Latin American Project Bond and Overall Latin American Deal of the Year 2013: Eten

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Peru has the busiest project bond market in Latin America, but deals remain sporadic, and purely greenfield financings are rare. The $132.8 million cross-border private placement for the Eten cold reserve power project in Peru, however, may encourage a brisker pace of project bond issuance.

Eten is the first international project bond with a partial credit guarantee in the region, and the first-ever project bond for a greenfield power project in Peru. Etens sponsors are Grupo Cobra, part of Spains ACS, and Empresa de Mantenimiento, Construcción y Electricidad (EMCE), of Honduran conglomerate Grupo Terra.

Cobra used a $340 million equivalent issue of Nuevo Soles-denominated bonds in 2011 to fund its Taboada wastewater treatment plant. Taboadas success gave the the sponsors enough confidence to choose a project bond to finance Eten.

The prospect of attractive pricing also played a role, says David Vuelta Mitchell, a director for structured finance at ACS. The technical aspects of a cold reserve [project] are not as complicated as other projects, and there is a strong appetite in the Peruvian market for this type of paper, he adds.

But earlier Peruvian project bonds did not include much exposure to construction risk. The only real precursor to Eten was the bond issue for the Paita port terminal, in Perus Piura region. Paitas 2012 bond issue incorporated some construction risk, but benefited from existing cashflows, and nonetheless priced extremely generously.

With Eten, bondholders had two sources of comfort to help mitigate construction risk. The first was a letter of credit from BTG Pactual, the issues placement agent, in support of the obligations of Cobra, which was also the projects engineering, procurement and construction contractor. The second, and more significant, enhancement was a partial credit guarantee from Latin American development bank Corporación Andina de Fomento (CAF).

Eten was also the first international project bond to benefit from a CAF-provided partial guarantee. The guarantee covers 20% of the debt, is available on a pre-default and first-loss basis, and gives the bondholders much greater ability to avoid losses from lower revenues or increased costs. For instance, without the wrap the project could absorb a 47% increase in operations and maintenance, but with a wrap it can absorb a 92% increase.

Planta de Reserva Fría de Generación de Eten

STATUS
Closed 5 December 2013
SIZE
$172 million
DESCRIPTION
223MW dual thermal cold reserve power plant in the Province of Chiclayo, Peru
SPONSORS
EMCE (50%), Cobra (50%)
DEBT
$132.8 million
BOND ARRANGER
BTG Pactual
PARTIAL CREDIT GUARANTOR
CAF
INDENTURE AND PERUVIAN TRUSTEE
Citigroup
SPONSORS LEGAL ADVISERS
Chadbourne & Parke (US); Rubio Leguía Normand (Peru); Cuatrecasas, Gonçalves Pereira (Spain)
BOND ARRANGERS LEGAL ADVISERS
DLA Piper; Estudio Echecopar
CAFS LEGAL ADVISERS
Shearman & Sterling; DelmarUgarte
TRUSTEE LEGAL ADVISERS
Dentons; Miranda & Amado
EPC CONTRACTOR
Cobra

The fully amortising 20-year Reg-S bonds priced on 28 November 2013 for a fixed coupon of 7.65%. Fitch and Standard & Poors both rated the senior secured notes BBB-, with a stable outlook. The sponsors did not market the issue to investors outside Latin America, after deciding the issue was too small to make the effort worthwhile. A $300-400 million issuance would have definitely had European, US and even Asian investors, says Mauricio Gutiérrez, who led the issue for BTG. Cobra and EMCE instead approached Peruvian and Chilean investors, and local buyers predominated.

Peruvian private investment agency ProInversión, in 2011, granted the 20-year design-build-operate-maintain concession to Enersa, another Grupo Terra affiliate, and Cobras Peruvian subsidiary. Terra subsequently transferred its half of the project to EMCE.

The 223MW Eten plant will only dispatch during periods of heightened demand. It was the third of a series of power projects that ProInversión tendered to independent power producers, on behalf of the Ministry of Energy and Mines, which is keen to curb mounting power shortages. Eten and the other cold reserve projects will receive payments from government for making the plants available for dispatch. The government will fund those payments by collecting fees from Perus generation and distribution companies.

The dual-fuel-fired Eten has a high marginal cost, at around $300 per MWh, roughly 10 times higher than Perus average. The plant, which will use a single GE 7FA 5 series turbine, has a long-term fuel supply contract with UNO Petroleos Peru (UNO), another part of Terra. Neither the Peruvian government nor the sponsors, which would have to absorb higher maintenance costs, want to run the plant for long periods of time. The $172 million Eten plant, located in the Lambayeque region, is expected to enter operations in March 2015.