

Viaducto Bicentenario: Government flexibility

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OHLs 64km Viaducto Elevado Bicentenario toll road concession brought together capital from a government-managed infrastructure fund and a domestic commercial bank, suggesting that there are ways for Mexico to cope with diminished interest from international banks in the countrys roads sector. Fonadin provided a Ps1.5 billion (\$124.8 million) loan to the Ps7 billion Viaducto phase one, which is subordinate to Ps4 billion in commercial bank and Banobras debt. The commercial bank debt for the Mexico state-awarded road closed in early 2010, and federal toll concessions should benefit from the example, though none have yet matched OHLs feat.

The structure allowed the sponsor to increase the average debt service coverage ratio on the senior debt, to 2x from 1.3x, in order to whet commercial lender appetite for a Ps2 billion tranche. It was so successful that the sponsor and its structuring adviser, Vace Partners, were able to source the entire bank tranche from a single lender, Banco Inbursa, instead of using a club loan, as they had planned.

Inbursas Ps2 billion senior loan, which ranks pari passu with the Banobras tranche, closed in March 2010. It repaid a sponsor loan from OHL that closed alongside the government tranches before the end of 2009. Tenor is 15 years and the debt is priced over TIE with steps up over the life of the loan. Both tenor and pricing were competitive with the government debt. Both senior tranches have a three-year grace period on interest payments after the end of construction, which is expected during the first quarter of 2011. The sponsor contributed Ps2 billion in equity, and Mijares Angoitia Cortes y Fuentes was legal counsel to the sponsor.

The Fonadin tranche increases senior lender comfort considerably. Of the tranches proceeds, Ps300 million is set aside to fund construction contingencies and, if needed, it can provide a buffer to senior debt by absorbing weaker-than-expected revenues during the toll roads ramp-up period. If revenues are lower than expected after the road is complete, interest can be capitalised. However, if revenues meet or exceed targets, the sponsor can not only cover all debt service but also is obliged to pay a small percentage to the grantor under a revenue sharing agreement. The interest in the deal from commercial banks suggests that they were waiting for the government to take the lead in supporting infrastructure deals before putting their balance sheets to work.

The Ministry of Communications of the State of Mexico awarded the 30-year design-build-finance-operate-maintain greenfield concession to OHL in April 2008. The first phase of the project is a 22km elevated three-lane section from Torea de Cuatro Caminos, on the Mexico City border, to Tepalcapa. This includes a 4.5km section of highway that is already operating. When average daily traffic on the first section reaches 55,000 vehicles, construction will begin on the second phase, a second 22km three-lane elevated structure running parallel to the first phase. A third phase, which includes two parallel 10km three-lane elevated stretches from Tepalcapa to Tepotzotlan, will break ground once average daily traffic reaches 180,000 vehicles. OHL, which owns the concession through OHL Concesiones Mexico, is constructing, operating and maintaining the road itself. SGS was technical adviser to the sponsor. The entire concession is valued at roughly Ps22 billion.

OHL was selected over ICA and Ideal, two large domestic sponsors, because of its lower toll rate schedule and phased construction with reversible lanes proposal. Once construction is complete, the operator will allow inbound Mexico City traffic to use the road during the morning and then reverse the flow to serve outbound vehicles in the evening. The initial financing package for phase one, including the equity, sponsor loan, and Banobras and Fonadin debt, closed in November 2009.

Vace launched the senior bank tranche beauty contest in December 2009. The selection process favoured the bank that could most closely match the terms provided by Banobras and offer the quickest route to financial close. BBVA Bancomer, Banco Santander, Banorte, Inbursa, Mifel, Banco del Bajío, ING and La Caixa were invited to participate. Inbursa was selected in February 2010.

The final terms offered were better than either Vace or the sponsor expected. Going into the contest, they expected that the commercial bank tranche would be either a five- to seven-year club loan or miniperm. They were surprised when Inbursa offered to lend the full amount and for a tenor of 15 years, which matched that offered by the government lenders. Financing structures for the second and third phases have yet to be determined.

Market participants are confident that the flexibility demonstrated by Fonadin in the Viaducto deal could be repeated with other road projects in Mexico. They note that, while each deal is unique, for those with strong sponsors and reliable traffic studies there will still likely be more creative structuring from the government infrastructure fund needed to close deals. Some of the potential concessions mentioned that could benefit from this flexibility include the pending federal Farac Michoacan and Farac Noreste tenders, which are scheduled to be awarded in March and April 2011.

Viaducto Bicentenario, SA de CV

Status: Closed March 2010

Size: Ps7 billion (\$582.6 million)

Location: State of Mexico, Mexico

Description: 64km elevated toll road from the Mexico City border to Tepotzotlan

Grantor: Ministry of Communications, State of Mexico

Sponsor: OHL

Equity: Ps2 billion

Debt: Ps2 billion senior commercial bank loan, Ps2 billion senior Banobras loan and Ps1.5 billion subordinate Fonadin loan

Lenders: Bancobras, Fonadin, Inbursa

Structuring agent: Vace Partners

Legal counsel: Mijares Angoitia Cortes y Fuentes (sponsor), in-house (lenders)

Technical adviser to the sponsor: SGS

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