

Reliance Rail US\$2.8 billion rolling stock PPP

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After a two-year bidding process Australian developers and financiers have closed the country's largest PPP deal so far - the Reliance Rail PPP

The state of New South Wales has also innovated by applying the DBFO structure to a rolling stock deal which at US\$2.8 billion (AUS\$3.6bn) deal is the largest train order in Australia's history.

A consortium of Downer EDI, ABN Amro Australia, Babcock & Brown and AMP Capital won the contract to design, deliver and maintain 626 carriages for Sydney's train network - in partnerships with RailCorp, New South Wales' state-owned railway operator.

The 35-year project benefits from insurance guarantees and features a sophisticated financing structure incorporating wrapped bank debt, wrapped bonds and swaps.

Background

The project was announced as part of a raft of transport and health PPP deals in the Australian south east region and was launched by premier Bob Carr in 2004.

New South Wales-owned train operator RailCorp began the formal tender process in August 2004 with a request for expressions of interest by October.

In December 2004 RailCorp decided to invite proposals for a minimum of 208 single deck carriages to be included as well as double deck carriages. It later decided to go for double-decked carriages - as it reckoned they offered better value for money.

In March 2005 authorities put together a shortlist of two consortia to battle for the project - which at that stage was valued at US\$1.18bn and meant to replace 490 carriages on Sydney's suburban rail network.

The consortia in the race for the first phase of the project to manufacture, supply and maintain 290 double-decked cars were:

- Star Transit - comprising United Goninan of Australia and Mitsubishi Electric of Japan
- Reliance Rail - which included Australia's Downer EDI, Hitachi, ABN AMRO and AMP Capital Investors

Later in May 2006 the premier of New South Wales announced that the number of carriages to be procured through the PPP would be increased to more than 600 to accommodate passenger growth on the network.

The PPP would therefore be a single contract for the successful proponent to provide 72 eight-carriage trains for timetabled service every day. The winner of the contract would need to manufacture additional carriages for maintenance spares - and construct the facility where the trains would be maintained.

The main objective of the venture was to deliver a modern, safe, reliable and air-conditioned fleet for the Sydney urban

network - with the private sector having responsibility for the design, manufacture, financing and maintenance over a long period.

The Reliance Rail consortium saw off stiff competition from Star Transit. The latter, apparently, had declared that it was very confident to win the battle.

Downer EDI managing director Steven Gillies said 'They said they felt they had an advantage - but we had a superior technical capability having built the Millennium Train'.

The Millennium train portfolio is part of Sydney's electric fleet of fourth generation trains. It was manufactured by EDI Rail - part of Downer EDI - and put into service from June 2002.

This train project came in for heavy criticism as it presented several technical problems caused by insufficient power supply on the overhead to cope with the power demands of such technologically advanced trains.

However, on 10 November 2006 Reliance Rail was awarded the contract for the project. To the Downer EDI-led consortium.

The consortium presented an attractive plan to the authority including a commitment to spend US\$15m (AUS\$20m) upgrading its Cardiff manufacturing facility in Newcastle, north of Sydney, to cater for the contract.

The consortium contracted an international team of construction and engineering firms to complete the order.

A Downer EDI - Hitachi Joint Venture will design, manufacture and commission of the rolling stock and train simulators. The Japanese 'bullet' train maker agreed to provide the traction control system for the trains as part of the joint venture with Downer EDI.

Downer EDI will also outsource partial construction of the rail cars to the Chinese Changchun Railway Vehicle Company (CRC) - which is building 540 stainless steel railcars for the Beijing Metro, including those servicing the airport line for the 2008 Olympic Games.

The Australian firm said that between the most immediate investments there will be an US\$157 million (AUS\$200m) purpose-built maintenance facility - to be contracted to John Holland Group.

Financing

The team players in consortium brought technical and financial expertise to the project - ABN Amro Australia and Babcock & Brown Public Partnerships acted as joint financial advisor for the project, as well as sponsors.

