing the urban area of Marseille, divided into the L2 East and the L2 North sections. The project includes eight tunnels and six interchanges and runs through an urban area, which slightly complicates construction, and has a capital cost of Eu511 million. The entire bypass is due to be completed in 2017.

The European Investment Bank (EIB) committed Eu320 million to the project in September 2011, but when Phoceale submitted its final bid in early 2013 it proposed a private placement to Allianz-managed funds. The Allianz option, say sources close to the deal, was superior to EIB debt as it was competitive on pricing, carried lower upfront fees and was simpler to structure.

The total project cost is Eu591.5 million, financed with Eu164.5 million of long term senior debt, Eu396.8 million of subsidies from the state and region, Eu3 million in pure equity and Eu27.2 million in shareholder loans. The debt-to-equity ratio is 84:16.

The senior debt component features two almost equal tranches of bonds, both privately placed to Allianz. The project company Société de la Rocade L2 de Marseille issued one Eu78.8 million 28-year tranche directly to Allianz. A French bankruptcy-remote securitisation vehicle (FCT) issued the other Eu85.7 million 30-year tranche to Allianz, the proceeds of which fund a senior secured loan of the same size and tenor from Crédit Agricole in its capacity as lender of record to the project company. By using a bank as lender of record, the second tranche benefits from a pledge of Dailly receivables, and thus does not feature operational risk.

Moodys rated both tranches of bonds Baa3, due to the availability-based payment mechanism, the strength of the Bouygues-led construction group, a 40% liability cap for the construction

Société de la Rocade L2 de Marseille

STATUS

Closed 7 October 2013

SIZE

Eu591.5 million

DESCRIPTION

Construction of 10.9km urban bypass, connecting A7 and A50 in Marseille, France.

SPONSORS

Bouygues Construction (14%), Colas Midi-Mediterranee (4%), Meridiam Infrastructure Finance II (35%), CDC Infrastructure (35%), Spie Batignolles (7%) and Egis Group (5%)

GRANTOR

French Ministry of Transport, Provence-Alpes-Côtes dAzur, Bouches-du-Rhône, Marseilles Provence Métropole

DEBT PROVIDER

Allianz Global Investors

FRONTING BANK

Credit Agricole

FINANCIAL ADVISERS

Credit Agricole, Societe Generale

SPONSORS LEGAL ADVISER

Clifford Chance

LENDERS LEGAL ADVISER

Wilkie Farr & Gallagher

GRANTORS LEGAL ADVISER

Orrick, Herrington & Sutcliffe

TECHNICAL ADVISER

Aecom

INSURANCE ADVISER

Gras Savoye

contractors and a bank letter of credit equivalent to 10% of the contract price.

Crédit Agricole and Societe Generale bridge the project to the receipt of shareholder loans and pure equity, and these loans will fund during the first seven months after financial close. The project bonds and FCT bonds will be drawn pro rata as construction proceeds. During construction the risk profile of the two bond tranches is identical, and as such their pricing and drawdown schedules are the same. The region and state will contribute their subsidies during construction, alongside the debt drawdowns.

At completion, the two tranches diverge, with the direct bonds exposed to performance risk and the FCT bonds only exposed to French government payment risk. The French state will make Dailly payments directly to the FCT securitisation vehicle, sidestepping the project company. As such, the pricing on the FCT bonds will be much lower than that of the direct bonds. Dailly receivables represent about 21% of the project companys revenues.

The FCT bonds and matching loan will have a debt service coverage ratio DSCR of 1x. The project bonds, on the other hand, should have an average DSCR of 1.79x. Once operational, the sponsors have budgeted lifecycle maintenance of Eu1.6 million per year.

Frances central government has long wanted to create a financing vehicle for Dailly tranches that would encourage new lenders to participate in French PPP, but structuring this securitisation has been both complex and time-consuming. The tender documents for the L2 did not necessarily encourage the use of project bonds. And banks still have several uses. The presence of a fronting for the deal to reach investment grade, and it is still far simpler for banks to provide equity bridge loans and VAT facilities.

This is the first time in France that we see project bonds bearing the all of the construction risk ... This is a first for institutional investors, says Herve Le Corre, head of infrastructure project finance for France at Societe Generale. The involvement of the banks alongside institutional investors remains necessary, but the deal sets a precedent that may open up French PPP.

L2 Contract structure - pre- and post-completion