London Gateway Port Phase I, UK

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In closing the long-term financing for its London Gateway project in December 2011, DP World weathered not one but two storms: the global financial crisis of 2008 and the eurozone sovereign debt crisis that affected most of its lenders.

Background

DP World inherited the project from P&O when it took over the British shipping line in 2006. The project's remit was ambitious: to create an international hub for container shipping, and potentially the busiest container port in the UK on eventual completion, ahead of current leader Felixstowe.

It was to be situated in the river Thames estuary, on the site of the former Shell refinery at Stanford-le-Hope in Thurrock, Essex, about 40km east of London. As such, it would benefit from the best tidal window in the UK. The port was to be combined with Europe's largest logistics park, encouraging manufacturers to use the port to reduce the need to transport containers around the country.

As a publicly quoted company, DP World is shy about exposing the raw guts of London Gateway's gestation to the outside world. But it's beyond dispute that the sponsor and its financial advisers, RBS and Société Générale, first approached bank markets in 2009 seeking a long-term financing solution for the estimated £1.5 billion project. But not only were bank markets in crisis, the shipping market was plunging.

According to DP World's annual report for that year, global container volumes fell by 12 per cent across the industry; the firm itself fared well with a fall of just six per cent. At one point, the *Financial Times* was reporting that DP World had applied for tax incremental financing through the local council, without which it thought the project would not be viable. By the end of 2009, the market approach was quietly dropped.

But DP World carried on with its project: on 4 January 2010 it announced its intention to proceed with developing infrastructure at the site. It had spent the previous year completing acquisition of all 1500 acres (607ha) of land for the port and logistics park, of which the latter is being developed outside the long-term financing. Construction officially got underway in January and major works, including dredging, in March; by July, three million m^3 of dredging had been carried out. This work lay within the scope of the long-term financing, but in the absence of a deal it was carried forward to count towards sponsor equity.

It was not until the second quarter of 2011 that DP World felt ready to go back to the markets with a new call for offers to finance development of the first phase. Bank markets had stabilised, and the sponsor was still seeking a long-term financing with a 20-year tenor.

Risk and mitigation

The challenges facing the bank market were significant. The port was to be a wholly greenfield development, requiring heavy reliance on traffic forecasts and presenting significant ramp-up, volume and revenue risk. On the one hand, the ownership structure meant there was no fixed-term concession with a limited time-span to overcome ramp-up problems; on the other hand, the SPV was a large and very complex company which had entered into and would continue to enter into a myriad of contracts. As with most port developments, the deal was too intricate to provide a turnkey contract or an EPC guarantee.

Conrad Anderson and Jocelyn Land of Allen & Overy, who joined the project as legal advisers to the sponsor (alongside Norton Rose) in 2009, observe: “London Gateway is a real living company which has and will continue to enter into numerous contracts in exactly the same way a utility company does... Signing the financing is giving the business the capital to develop and extend over the foreseeable future.”

In autumn 2009, the EIB announced it was looking at supporting the project with £300 million of facilities. A possibility considered was to split the money into £100 million of direct lending, £100 million covering commercial banks and £100 million under the LGTT loan guarantee programme for Trans-European Transport network (TEN-T) projects, as designated by the European Commission.

As one such project, London Gateway could benefit from a guarantee facility that covered shortfalls in volume relative to the base case – though not shortfalls in revenue; the facility cannot be subject to tariff fluctuations. This standby facility was also useful in mitigating construction risk.

Dealing with the EIB presented the usual interface issues – the bank has a reputation among commercial lenders for fastidiousness in vetting them for creditworthiness – but also required a new appraisal of the use of the LGTT. The instrument, introduced in 2008, had been used previously on concession projects such as the A5 motorway in Germany and the Tours-Bordeaux high-speed rail project, not ownership deals where the SPV was a living company with assets and staff.

Anderson and Land note: “A big challenge was delivering a long-term project financing with the acknowledgement that there needs to be strong protection for creditors but which recognises the need for the business to be flexible and adaptable and which allows, London Gateway and DP World to contribute the expertise everyone knows that they have.”

