Antin solar portfolio refinancing, Italy

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Antin Solar Investments' refinancing of a portfolio of 66MW of solar photovoltaic plants in Italy brings the portfolio under a single umbrella structure and also marks a return of investor confidence in the country. The €165 million ($201 million) combined project bond and loan package is a first of its kind in the Italian market. The deal closed on 3 December 2014, and both the bonds and the project finance loan are non-recourse senior secured, unwrapped and unrated.

The success of this deal is likely to encourage similar structures in Italy, as investors seek higher returns than those found in other European countries, Alban Lestiboudois, a partner at Antin Infrastructure Partners, told *IJGlobal*.

"The yield in other European countries such as Germany, France, and the UK is very low," Lestiboudois said. "Insurance companies or pension funds seeking better returns now have to invest in areas where the yields are higher but the risk profile is improving. Now we are seeing investors coming back to Italy and Spain, and next year we will likely see them return to Portugal."

Investors were previously wary of Italian risk and had limited appetite for exposure when Antin initially approached the market near the end of 2013. Italy's government has since taken action to make the market more accessible and appealing.

Regulatory changes

Until recently, Italian bonds tended to be unsecured corporate issues because it was hard to transfer bond ownership alongside bonds' security package.

"When a bond circulates, the security must also be transferred to the purchaser so that the buyer benefits from the same security that the seller benefited from prior to the transfer," Carloandrea Meacci, a partner at law firm Ashurst – which provided was legal adviser to the bank and bond lenders to the portfolio – said. "In Italy, however, it was very difficult because a transfer of the security securing a bond required a number of deeds of confirmation of security, including in some cases before a notary.

"This is a big obstacle to the liquidity of the bond as a credit instrument, because every time a bond is transferred it takes time and money to go to a notary or in any event to enter into such deeds of confirmation."

New regulations mean that a security interest is created at the outset in favour of the security trustee and held on behalf of all the bond holders. This means the bond can change hands without the security interest being transferred, and neither party needs to go before the notary, streamlining the process.

Another new regulation is a special tax of only 0.25% (calculated on the principal amount of the debt) for all the security documents securing a bond. Previously the same security package could have been much more expensive and would have cost between 2% and 4% of the total debt, Meacci said.

Terms of the issue

Italy's UBI Banca provided €47.5 million of the €80 million loan portion, with French bank Natixis providing the remainder. The bank debt also includes a small facility of €4 million to bridge the issuer to the recovery of VAT, and a liquidity facility of €9 million to assist when necessary with debt service.

The remaining debt comprises bonds, split into two tranches of €20 million fixed and €65 million, floating. Those tranches have prices of BTP plus 175bp and Euribor plus 335bp, respectively, a source close to the deal told *IJGlobal* at the time the bonds priced. The bonds have a semi-annual coupon, which was first determined at 3.371%

The loans and the bonds rank *pari passu*, with a tenor of 14 years on both, and the loans priced at the same level as the floating tranche of the bonds.

“One of the most important elements of this deal is that it is not rated,” Meacci said. “It’s critical because if you want to have an investment grade rating for good pricing on the bond, the ratings agencies require a high debt service coverage ratio (DSCR); basically you need significant headroom between revenues and debt service.

“In order to achieve an investment grade rating, as you cannot change the revenues, you need to reduce the debt to increase the DSCR and if you do that you deleverage the project and all of a sudden the bond refinancing becomes less interesting for the sponsor.”

Despite the lack of a rating, investors’ confidence in the deal is boosted by the *pari passu* bank tranche, which means the bank is invested in the deal using its balance sheet and therefore shares the risk rather than simply acting as a bookrunner, Meacci said.

“It’s a sort of indirect rating, so the strength of the structure relies heavily on the *pari passu* element.”

The bonds were listed on the Borsa Italiana's ExtraMOT PRO market, and were placed with European and domestic institutional investors.

Advisers

Natixis acted as sole arranger of the entire financial package as well as sole bookrunner, underwriter, transaction agent, facility agent, and sole hedging bank.

Ashurst advised both the banks and the investors, and Gianni Origoni Grippo Cappeli & Partners was legal adviser to Antin.

