Maher Terminals acquistion

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Against a background of global economic growth driven by trade including maritime trade, the container port and terminal sector has been attracting massive new investment - both from operating companies and external investors

The acquisition of the privately-held Maher Terminals, one of the largest container terminal operators in the Port of New York & New Jersey by RREEF - the asset management division of Deutsche Bank - is a sign of investor appetite in the fields of terminal marketing, operations and development.

The market environment in which container ports and shipping lines are operating is substantially changing, driven by the convergence of rapid industriaisation in emerging markets with the large-scale adoption of the container since the late 1960s.

Worldwide container port throughput increased from 36 million TEU (twenty-foot equivalent unit) in 1980 to 266 million TEU in 2002 - and forecasts point to between 432 and 468 million TEU in 2010.

While the Atlantic Rim (stretching 1,000km from New York in the north to Georgia in the south) is the cradle of containerisation, economically dynamic East Asia has become the world's main container region.

The increase in world containerisation is the result of the relationship between the income and investments of a country as a whole, particular aspects of an economy and policy-oriented factors.

World trade is facilitated through the elimination of trade barriers and the liberalisation and deregulation of markets.

The general markets indicate that the public sector has redefined its role in the port and shipping industries through privatisation schemes.

RREEF's takeover

RREEF Infrastructure agreed to purchase Maher Terminals in March 2007. It is strategically located in Port Elizabeth, New Jersey a preferred commercial location.

It also operates harbour facilities at the Port of Prince Rupert in British Columbia, Canada.

Maher's operation serves as a vital link in the cargo movement chain, enabling companies to compete in the world marketplace by handling their cargo as expeditiously and economically as possible.

Under the agreement, RREEF Infrastructure will acquire Maher Terminals, a family-owned and operated company and will now hold the remaining 23 years left on the existing lease.

The Port Elizabeth facility is a 1,254 acre site and is part of the Port Newark-Elizabeth Marine Terminal where RREEF Infrastructure has committed to invest US$114 million in capital expenditure into the facility throughout the lease period.

Maher Terminals also received permission before the completion of the acquisition to construct a terminal in Prince

Rupert which is expected to be completed in late 2007.

The Port of Prince Rupert is the deepest ice-free natural harbour in North America.

Maher Terminals reached an agreement with the Port authority of NY & NJ to pay US$22 million in cash to the Port Authority, which would be reinvested in port infrastructure.

Financing

Citigroup and Dexia joined RBC as mandated lead arrangers and underwriters of the senior debt in May - backing RREEF's acquisition of New Jersey port operator Maher Terminals.

At the time, pricing was not given but it was said to be in line with the recent Orient Overseas International (OOIL) terminals deal [projects database].

US ports facilities with strong economic profiles – that is businesses with growth potential and already generating cash flow streams – are not surprisingly very attractive assets to hold on to. Coupled with credit facilities that incorporate robust covenants, buyers have been able to fund these deals with highly leveraged loans.

In contrasts to traditional project finance where sponsors tend to rely mainly on cash-flow stability to recoup their investments, buyers of up-and-running infra assets need to see the business perform to be able to get their money back.

This is usually measured by the debt-to-revenue and the debt-to-EBITDA (earnings before interest, taxes, depreciation and amortisation) multiples.

Recent port buy-outs in the US have been financed with 13x to 13.5x EBITDA multiples and Maher was no exception. To put this into context, EBITDA multiples for other transport buy-outs have ranged from 8.75x for B&B’s acquisition of WestNet Rail in Australia to 16x for Ferrovial’s acquisition of BAA’s airports in the UK.

These acquisitions rely on achieving aggressive revenue and EBITDA targets on the back of projected growth in the traffic of maritime containers or tonnage as well as on tariff increases.

The completion of the acquisition in July of Maher Terminals allowed figures to be defined with total equity standing at US$36.7 million (tranche 1) and senior debt US$1.23 billion.

The debt package is structured as a seven-year US$1.08bn senior facility (tranche 2) and eight-year US$150m junior facility (tranche 3).

The senior facility includes:

- US$800m of term debt
- US$260m capex facility
- US$20m revolver facility

Citigroup, Dexia and RBC are underwriting a third each of the senior facilities while RBC is the sole arranger of the junior portion.

The MLA's contribution is:

- Citigroup - US$360 million
- Dexia - US$360 million
- RBC - US$360 million

Pricing is linked to EBITDA multiples starting at 13x. If the EBITDA multiple is lower than 13x, then pricing drops from 150bp to a minimum of 70bp when EBITDA is 7x or lower.

Pricing for the senior facility is Libor + 70bp-150bp.

The junior facility has RBC as sole MLA with pricing for the junior facility Libor + 375bp.

The financial adviser to RREEF was Deutsche Bank with White & Case providing legal services.

Greenhill & Co acted as financial adviser to the government, Vedder Price providing legal and PB Consult on technical.

Completed acquisitions this year

Global growth in maritime transport and cargo is being reflected in acquisitions and mergers for shipping lines and terminal operating companies. At the same time, the pressure for greater economy is intensifying (Infrastructure acquisition finance).

Acquisitions to have been completed this year include:

Orient Overseas Marine Container Terminals Acquisition

The project involved the the acquisition of four North American marine container terminals from Hong Kong-based Orient Overseas International (OOIL).

