Italy ready for its first project bond

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International banks are already marketing what would be Italy's first project bond financing for the transport sector and with new legislation approved yesterday (19 June 2014) private placements will be possible for the first time in the Italian market. The European project finance market's complaint of plenty of liquidity chasing too few projects could swing Europe's investors toward Italy, with an enticing potential for higher returns.

The Passante di Mestre toll bypass began operations in 2009 and now, as a brownfield asset with proven traffic volumes, state-owned sponsor ANAS is looking to raise €800 million ($1.1 billion) long-term financing with a project bond. A plan to use the European Investment Bank's project bond credit enhancement scheme could be vital in getting this off the ground.

In addition the sponsors of the Milan Metro Line 5 extension availability-based PPP are contemplating a project bond tranche to meet part of its €620 million debt requirement. The commercial banks that are mandated lead arrangers are due to approach their credit committees for approval in July.

Accessing long-term financing

Given the Europe-wide trend for infrastructure projects to turn to a bond solution either as greenfield or as a refinancing, Italy's ambition fits in with the mood on the continent. Southern European nations have yet to join the clutch.

The balance sheets of Italy's banks were laden with Italian sovereign bonds, leading to heavy exposure since the 2008 crisis. As international lenders pulled out, sponsors have financed construction of transport projects with short term bridge loans.

Long term bank loans would have had a margin as high as 500bp to 600bp two years ago, but now banks might offer a margin 100bp lower. However banks have not stepped up with long term financing in Italy. The €1.2 billion Tangenziale Esterna Milano toll road project closed in May with only an eight-year debt package in December. The Passante di Mestre state-owned sponsor ANAS missed the target bank commitment of €600 million with an offer of only €250 million, and has instead turned toward institutional investors to meet its debt requirement.

With recent changes in bond market regulations, private placements are now possible in Italy. The so-called "Reduce Bills" Decree, approved on 19 June 2014 and expected to enter into force in late June, is the latest regulation opening up the option of a project bond solution for infrastructure.

The decree extends exemption from withholding tax on the interest payable to almost any private investors for the first time. Previously only bonds issued by listed companies were exempt. In addition project bond issuances for infrastructure projects before June 2015 will benefit from a registration tax of €200 per security document, so they are virtually tax-free. Finally now for bonds listed or subscribed by qualified investors, the issuer's former 2:1 debt-to-equity limit is no longer applicable.

Speaking on the recent legal changes, Carloandrea Meacci energy and infrastructure partner at Ashurst said, "Categorically yes, there is now the legal framework for a private placement and I suspect there will be interest as the category of investors looking for yield play into that space."

Potential placements

The last project bond, since unreplicated, was a listed issue for the Andromeda solar PV financing in 2010, which had export credit agency backing.

Passante di Mestre's sponsor ANAS last month selected a group of bookrunners. A banking source with knowledge of the deal told *IJGlobal*, "If the sponsors choose to go ahead with a project bond, for it to be worthwhile they would need to see a significant difference in pricing compared with bank loans, probably 70bp or more. They are still in talks with institutional investors though and clearly still have interest."

The EIB's project bond credit enhancement initiative is likely to be used for the Passante di Mestre financing, which qualifies as a TEN-T project. The unnamed source suggested that it could potentially achieve a BBB rating without enhancement.

Several European insurance companies have spent the last 12 months getting comfortable with financing greenfield infrastructure projects in Europe. In contrast, Passante di Mestre is a brownfield refinancing, eliminating construction risk and providing some certainty on the revenue stream.

On which institutional investors might step up, Meacci said, "It is generally European investors that have an interest, but domestic investors have not traditionally invested in this type of asset."

The unnamed banking source told *IJGlobal* that AllianzGI is one of the investors actively looking at the Passante di Mestre.

For the Milan Metro Line 5 extension the sponsors including Ansaldo, Alstom and Astaldi have asked nine international MLAs to approach their credit committees in July. Some discussions are ongoing regarding a potential private placement tranche, which would not entirely replace the bank debt. In addition state bank Cassa Depositi e Prestiti will lend a significant tranche.

The new €620 million debt package will finance the extension of line 5 and also refinance the 2007 debt in place for the original line. The concession is availability-based with no traffic risk. The original operational line is merged with the new extension concession as the sponsor is the same. The tenor on the new package should match the original debt, at 23 years and fully amortising.

Expo Milano 2015 has been a driver of the government's action to commit to getting projects in the northern regions closed, and this year deal flow is slow across Europe whilst liquidity is high. Portfolios of renewables are also likely to benefit from the bond opportunity and Meacci expressed his confidence in seeing a deal close this year with institutional debt.