

M6 Toll debt restructuring, UK

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At the end of 2013 Australian-listed company Macquarie Atlas Roads (MQA) closed the restructuring of roughly £1 billion (US\$1.6 billion) of debt for the M6 Toll road, also known as the M6 Birmingham Expressway.

The company closed the restructuring after a scheme of arrangement in court, a process of obtaining the approval of at least 75 per cent of creditors. There are about 30 lenders on the deal. The court sanctioned the scheme of arrangement and the restructuring [signed on 13 December 2013](#). The existing debt package will be restructured into a £800 million loan, with bullet maturity in June 2020. £1 billion of shareholder loans have been extinguished.

The Project

The project company Midland Expressway Limited (MEL) holds a 53-year design, build, operate and maintain concession from the Department for Transport. MEL is 100 per cent owned by Macquarie Atlas Roads. Construction was financed with an initial loan in 2000 and the road became operational in 2003. Macquarie Motorway Group is the holding company. The toll road runs for 43km from junction 3a on the M6 to rejoin the M6 at junction 11a.

The previous debt came from a group of about 30 lenders in 2006 and was due to mature in 2015. In 2006 the project refinanced with favourable market conditions and benefited from a BBB rating. As the UK's only toll road, the M6 has

faced dwindling traffic volumes over the last few years and interest rate hedges from 2006 have led to heavy and swelling losses.

The debt restructuring comes as the borrower was facing a 2015 bullet payment of over £1 billion and £1 billion of accreting swaps in place since 2006 were about £550 million out of the money, due to the effects of quantitative easing and low interest rates in the intervening years.

The M6 Toll has suffered declining traffic volumes since its peak in 2006. It was built with a capacity of 100,000 vehicles per day, but from July to September 2012 the average number of vehicles was 39,237 and in the same period for 2013 it was 44,462.

The Financing

The 2006 debt package comprised a £1 billion senior facility which was fully covered by four interest rate hedges of £250 million each, a £12.6 million senior tranche and £1 billion of subordinated shareholder loans.

There are two trigger dates to the 2013 restructuring. On 13 December the court sanctioned the scheme of arrangement and £1 billion of shareholder loans (Eurobond loan notes) were fully extinguished and the amended facilities agreement came into force.

The second trigger will occur once all four existing £250 million swap facilities are terminated. The four swap holders must carry this out by 10 July 2015. Once complete the closed amount of the swaps and the outstanding senior debt from 2006 will be repackaged into a £800 million senior loan, with a bullet maturity on 1 June 2020 and priced at a fixed margin.

The lenders of the debt have remained broadly the same since the 2006 financing with only Natixis and another lender understood to have sold off their participations in the secondary market. There are roughly 30 creditors including:

- Banco Portugues de Investiment
- BayernLB
- BBVA
- Caixa Galicia
- Caja Madrid (now Bankia)
- Credit Agricole
- Dresdner Kleinwort (now Commerzbank)
- Espirito Santo Investment Bank
- Santander
- Mizuho Bank

A newly established holding company, Peregrine Motorways Limited, has been incorporated into the group structure. Lenders have a “golden share” in this company which gives them certain corporate governance rights. The lenders have also appointed a director to the board of Peregrine Motorways Limited, whose vote will be required for certain “reserved matters” giving the lenders increased rights and control over the business.

The lender group will have some provision for introducing cash sweeps on the senior debt, but that is dependent on the performance of the asset. Any remaining claims creditors have will be moved to Peregrine Motorways Limited. This will be junior to the £800 million senior debt and will be non-recourse.

The golden share and the provision for cash sweeps on the new debt have provided reassurance to lenders in the restructuring. As a further incentive to commit to the new deal, those lenders that signed a lock-up agreement in October, binding them to the restructuring, were paid a fee of 10bps.

The Future

MAQ decided to deconsolidate the M6 Toll from its accounts in August this year, resulting in an accounting profit of A\$1.4 billion (US\$1.26bn) for the first six months of 2013. Following the deconsolidation MAQ will take a small fixed annual fee instead, and said in a statement that it “does not expect to receive further equity distributions as all surplus cash flows will be applied to service the new debt.”

The free state-owned M6 motorway, to which the M6 Toll connects, is undergoing construction work to add a new hard shoulder and increase capacity. In the short term the disruptions have pushed traffic onto the toll road and resulted in a rise in revenue in the first half of 2013 by 12.7 per cent to £31.4 million. However in the medium to long term the M6 Toll is ultimately expected to suffer from the increase in competition.

MAQ’s ongoing attempt with the Department for Transport to free itself of an [obligation to build a new link to the M54](#) has not been successful so far. MAQ made an offer to the Department for Transport in June this year to make the road free during peak hours, in exchange. The link would cost £100 million to build.

The refinancing for the M6 Toll has come through many problems and the refinancing of MAQ’s Indiana Toll Road is underway and likely to bear similar difficulties, since accreting swaps also apply. MAQ’s Autoroutes Paris-Rhine-Rhone toll road also faces a 2015 bullet maturity on debt of €1.35 billion (US\$1.8bn) though it is an asset with more stable and mature revenues.

Advisers

On the borrower side Deloitte was financial adviser whilst Freshfields Bruckhaus Deringer was legal adviser. KPMG was financial adviser to the lenders and Linklaters provided legal advice.

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