

A66 Benavente-Zamora PPP refinancing, Spain

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Meridiam, Ferrovial's Cintra and Acciona successfully refinanced the unfavourable 2013 bank debt on their Spanish availability-based A-66 Benavente-Zamora PPP at the end of May. The debt was refinanced in the capital markets with non-domestic insurers in a deal that achieved significant savings for the sponsors and paves the way for further Spanish project bonds for infrastructure.

Drawn out procurement

The consortium teamed up to win a 30-year design, build, finance, maintain concession to build the new 49km highway from the Ministry of Development.

Given the timings, even the award procedure was a strain. From final bid submission in mid-2011 it took over a year for an eventual commercial close in December 2012.

By commercial close the consortium could see their financial model slipping, as the economy fell in to a double dip recession. Spanish PPP procurement requires the bidder to bear the full risk on interest base rate volatility between submitting a final bid and signing the financing.

Aggressive bank debt terms

Sergio Rodriguez, investment director at Meridiam, said: "In those eight months from commercial close to financial close the market got worse and worse... The reality was that conditions impacted significantly our base case and part of our expected returns disappeared."

In testing conditions the consortium did manage to raise €80.5 million debt on 31 July 2013, from domestic banks seeing as international finance had withdrawn.

The lenders' long-term internal costs of funding had shot up. The pricing of the commercial debt was 475bp over mid-swaps starting, rising to 500bp after construction and reaching 550bp. The swap rate was 2.51%. The banks – [Santander](#), [BBVA](#) and [Instituto de Credito Oficial](#) - provided a tenor of 21.5 years but with a debilitating cash sweep, kicking in during 2019 at 100%.

The European Investment Bank (EIB) provided €80 million senior debt too. Rodriguez said: "In 2013 [Meridiam] was also refinancing the R1 in Slovakia in the bond market which was over €1 billion and we didn't have any problem, but here in Spain we were having a lot of trouble to close only €160 million long-term debt. It was vital having the European Investment Bank providing 50%."

The government also imposed a minimum equity contribution to ensure the project's stability with an 80:20 debt-to-equity ratio and the sponsors investing €40 million, though Rodriguez commented other availability-based PPPs in Europe would normally have used a 90:10 ratio at that time.

The annual average debt service coverage ratio (DSCR) was 1.25x, with the annual availability payments at €22.6 million (85% indexed to CPI inflation).

Insurers commit to Spain

The sponsors wanted to return to their original base case model as swiftly as possible and commenced a refinancing whilst construction was still underway. With institutional investors taking an increasingly confident role in project financing European PPPs, the sponsors opted for a bond solution which would avoid the high cost of long-term funding Spanish banks still struggled against.

Rodriguez said: "We were really chasing to get rid of the cash sweep mechanism as a 100% sweep doesn't fit an availability payment structure."

It removes all available cash for problems and delays any yield for shareholders until very late. We have been able to increase the ratios to allow the company to better cope with any future problems or any kind of volatility in the life of the concession.”

The sounding began in mid-2014 and not all investors were convinced, but over the remainder of the year Spain’s economy continued to strengthen and in fact the bond was four times oversubscribed ultimately. The bonds placed with three major non-Spanish European insurers.

Improved terms

On 12 May 2015 [Sociedad Concesionaria Autovia de la Plata issued €184.5 million senior notes](#) and settlement was on 27 May.

The bonds priced at a 3.169% semi-annual coupon with 31 December 2041 maturity. The margin spread was under 200bp over an 18-month Euribor benchmark. The bonds would have had a AA- rating on a standalone basis from Standard & Poor’s, but it was capped at the BBB sovereign rating.

The new financing has a much more cushioned DSCR of 1.85x. The debt quantum is higher than the first deal to cover swap breakage costs, so to maintain the 80:20 ratio the sponsors raised the equity to €46 million.

Bond platform for growth

Allen & Overy partner Charles Poole-Warren said: “This is the first Spanish deal using international project bond documentation and protections to a standard acceptable to European institutional investors. The documentation uses English law and language, so for the investors it is more easily comparable with other road projects in countries such as Belgium and the UK.” This did add some complications as the governing securities law is Spanish.

If more project bond financings can follow in this more economically stable Spain, as is expected this month for [Toledo Hospital PPP](#), this deal has paved the way.

Rodriguez said: “We at Meridiam invested in the peak of the crisis for the long-term and were convinced Spain could recover. For the refinancing we viewed this transaction as a way to open up the bond market for the future in Spain so we listed it on the alternatives MARF market.” By listing the bonds, the investors do not have to pay withholding tax.

Refinancing advisers

HSBC was sole arranger and global coordinator. BBVA and Santander were joint bookrunners. Allen & Overy took the lead on the legal side as the adviser for the bond arrangers and investors. Garrigues and Mayer Brown advised the issuer.

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