The investment for the consortium was of around US\$2.8 billion (AUS\$3.6bn) and was financed through a mixture of:

- equity
- wrapped Bond
- wrapped swaps
- wrapped bank debt

The equity funding amounts to around US\$106 million (AUS\$135m) provided by the consortium with the following breakdown:

- Downer EDI with a 49 per cent stake - investing around US\$51 million (AUS\$66m)
- AMP Capital Investors - 25.5 per cent and around US\$27 million (AUS\$35m)
- ABN Amro - 12.75 per cent and US\$14 million (AUS\$17.43m)
- Babcock & Brown -12.75 per cent and US\$14 million (AUS\$17.43m)

The remainder was raised within the markets through a bond issue and commercial loans.

ABN Amro was the sole underwriter for the issue of domestic credit-wrapped bonds. Roadshows for the bonds were completed on 24 November and the bond is expected to price on 15 December - the sale being expected to close before the year-end.

The banks which provided the loan facility were:

- Westpac Banking Corporation
- National Australia Bank
- Mizuho Corporate Bank
- Sumitomo Mitsui Finance Australia
- Citibank

The debt facilities - bank, bonds and swaps - has been guaranteed by US based firms Financial Guarantee Insurance Corp and XL Capital Assurance which wrapped 50 per cent each of the debt facilities.

The insurance component added value to the deal giving it a sound financial profile throughout the 35-year period.

After the signing of the contract, for financial year 2007 Downer expects US\$78m (AUS\$100m) revenues boosting to US\$117-141m (AUS\$150-180m) in 2008.

The firm forecasts a margin of 6 to 9 per cent for fiscal year 2007 - while the trains are being manufactured. After construction the margin could reach 9.7 per cent.

The contract features a mixed nature, involving a fixed price for the design and manufacturing part and a CPI-linked mechanism for the maintenance side.

Conclusion

The deal is significant for its scope, the contractual work behind it and the financing structure.

The consortium squeezed in a 35-year maintenance contract, the production of an impressive number of railcars and the construction of a US\$157m (AUS\$200m) maintenance facility - the latter being considerable infrastructure project itself.

The deal has also demonstrated the potential for rolling stock provision on a PPP basis which may go on to set an international precedent.

Project director Greg Pauline said: 'Getting to contract close was more of a challenge than financial close - our financiers had been brought through contract close and were all very aware of our contract commitments and risks.'

'It is fair to say that it was a considerable coordination exercise to ensure the necessary information was available to equity and debt participants to ensure they had sufficient time to review the various transaction issues.'

The main sponsor, Downer EDI, put a lot at stake but it also benefited from the support of different players with different expertise - which minimise the risk until completion of the project.

The project at a glance

Project Name	Reliance Rail PPP
Location	Sydney, Australia
Description	DBFOM for 626 train carriages for Sydney's railway network
Sponsors	Downer EDI AMP Capital Investors ABN Amro Babcock & Brown
Operator	RailCorp
Project Duration (Including construction)	35 years

Total Project Value	US\$2.8 billion. The rolling stock contract value is estimated to be worth \$3.6 billion. There are additional project costs throughout the term of the deal associated with the maintenance of the trains.
Total equity	US\$106 million
Equity Breakdown	Downer EDI - US\$51 million (AUS\$66m) AMP Capital Investors - US\$27 million (AUS\$35m) ABN Amro - US\$14 million (AUS\$17.43m) Babcock & Brown - US\$14 million (AUS\$17.43m)
Total Debt	US\$1.8 billion (AUS\$2.35bn)
Debt instruments	mixture of wrapped bonds, wrapped debt and wrapped swaps
debt insurers	Financial Guarantee Insurance Corp and XL Capital Assurance - 50 per cent each
Bond underwriter	ABN Amro
Syndicated bank debt arrangers	Westpac Banking Corporation National Australia Bank Mizuho Corporate Bank Sumitomo Mitsui Finance Australia Citibank
Legal adviser to banks	Mallesons Stephen Jaques
Financial adviser to government	Price Waterhouse Cooper
Legal adviser to sponsor	Blake Dawson Waldron
Financial Adviser to sponsor	ABN Amro and Babcock & Brown
Legal adviser to government	Clayton Utz

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