Samurai loans – new master for Ronin lenders

Angus Leslie Melville

29/03/2018

A wind of change is sweeping the Australian financing market with MUFG closing syndication on its second refi of a major piece of availability-based infrastructure today, leveraging the fearsome might of Samurai lenders.

MUFG is repeating the success enjoyed last October when it refinanced debt on Victoria Desalination, today closing syndication on the Sydney Desalination package.

It has again successfully brought to table a host of regional Japanese banks – some stepping outside of Japan for the first time, others breaking the duck on lending to a foreign sponsor in another country.

The fact that both projects are desalination plants is entirely incidental. What is not incidental is the far-reaching impact of these deals on the Australian market.

Quite apart from the bloody nose being dished out to the US private placement market, these two refis could be a tipping point for long-tenor debt in Australia, revolutionising the financing of infrastructure across the continent where hard mini-perms rule.

The Victoria transaction closed on 19 October (2017) with AquaSure refinancing A$766 million ($603 million) of senior debt with MUFG retaining 20% and Nippon Life taking a similar wedge. Dai-ichi Mutual Life is also understood to have played a significant role. Seven of the remaining lenders are Japanese and there are three non-Japanese institutions involved.

This deal was so impressive that it was named *IJGlobal* Asia Pacific refi of the year at our awards ceremony last week in Singapore.

The first one was anything but a slam-dunk for MUFG. For a start, it stole Victoria away from a couple of banks that had been mandated by the sponsor – AquaSure – to approach the US private placement market.

The promise of a swifter refi process and guaranteed pricing won the day.

The same dynamic stood true with Sydney… however, in this case *IJ* has not been able to determine whether a brace of banks got hoofed off the deal in favour of speed and certainty on margins!

This time…

On this latest deal, the total debt package of A$1.7 billion was refinanced by Sydney Desalination Plant (SDP) at the end of February.

The bit we are most interested here is the A$500 million ($383.5 million) that MUFG underwrote and brought back with a long tenor (for Australia).

Acting as sole MLA, underwriter, bookrunner, swap provider and facility agent on this tranche, MUFG achieved an 11-year tenor on a senior-secured loan to SDP in Aussie and US dollar tranches pricing:

- 170bp over BBSY
- 125bp over Libor

This compares with the A$766 million facility for the Victoria project which priced at 160bp over BBSY for a 15-year tenor.

Nippon Life is understood to have taken a meaningful role in both deals (in the first refi to the tune of around 20% of the debt) and *IJGlobal* hears mutterings that Dai-Ichi was also at the top table (likely on both transactions).

As to the swathe Samurai lenders on the deal, these have yet to be identified. And even when we do identify them, you will likely not know them… unless you have an encyclopaedic knowledge of Japanese regional and cooperative banks, all 220-plus of them.

These lenders do not traditionally step outside their home market, which makes it all the more impressive to see them on this deal, though many are thought to have taken fairly meagre tickets.

As to Japanese banks lending in Australia, this is not uncommon and – given (relative) proximity – they are comfortable operating on the continent, usually following clients… which is entirely not the case here.

SDP is a regulated asset and owned by:

- Ontario Teachers' Pension Plan – 50%
- Utilities Trust of Australia (UTA) – 33.3%
- The Infrastructure Fund (TIF) – 16.7%

New South Wales privatised the plant and pipeline for A$2.3 billion in 2012, signing up to a 50-year lease, backed by a 50-year water supply contract with Sydney Water Corporation. Construction was completed in 2010.

Impact on the Aussie market

It bears remembering that these two transactions are exceptional for being huge deals with sufficiently large debt packages to allow the inclusion of a tranche of something a little more exotic to make sense.

Both projects are stable assets providing services on an availability basis. Neither facility is being utilised by the government at the moment, but when drought strikes the switch is thrown and they are ready to take the strain.

Since going operational in 2010, the Sydney plan has gone through two other refinancings – in 2013 and 2015. Across the SDP refi, the debt was both times arranged with three-, five- and seven-year tenors.

In the 2018 refi, the sponsor was keen to achieve a longer maturity and MUFG was confident of getting over the line with 11 years on the A$500 million tranche. With the earlier deal, the bank went one better by securing 15 years.

Typically, to achieve tenor sponsors are forced to go to the US private placement market. That WAS the only option for Australia and – in the past – it was only for USD. More recently this has broadened out to include AUD. However, the Aussie dollar section would always be limited.

In the Samurai loan arranged by MUFG, *IJ* understands that more than two-thirds was provided in Aussie, the remainder US. And the only reason USD came in to play was that some of the Japanese banks could only lend in US.

And this group of Japanese lenders has deep pockets and is tired of poor returns from the home market, making projects like these all the more tempting. They will only look at lending to OECD countries and one of their closest neighbours that falls into this category has to be a tempting option.

As for the borrower, they seem to prefer pre-payable bank debt over an un-pre-payable bond with a make-hold premium… not to mention the uncertainty of agreeing pricing on the day of close.

Taking all of the above into account, it will be an impressive deal that pips this one for the 2018 *IJGlobal* award for APAC refi of the year.

Revolution – what revolution?

So how can this revolutionise lending in Australia?

Well, it's a bit of an intellectual leap, but there's no reason not to believe – especially given the experience in other infrastructure markets – that, having set the scene with tenors of 15 and 11 years, you will see this repeated in refinances on assets with long-term, predictable incomes.

Indeed, it can only be a matter of time before sponsors start making noises that they too want to see longer tenors achieved in refis… and MUFG will be only too happy to oblige having built a relationship with the regional Japanese lenders.

Continuing along that line, how long will it be before the likes of NAB – which will lend long-term in Europe, but insists that it can only do five to seven years in its home market – starts to push out tenors.

As to the projects this will suit, ports and older-style renewable energy projects with tolling agreements – where the offtaker is taking all of the risk – will surely prove to be a healthy feeding ground for such deals.

The last six months have seen 15 and 11 years – perhaps we are seeing the death throes of the mini-perm solution in Australia as the wall of capital looking for stable returns turns its focus on this market.

Maybe we will even see it on greenfield before long…