

Valladolid-Segovia highway project

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While Spanish construction companies, and their relationship banks, have recently been more notable for their overseas expansion, the domestic market which provided a launchpad for their growth continues to thrive

The regional authorities have long embraced the role of the private sector in upgrading the country's road network, and the consistent political will combined with a sound legal framework has led to a steady stream of medium-sized deals.

Spain's flourishing PPP market produced a record deal in December 2005 in the €4 billion Madrid Calle 30 scheme - Europe's largest road PPP to date which made Spain one of the PPP market leaders.

The two-phase project involved upgrading and rerouting 99km of Madrid's inner orbital - 56km of which will be in tunnels. The first €2.85bn phase is divided into 17 sections - four of which have already been completed - in four regions across the city.

Valladolid-Segovia highway project

In July 2005 the government of Castilla y León put on the market two contracts for the development of two stretches of the CL 601, a national highway stretching between Valladolid and Segovia in north eastern Spain.

After redrawing the environmental assessment and a draft of the project itself, in May 2005 the authority had started construction on an 8km stretch outside an exit in Segovia - with an investment of €11 million.

The final objective of the regional government with the concessions was to double the capacity of the road through adding two lanes in each direction.

These projects have been made a priority by the government of Castilla y León. The roads form part of the authority's strategy to link together all the major cities of the province with high-capacity roads - a formal commitment included by the governor's election manifesto.

The Valladolid-Segovia highway is one the main connectors for the community. It caters for one of the most important traffic flows in the region, reaching 8,000 vehicles per day in the proximity of both cities and contributing to the accessibility of a good deal of the territory.

As well as the important to the region, the road is a fundamental link within the national road network. Once developed, it will serve as an alternative connector between the capital Madrid with the Valladolid-León and Valladolid-Palencia-Santander hubs.

In January the government of Castilla y León awarded the two contracts to two consortia led by Sacyr Vallehermoso and ACS respectively. The contracts involved construction on two tranches - totaling 92km - with investment of around €195

million in total.

The two tranches run from Segovia to Cuellar (49km) and from Cuellar to Valladolid (43km). Respectively, they would be developed by:

- Sacyr
- Itinere Infraestructuras
- Construcciones y Contratas Lerma
- Rio de Los Ausines
- Dragados Concesiones de Infraestructuras
- Cyopsa Sisocia
- Caja Duero

In 24-26 months, the consortia would have to upgrade the existing infrastructure by doubling the capacity of the carriageway.

Under the shadow toll system, the government rather than road users will pay a toll for every vehicle that uses the road.

The two roads are scheduled to be operational in 2008. Sacyr hopes that its tranche from Segovia to Cuellar will register around 10,000 vehicles a day.

While the ACS-led consortium is working on the financing with Caja Madrid, Sacyr reached financial close on 2 November 2006 securing a senior debt facility of €99 million.

Financing

The financing was put in place by MLAs Banco Español de Crédito (Banesto) and the Royal Bank of Scotland.

To fund the total project value of €113 million and the consortium secured a €99 million debt facility with a 2034 maturity.

The €99 million senior debt was split into two tranches:

- loan term - €95 million
- contingent debt facility - around €5 million

The financing structure also included a €13 million VAT facility.

The debt was syndicated between a group of local and international banks:

- Caja de Ahorros y Monte de Piedad de Segovia
- Fortis Bank
- Bank of Scotland
- Caja de España de Inversiones

The consortium provided an equity stake of €17 million on an 85:15 debt:equity ratio - which should have allowed the consortium to benefit from a standard market price of debt.

The shadow toll-mechanism means that the consortium will not face commercial risk.

Conclusion

Sacyr decided to join the project as 'the concession would provide work volume for the company's constructor and turnover for Itinere [a subsidiary of Sacyr] as a contractor.'

The company agrees that the Spanish market is going to soar in the near future, particularly due to the commitment of the regional government.

A spokesperson for Sacyr explains: 'Every Spanish administration is convinced of the competitive advantages which mean to have modern transport infrastructures.'

The development of transport infrastructures is an essential requirement for the complete comparison of Spain with the most advanced European and worldwide economies. It is a challenge shared by the Administration and companies.'

With the financing institutions working to close the second tranche of the road, we will see how two similar projects - as the two tranches have similar length - are developed together and closely to each other.

The growth of Spain's transport market has been both a cause and a consequence of a growing economy and property market and looks sure to contribute to the confidence of investors in working in the transport sector.

In addition to this the Spanish roads market is set for another boon. Spain's concession contracts - awarded around 25 years ago - are about to expire and we will see interesting movement once the government needs to reshape them.

The project at a glance

Project Name	Valladolid-Segovia Highway
Location	Segovia (Autonomous Region of Castilla y León - Spain)
Description	Upgrade, maintenance and operation of the 49km stretch of road between Valladolid and Segovia (the Carretera CL-601)
Sponsors	Itínere Infraestructuras, S.A., Sacyr, S.A.U., Río de los Ausines, S.L., and Construcciones y Contratas Lerma, S.L.
Operator	Sponsors
EPC Contractor	Unión Temporal de Empresas formed by the Sponsors and named "UTE Cuellar-Segovia, Unión Temporal de Empresas, Ley 18/1982 de 26 de Mayo"
Project Duration (Including construction)	The financing lasts until October 15, 2034; The concession was awarded for 35 years
Total Project Value	€113 million
Total equity	€17 million
Total senior debt	€99,538,154
	Tranche 1 (loan term) - €95 million
	Tranche 2 (contingent debt facility) - around €5 million
VAT facility	€13 million
Debt:equity ratio	85/15
Mandated lead arrangers	Banco Español de Crédito, S.A. and The Royal Bank of Scotland, Plc.
Participant banks	Caja de Ahorros y Monte de Piedad de Segovia; Fortis Bank, S.A., Spanish Branch; Bank of Scotland, Spanish Branch and Caja de España de Inversiones, C.A.M.P.
Legal Adviser to sponsor	Internal
Financial Adviser to sponsor	Internal
Legal adviser to banks	Jones Day
Financial adviser to banks	Internal
Date of financial close	2 November 2006

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