Financing

Bank offers went in over June. DP World consented to a cash sweep at year ten, but the deal was still long-term for balance sheet purposes. About £700 million of debt was being sought towards the £1.45 billion deal, the conservative gearing reflecting both the sponsor’s relative newness to project finance and the banks’ sizing up of the risks involved. DP World also used what one source calls a “pessimistic” base case scenario to forecast revenues.

By July or August, nine banks in addition to the EIB had been mandated. They were:

- DnB NOR (now DNB)
- HSH Nordbank - insurance
- Investec – modelling
- KfW - technical
- National Australia Bank - commercial
- RBS - EIB liaison
- Société Générale – EIB liaison
- UniCredit – project documentation
- WestLB – financial documentation

The EIB had by now discounted the possibility of a guarantee facility for commercial banks, and only provided £200 million split equally between senior direct lending and a standby facility under the LGTT.

Nearly four months of work followed on documentation and due diligence, with Clifford Chance as legal adviser to the lenders, Mott MacDonald as technical adviser, Marsh as insurance adviser and Moffatt and Nichol as commercial adviser. If anything, the timeline looks surprisingly short given the complexity of the underlying asset: a port already well under construction and employing staff, preparing to contract with multiple parties for everything from concrete to automated cranes.

One thing that did change, perhaps remarkably given the turmoil into which the bank markets had been flung, is the fundamentals of the term sheet (see below). Attractive pricing meant that margins on debt remained the same from the signing of commitment letters to the signing of debt on 6 December.

“What’s very different about London Gateway is the financing is not the conclusion; it’s another step in a development process which has several phases,” Anderson and Land say. “London Gateway will become a significant operating business like an airport or a utility company.” The initial phase is due to open in the fourth quarter of 2013 with an initial capacity of 1.6 million twenty-foot equivalent units; final capacity is set to be 3.5 million TEUs.

Conclusion

Those who worked on it regard London Gateway as a truly impressive deal, not only because of its considerable scope and ambition – how often is a new port and logistics park created from scratch? – but also because of the challenging circumstances in which it was closed, with the bank market showing more signs of strain – and fewer keen participants – than ever before. It bodes well for DP World’s other greenfield development over the water at Rotterdam. Lenders were able to get their heads round a highly intricate deal with many levels and types of risk in a short space of time.

Project at a glance

Project Name	London Gateway Port
Location	Stanford-le-Hope, near Thurrock, Essex, UK, on the River Thames Estuary
Description	London Gateway will be the newest deep-sea container port in the UK. It is located in Thurrock, Essex, about 40km east of London in the Thames estuary and on the site of the former Shell Haven oil refinery at Stanford-le-Hope. DP World will own and operate the port, which will be built in phases. When complete, the port will have a capacity of 3.5 million twenty-foot equivalent units (TEUs) a year and be able to accommodate the largest deep draught vessels. The quay will be 2,700m long with six berths and 24 cranes. The port will occupy 610 hectares and the terminal site 175 hectares. It will have rail terminals to handle deep-sea and European containers, helping to keep down land-side haulage costs.
Sponsor	DP World (100 per cent)
Mandated lead arrangers	DnB NOR (now DNB) HSH Nordbank - insurance Investec – modelling KfW - technical National Australia Bank - commercial RBS - EIB liaison Société Générale – EIB liaison UniCredit – project documentation WestLB – financial documentation
Total project value	£1.45 billion
Total equity	£695 million
Total senior debt	£594 million, including £100 million of EIB debt
Debt breakdown	£494 million senior commercial bank debt, 20-year tenor with full cash sweep at year 10: equal tickets of £54.89 million. £100 million from EIB and £100 million in 20-year LGTT guarantee. £37.5 million 20-year commercial standby facility in equal tickets of £4.17 million.
Debt pricing	Commercial term loan: 350bps over Libor, rising to 450bps
Debt:equity ratio	50.4:49.6
Financial advisers to sponsor	RBS, Société Générale

Legal advisers to sponsor	Allen & Overy, Norton Rose
Legal adviser to lenders	Clifford Chance
Technical adviser to lenders	Mott MacDonald
Commercial adviser to lenders	Moffatt & Nichol
Legal adviser to EIB	Freshfields Bruckhaus Deringer
Date of financial close	Documentation signed 6 December 2011