Passante di Mestre toll road, Italy

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For the Passante di Mestre, an operational real toll bypass around Venice, it has been a sluggish route to obtaining long-term project debt, but credit enhancement from the European Investment Bank has lifted the project's bond rating above that of Italian sovereign bonds.

One subscriber to the €830 million ($946 million) project bond, issued on 12 April 2016, told *IJGlobal* that while they would look at other similar risk-bearing projects in Italy, Passante di Mestre had a number of important advantages.

It is strategically located in Northern Italy at the intersection of various roads crossing Europe north to south and east to west; the EIB provided a subordinated layer of debt; publicly-controlled bank Cassa Depositi e Prestiti (CDP) subscribed to the senior debt; and concession company Concessioni Autostradali Venete (CAV) is publicly owned which may be advantageous in regard to potential future regulatory changes.

Early efforts to refinance

The Veneto Region (50%) and the state motorway operator ANAS (50%) own CAV.

CAV was established in 2008 to repay ANAS for the construction of the new 32km bypass crossing Mestre. The newly built Passante di Mestre (part of the A4) would relieve traffic congestion on the existing A57 Tangenziale crossing the mainland urban area Mestre, which connects to Venice by bridge.

ANAS had financed about €1.01 billion of construction costs with its own resources, but then signed a €350 million bridge loan from the EIB (through CDP) in 2011.

CAV holds a concession until December 2032 from ANAS, for a 74km network comprising Passante di Mestre, the A4 Padua-Venice and A57 Tangenziale di Mestre.

In 2009 the Passante di Mestre opened to traffic, during a financial crisis in Europe. Traffic decreased between 2010 and the first half of 2013.

In 2013 CAV sought €600 million of bank debt from banks, but European banks could not offer more than €250 million between them.

On CAV’s whole network, in 2014 traffic levels were 1.4% higher than 2013, and grew 2.4% in the first eight months of 2015. CAV’s profit in that 2015 period was €11.7 million.

Bookrunners mandated

Two groups of banks competed instead for the bookrunner mandates in 2014, after vital legislation passed to facilitate project bonds in Italy.

A group of BNP Paribas, Intesa Sanpaolo, RBS, UniCredit and structuring and documentation bank Societe Generale won the mandate in early 2014.

By the end of 2014 institutional investors in Europe were in preliminary talks with the bookrunners.

But during 2015 the process went quiet.

Half of CAV’s board members are nominated from the Venete Region government. But after local elections in May 2015, the renewal of the board for CAV did not take place until October. In addition the EIB’s project bond credit enhancement (PBCE) scheme was gaining approval.

Project bond

One bond subscriber said that at the start of 2016 the bookrunners came back to them with a very short deadline to complete the bond pricing and issuance by 12 April. “The process was tight to get investment approval internally, and I know this timing issue made some investors drop out”.

The structure and terms did not materially change and the maturity date for the bond stayed the same, though time had shaved a year off the tenor.

A small club of investors easily met the €830 million project bond size, issued on 12 April 2016.

Allianz Global Investors subscribed to its own €400 million tranche, on behalf of Allianz Italia and other third party clients with 85% of that €400 million held by non-domestic institutions. The tranches’ terms do not differ, but Allianz’s is separate for ease in voting processes.

The subscribers to the other €430 million tranche include CDP, La Banque Postale Asset Management, SCOR and Italian insurance company Generali.

The EIB’s PBCE scheme took its first outing in Italy for this project bond, in the shape of an unfunded, subordinated letter of credit accounting for 20% of both bond tranches (€166 million total). As a result the bonds’ credit rating jumped 1.5 notches to A3 (Moody’s), exceeding by two notches the Baa2 rating Moody’s assigns the Italian sovereign.

The bonds listed on Euro MTF, Luxembourg Stock Exchange. Both tranches feature a 2.115% coupon, priced at a spread of 185bp over mid-swaps. The maturity is 31 December 2030 and the bonds amortise evenly with an average life of seven years.

ANAS has provided a €130 million VAT facility, which ranks junior to the bonds.

PBCE

This was the tenth use of the PBCE, which is nearing the end of its pilot phase.

Passante di Mestre was the scheme's first toll road and first Italian project. But the scheme is still under pressure to venture into riskier territory.

A Moody’s report published earlier this month states that Ernst & Young produced an unpublished evaluation from the PBCE’s first seven projects, including a recommendation that the scheme better address market needs.

“Credit enhancement seems to be most needed for projects located in countries where the sovereign’s credit profile is under pressure, or where fundamental project risk is high. The use of fully-wrapped bonds… should be investigated for very risky projects. The extension of project bond credit enhancement to include currency risk should also be investigated.”

“Added value should be maximised by (1) providing credit enhancement to sub-investment grade projects (such as greenfield toll roads and those involving volume risk, or … complex technology and weaker contractors) and renewable energy projects; (2) extending risk coverage; (3) making bank debt eligible; (4) fostering a stable and transparent pipeline.”

Advisers

Steer Davies Gleave was traffic and technical adviser and Aon was insurance adviser. Deutsche Bank acted as bond trustee, security agent and principal paying agent. Allen & Overy was legal adviser to the senior lenders and Clifford Chance for the EIB.

