European Project Bond Deal of the Year 2013: Pendleton

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The funded bond enhancement that appears in the £73 million ($120 million Pendleton social housing PFI competes with the variety of capital markets products that appeared in the UK in 2013. Pendletons debt financing included a subordinated tranche and two institutional lenders, along with a recently-restructured contractor, so the presence of a powerful managing and monitoring agent is integral to the Pendleton templates appeal.

The design, build, finance and maintain contract covers 1,270 existing houses and flats on the Pendleton Estate in Salford, Greater Manchester. Salford City Council awarded the 30-year PFI contract in June 2012 to the SP+ consortium. Construction should finish by early 2017. The Together Housing Group (made up of Pennine Housing Association and Chevin Housing Association) is contributing equity to the project company, Pendleton Together Operating, whilst Keepmoat is the subcontractor for the works.

Keepmoat came out of a restructuring in 2012, when Lloyds Bank became its main shareholder. Its tender financial state meant that an unwrapped bond solution would not be practicable. The sponsors originally lined up a club of commercial banks Allied Irish Banks, Cooperative and Nationwide to finance the upgrades. But in May 2013, the sponsors instead mandated Hadrians Wall to structure a bond issue, which it hoped would beat the banks on pricing.

Aviva and Hadrians Wall launched the Aviva Investors Hadrian Capital Fund 1 in February 2010 to invest in long-term high-yield subordinated bonds for infrastructure projects, alongside institutional investors providing senior bonds debt. The Hadrians Wall structure matched a funded subordinated debt tranche equivalent to 10% of total debt to a senior bond tranche for the remaining 90%. On Pendleton, the fund would have bought the class B bonds and Pension Insurance Corporation was to buy the senior tranche.

But in July 2013 the fund was wound down, as the two managers thought that it would not have sufficient investment opportunities. But Together Housing stuck with the structure. FHW Capital, comprised of former Hadrians Wall managers, continued to advise on structuring the deal.

The bonds priced on 17 September, with Investec as lead manager and bookrunner and a joint venture between FHW and Dalmore as managing agent. Pension Insurance Corporation took £71.71 million of class A senior bonds, which carry a 5.414% coupon.

Gravis Capital Partners, which had made mezzanine commitments to PFI projects before, replaced the Hadrians Wall fund. Gravis Capital bought £10.891 million of class B bonds with

FHW Dalmore
(Salford Pendleton Housing) plc
STATUS
Priced 17 September 2013
SIZE
£95.1 million
DESCRIPTION
Social housing PFI in Salford, Greater Manchester, UK
GRANTOR
Salford City Council
SPONSORS
Chevin Housing Association (50%),
Pennine Housing Association (50%)
BOND INVESTORS
Pension Insurance Corporation,
Gravis Capital Partners
ISSUER MANAGING AGENT
FHW Dalmore
BOOKRUNNER/LEAD MANAGER
Investec
SPONSORS LEGAL ADVISER
Devonshires
MANAGING AGENTS LEGAL ADVISER
K&L Gates
BOOKRUNNERS LEGAL ADVISER
Berwin Leighton Paisner
GRANTORS LEGAL ADVISER
Addleshaw Goddard
SPONSORS INSURANCE ADVISER
Marsh

an 8.35% coupon. Both tranches have 29-year maturities.

The bond issuer, FHW Dalmore (Salford Pendleton Housing), lends on the proceeds of the two tranches to the project company as a single senior loan. The managing agent then distributes the payments under that loan accordingly to the two types of bondholder.

LENDERS INSURANCE ADVISER
JLT
TECHNICAL ADVISER
EC Harris

The not-for-profit sponsors contributed £1,000 of nominal equity, and a subordinated shareholder loan of £12.5 million. During construction the council will contribute £36 million, equivalent to 50% of the unitary charge. The financing documentation defines how much discretion the agent has in dealing with events, grouping them in tiers according to their severity.

The mitigate construction risk, the financing benefits from a £3 million construction reserve account, a £3 million equity reserve, a £4 million letter of credit from Lloyds, a 15% performance bond and a parent guarantee from Keepmoat. If the senior debt service coverage ratio falls below 1.3x, or Keepmoat fails to meet the longstop completion target, cash is trapped for the benefit of bondholders.