

A30 toll road refinancing, Canada

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The refinancing of a project which was intended to divert traffic away from Montreal Island has steered a whole load of Canadian paper across the southern border and into the hands of US investors – a first for a major transport project in the country.

A sponsor consortium led by Northleaf Capital Partners has raised \$1.22 billion in bonds to refinance the A30 toll road project in Québec. The bonds priced on 5 June (2018) and the transaction reached financial close on 14 June.

The refinancing replaces construction loans and covers the cost of an interest rate swap termination fee from the project's original long-term financing closed in 2008. The proceeds will also cover financing costs, fund certain reserves, and provide residual cash flow to the equity sponsors.

Around C\$771 million (\$594 million) of the original construction stage debt was left outstanding before the refinancing.

Crossing the International Boundary

Royal Bank of Canada, HSBC and CIBC were all joint lead arrangers and joint bookrunners on the deal. These three banks also acted as inflation hedge providers.

The refinancing is noteworthy for the significant interest shown by US investors, which has set a benchmark for infrastructure refinancings in Canada. While earlier deals, such as last year's Windsor Essex Parkway PPP, had attracted US pension funds and insurance companies, not to the same scale as the A30.

US investors provided 20% of the \$2.2 billion debt raised. The offering was heavily oversubscribed, with interested investors offering a total of \$3.5 billion which then needed to be scaled back.

A30 is the last in a string of bank financed infrastructure deals which closed in Canada between 2008 and 2010, and so it is not likely to be replicated anytime soon. However, those close to the deal expect US debt investor interest in Canadian assets more generally to continue to grow.

Financing

Nouvelle Autoroute 30 Financement issued the bonds on behalf of project company Nouvelle Autoroute 30. The issuance was split between four tranches:

- \$382.7 million series A senior secured bonds due June 2042
- \$445.6 million series B senior secured bonds due March 2042
- \$211.2 million series C senior secured bonds due March 2033
- \$179.2 million series D senior secured bonds due December 2032

The bonds are understood to have priced with weighted average yields of around 4%. Fitch has rated the bonds BBB+ with a base case average DSCR of 1.33x, a minimum DSCR of 1.25x, minimum PLCR of 1.39x, and five-year leverage of 13.6x. S&P also rated the bonds BBB+.

The original construction was financed with a C\$804 million 30-year term loan provided by the following banks:

- Banco Popular
- Banesto
- Bank of Scotland
- BBVA
- Caja Madrid
- CaixaBank
- DekaBank
- Haitong Bank
- Instituto de Crédito Oficial
- Royal Bank of Canada
- Scotiabank
- Société Générale
- UniCredit

The project

The A30 toll road is a strong-performing asset which benefits from the majority of its revenues coming in the form of availability payments provided by a very strong counterparty – the Province of Québec.

It is a four-lane 74km highway on the south shore of Montreal. The original concession covered management of an existing 32km highway to the east and a 42km greenfield stretch to the west which included a new bridge. The bridge is the only tolled element of the road.

The original sponsors of the project were Acciona and ACS, each holding 50% equity. Both reduced their equity stakes in 2015 but continue to manage the asset. The current shareholding is understood to be:

- Northleaf Capital Partners – 45%
- Teachers Insurance and Annuity Association of America – 37.5%
- ACS – 12.5%
- Acciona – 5%

Availability payments cover the majority of revenues – up to 75% each year and on average 67%, dependent on traffic volumes. A revenue-sharing agreement with Quebec limits upside revenue potential but also provides a downside cushion.

A recent report from the project's traffic adviser Steer Davies Gleave said regional traffic has grown by an average of 1.6% per year between 2000 and 2015, though this is expected to fall to 1.3% in the years up to 2021, and to just 0.9% from 2021 to 2031.

Fitch rates the Province of Québec at AA-, while Moody's gives it a rating of Aa2. As availability payments from the province supplement lower toll revenues, the project is in a strong credit position.

Advisers

Advisers on the refinancing and contractors on the project include:

- Agentis Capital – financial adviser
- McCarthy Tétrault – issuer's local legal counsel
- Skadden – issuer's US legal counsel
- Blake, Cassels & Graydon – lenders' legal counsel
- Paul Weiss – bondholders' legal counsel
- Indra Sistemas – electronic tolling system maintenance contractor (until February 2019)

- DBi Services – O&M contractor (until October 2023)
- Steer Davies Gleave – sponsors’ traffic and revenue adviser
- Capita – lenders’ technical adviser

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