# DEAL ANALYSIS: M8/M73/M74

10/03/2014

The M8, M73 and M74 project in Scotland is by far the largest example to date of the countrys non-profit distributing (NPD) model. The financing backs a £401 million ($668 million) availability payment-based road concession.

The deal is Allianz Global Investors second long-term bond financing for a greenfield road project, after it closed on the L2 Marseille project in October 2013. The M8 is the first bond financing for a UK road PPP road since 2008 and the first unwrapped construction phase project bond that ranks equally with a loan from the European Investment Bank (EIB).

Scot Roads Partnership Finance, the issuer, closed on a sterling bond issue, a direct EIB loan and subordinated shareholder loans on 13 February 2014. HSBC and Crédit Agricole placed £174.8 million of bonds to Allianz Global Investors. Allianz GI acted as investment manager for UK pension trustee Stanhope Pension Trust and Allianz group entities. The bonds are listed on the Luxembourg Stock Exchange, mature in 2045 and priced for a fixed coupon of 5.591%.

The all-in coupon includes commitment fees and fees for a forward starting swap. The bond features deferred drawdowns that are staggered evenly over the construction period, to mitigate negative carry. This is the first time a UK-listed project bond has featured a delayed-draw component, but it required the use of the swap to mitigate risks associated with movements in the lenders underlying benchmark.

The EIB provided an amortising term loan of £174.8 million, which will also be drawn over construction. Both the bonds and the facility will amortise over 31 years. Standard & Poors rated the debt A-.

The sponsors also provided £38.8 million of subordinated shareholder loans for leverage of 90%, whilst the remainder of the financing is rounded out with £12.7 million in pre-completion revenues from the roads.

The project company will receive semi-annual unitary charges from the Scottish government for maintaining the roads. The average annual debt-service coverage ratio is 1.32x. All cash flows remaining after debt service are offset against future unitary charges. The Scottish Futures Trust, on behalf of the Scottish Government, owns a single share in the project company to allow this to happen.

In place of the high-yielding equity investment, the sponsors instead take somewhere in the region of 10% to 15% in interest on the subordinated debt, an amount that is in line with normal sponsor equity returns. Although the government benefits from any excess cashflows after debt repayment, it also stands behind the sub-debt providers in a first-loss position. Under the NPD model, the project pays no corporation tax during the entire concession.

A joint-venture between Ferrovial Agroman (80%) and Lagan Construction (20%) will carry out

**Scot Roads Partnership Project Ltd**

STATUS

Financial Close 13 February 2014

SIZE

£401.1 million

DESCRIPTION

Availability-based 33-year concession to design, construct and operate 37km of motorways in Scotland

GRANTOR

Transport Scotland

SPONSORS

Amey Ventures (20%), Cintra (20%), Scottish Widows Investment Partnership (30%), Meridiam Infrastructure (30%)

BOND LENDERS

Allianz, Stanhope Pension Trust

LOAN PROVIDER

EIB

BOND ARRANGERS

Credit Agricole, HSBC

BOND MONITORING ADVISER

Bishopsfield Capital Partners

SPONSORS FINANCIAL ADVISER

HSBC

GRANTORS FINANCIAL ADVISER

PwC

SPONSORS LEGAL ADVISERS

Ashurst; Burness Paull

LENDERS LEGAL ADVISERS

Linklaters; Shepherd & Wedderburn

GRANTORS LEGAL ADVISER

Dundas & Wilson

LENDERS TECHNICAL ADVISER

Capita Symonds

construction over around three years, whilst Amey is the operations and maintenance contractor. All risks and costs are passed down to Amey during operations with a 100% liability cap.

Additional enhancements include on-demand letters of credit that the sponsors have agreed with relationship banks. They amount to 11% of the engineering, procurement and construction contract price, falling to 5% when construction is complete. Ferrovial Lagan has also arranged for Euler Hermes to provide a performance bond equivalent to 13% of the EPC contract value. The construction venture has a 50% liability cap during construction.

GRANTORS TECHNICAL ADVISERS
Mouchel; Fairhurst
LENDERS INSURANCE ADVISER
JLT
MODEL AUDIT
Operis

During operations the financing benefits from a six-month debt service reserve account, a three-year forward looking maintenance reserve account, a lifecycle deferral account and an additional risk contingency reserve account. The trigger for a default on the debt would be if its debt service coverage ratio falls below 1.05x.

Transport Scotland selected the Scottish Roads Partnership consortium as preferred bidder in August 2013. The contract is to both upgrade and construct 37km of motorway between the cities of Glasgow and Edinburgh.