It included terminals in the US and Canada and represents the largest container terminal acquisition in North America, as well as the largest North American port financing done in the syndicated loan market [projects database].

The total leverage was can be compared to the Maher Terminals deal, although the senior leverage was lower.

The OOIL financing - the first widely-syndicated ports financing this year - was a US$2.35 billion acquisition of four major ports; two in New York and New Jersey, two in Vancouver.

The US$1.88 billion debt for this deal was arranged by RBS and RBC in two currencies - with three tranches - each with a tenor of 7 years.

Pricing stood at 140bp+Libor as a starting point, then dependent on a debt to Ebitda grid.

Leverage started at 13.5x, if the leverage was reduced to 11x then pricing would drop to 130bp+LIBOR and would continue at a similar ratio.

Amports Automotive Processing Terminals Acquisition

It involved the acquisition of automotive processing terminals at ports across the US with ports facilities in:

- Jacksonville
- Florida
- Benicia
- California
- Baltimore
- Maryland
- Brunswick
- Georgia
- facilities on both coasts of Mexico

Total project value and debt was US$270 million with AIG Highstar acting as sponsors [projects database].

It had a term loan (tranche 2) of US$255 million with a 7-year maturity and pricing at Libor + 150bp.

Tranche 3 was underwritten by Citigroup with a US$15 million revolver facility with a revolving credit facility. It reached financial close in June 2007.

Project Starboard Montreal Gateway Terminals Acquisition

The project involved Morgan Stanley's 80 per cent stake of the Montreal Gateway terminals from German-based shipping firm TUI which reached financial close in May 2007 [projects database].

The deal covered 2 leasehold container terminals with a capacity of more than 1.1 million TEUs per year at the Port of Montreal.

Total project value was US$477 million with total equity at US$189 million (tranche 1) provided by Morgan Stanley Infrastructure Partners.

Total debt was US$288 million (tranche 2) in the form of a term loan with a maturity of 10 year with Royal Bank of Scotland acting as loan arranger.

Pricing is initially Libor + 250bps and then varies between 60 and 110 bps dependent on the ratio of debt to EBITDA.

RBS is also providing a US$33 million capital expenditure facility.

Acquisition of P&O Ports North America by AIG

The deal involved the acquisition by AIG Highstar of P&O's US ports from United Arab Emirates' giant port company DP World [projects database].

The sale was forced by the US judicial decision that the Dubai Company's ownership of the ports was against strategic national interests.

Six ports were included in the deal; they were the New York/New Jersey, Baltimore, Miami, Tampa, New Orleans and Philadelphia.

Total project value was US$1.364 billion with total equity US$409 million (tranche 1). Total debt was US$955 million (tranche 2).

Tranche 2 was a term loan with a seven year facility, pricing started at Libor + 150bp until the end of 2008, thereafter it is tied to a EBIDTA grid: if leverage is 8.5x pricing is 150bp; if leverage falls to 8x pricing it is 135bp; 7x=120bp; 6x=105bp; 5x=90bp and if less than 5x=75bp.

The loan breaks down into a US$575m senior secured term loan, a US$120m secure delayed term loan, a US$225m revolver, and a US$35m senior secured capex facility.

Loan arrangers for the project were:

- Citigroup - US$155 million
- Dexia - US$130 million
- Caisse de Depot et Placement du Quebec - US$150 million
- BNP Paribas - US$130 million
- NordLB - US$130 millionUnion Bank of California - US$130 million
- Lehman Brothers - US$130 million

P&O Ports reached financial close in March 2007.

Conclusion

Terminal operators are facing increasingly fast-changing and challenging times. Technological advances, deregulation, logistics integration and associated new organisational structures, in particular, are constantly reshaping the port and maritime industries.

Global maritime is directly linked to world GDP growth and the latter shows no signs of a abating soon. That, however, cannot be said about financing for the acqusition of port facilities.

The current global credit crunch is likely to affect deals in the pipeline as lenders would struggle to sale their underwritting commitments down.

The project at a glance

Project Name	Maher Terminals Acquisition
Location	USA
Description	The acquisition of Maher Terminals a marine terminal operator with assets in the Port of New York/New Jersey and Prince Rupert, British Columbia (Canada) by RREEF - Investment Management arm of Deutsche Bank
Sponsors	RREEF Infrastructure - (part of RREEF alternative investments - the investment arm of Deutsche Bank)
Total Project Value	US$1.266.7 billion
Total equity (Tranche 1)	US$36.7 million
Total senior debt	US$1.23 billion
Senior facility (Tranche 2)	US$1.08 billion
Senior facility breakdown	US$800m of term debt US$260m capex facility US$20m revolver facility
Maturity	7 years
Pricing	Libor + 70bp-150bp
Mandated lead arranger for senior facility	Citigroup - US$360 million Dexia - US$360 million RBC Capital Markets - US$360 million
Junior facility (Tranche 3)	US$150 million
Maturity	8 years
Pricing	Libor + 375bp
Mandated lead arranger for junior facility	RBC Capital Markets
Legal adviser to bank	Linklaters
Legal Adviser to sponsor	White & Case
Financial Adviser to sponsor	Deutsche Bank
Legal adviser to government	Vedder Price
Financial adviser to government	Greenhill & Co
Technical and commercial adviser to government	PB consult
Date of financial close	28 June 2007