

A7 Bordsesholm-Hamburg, Germany

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Hochtief, DIF and Kemna's €770 million (\$1.02 billion) A7 Bordsesholm-Hamburg motorway PPP in Germany marks both the first use of a greenfield project bond for a German road asset and the first European Investment Bank (EIB) enhanced project bond in the country.

Firsts for the EIB's project bond

The private placement was novel for a number of reasons. This is the first time that the EIB has allowed the use of the subordinated letter of credit under the project bond credit enhancement (PBCE) scheme with both bank and bond debt ranked above. The A7 features a milestone bank facility and a private placement of senior bonds, whereas previously due to potential for enforcement action from senior lenders, the EIB has resisted this.

In addition, for the first time the EIB's subordinated undrawn letter of credit will fall away after the four year construction period. "The rating is strong even without the EIB enhancement, at a Baa2 standalone rating from Moody's. Whilst the EIB product is a powerful tool to attract lenders to taking construction risk, the operational risk is perceived as low in this availability-based PPP," said Firouz Momeni, managing director for project bonds and private placements at Societe Generale. Using the EIB product for the duration carries constraints for the sponsors such as lock-ups in certain events. During the construction period the senior bonds are rated A3, a 1.5 notch uplift.

The German market is going through an extremely competitive period with banks and investors all looking to lend. Another first, the A7 greenfield bond sets a precedent for achieving early commitments from investors. DEGES awarded the contract at the end of June, but at best-and-final offer stage in April 2014, the sponsors had locked in six institutional investors from Europe, the US and Canada to a 2043 maturity and a fixed margin, in order to protect them from benchmark movement. On 26 August the €429 million bonds priced at a fixed coupon of 2.957%. The institutional investors and sponsors took exposure to market risk in this period, along with the uncertainty of the outcome of the competitive procedure.

Compared to previous greenfield project bonds in Europe since 2013, these early commitments are a first. The sponsors for the [A11 in Belgium](#) selected to use a project bond after the preferred bidder stage, as for the [M8, M73, M74 in Scotland](#). France's [L2 Marseille](#) required commitments early, but AllianzGI was the sole lender.

One bid

The total capital expenditure is approximately €600 million and the total funding requirement €770 million, making it the largest A-model road PPP to date.

The sponsor consortium Hochtief PPP Solutions (49%), Dutch Infrastructure Fund (41%) and Kemna Bau Andreae (10%) submitted a final offer in April 2014 but the rival bidder Bilfinger Berger and Bunte did not. Bilfinger had announced in 2013 that it would begin winding down its concessions business and selling off projects.

German motorways agency DEGES, on behalf of the Federal Republic of Germany, awarded the concession without re-running the tender as they could draw on precedents of a project being awarded to a single fully compliant bid.

The sponsors with pre-committed investors managed to bring the project to financial close over the quiet summer period within nine weeks, well inside the tender rules 12-week time limit.

The sponsors will extend a 65km stretch of the A7 motorway between the Bordsesholm junction and the Hamburg north-west interchange from four lanes to six or eight lanes. In addition they will construct a noise enclosure tunnel along the route and a new highway maintenance depot. After construction they will operate and maintain 59km of the road, after handing 6km back to the federal state of Schleswig-Holstein. Including four years of construction, the concession is for a period of 30 years.

Fully financed

The sponsors will receive eight milestone payments during the four-year construction period, each less than €50 million. The sponsors therefore took a revolving senior milestone bridge facility of €82 million from Societe Generale and Crédit Agricole. The senior bonds have a monthly deferred drawdown schedule during construction, starting a few months after close, which mitigate negative carry. However a milestone bridge from banks affords the greater flexibility on drawing and repayment dates and amounts. It was therefore included in the structure, but the complexities it brought alongside the PBCE almost caused the sponsors to abandon the letter of credit.

The investors in the €429 million senior bonds are:

- AXA
- KfW IPEX
- MassMutual
- Aegon
- ING/Nationale Nederlanden
- SunLife
- EIB

The weighted average life of the bonds is 16 years and they mature in 2043. The EIB provided a subordinated undrawn letter of credit for €86 million, or 20% of the senior bonds, during the construction period.

The sponsors provided around €55 million of equity. The operation and routine maintenance obligations are subcontracted to a joint-venture between Hochtief Solutions (83%) and Kemna Bau Andreae (17%).

"Having previously utilised project bonds on North American transactions Hochtief recognises the benefit of alternative sources of financing provided by the capital markets," said Tim Hartwig of Hochtief.

Advisers

Societe Generale acted as financial adviser to the sponsors, structuring and rating adviser, sole global coordinator. Societe Generale and Crédit Agricole acted as joint bookrunners. Freshfields Bruckhaus Deringer was legal adviser to the issuer.

Deutsche Bank is project agent, trustee, paying agent and account bank for the bonds.

White & Case was legal adviser to the banks and Clifford Chance to the EIB.

Norton Rose Fulbright advised DEGES, along with consultants Schüssler-Plan, Investitionsbank Schleswig-Holstein and Alfen Consult.

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