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Latin American Project Bond Deal of the Year 2012: Oaxaca II and IV

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Acciona initially financed its Oaxaca II, III and IV wind projects with a $200 million bridge loan that eventually grew to $350 million. But the lenders on the bridge loan were all French and Spanish lenders whose dollar liquidity had shrunk by mid-2011. Even though those players would be unlikely to provide a long-term refinancing for the three, its Mexican subsidiary Acciona Energia Mexico considered commercial bank refinancings backed by Spanish export credit agency CESCE. That option receded as S&P and Fitch downgraded Spains credit rating during the first half of the year.

But a capital markets refinancing was a real possibility, because the assets were operational and the tenors on offer were much longer than banks could provide. Banks that are trying to build up capital markets capabilities as a way of maintaining a presence in project finance in the Americas are enthusiastic about the potential for bond financings, but Mexican wind assets had not been subject to bond financings before.

The US bond and private placement markets would be open to the projects, since the bulk of their revenues are denominated in US dollars, but they had never financed or refinanced a Latin American renewables project. Wind is a relative newcomer in Mexico, where less than 900MW of capacity was operational in mid-2012. Mexican pension plans, known as afores, have little experience with structured bonds and would have needed to master the P50, P90 and P99 revenue scenarios for wind projects, so a local issue would be difficult.

But Accionas Oaxaca projects were probably the best candidates for the first Mexican renewables issues. Acciona is the most accomplished wind developer in Mexico and has some relationship pull with local and international lenders and investors. The city of Oaxaca, on the narrow Isthmus of Tehuantepec that separates the Pacific Ocean and Gulf of Mexico, boasts one of the most robust wind regimes anywhere and low resource variability. Oaxaca wind farms have recorded average capacity factors of 47%, higher than the 36% in Tehachapi, California, home to the Alta wind farms. The Oaxaca projects benefit from fixed-price 20-year power purchase agreements with the Mexican state-owned utility, the Comisión Federal de Electricidad (CFE).

Acciona mandated its quintet on the bridge loan, BBVA, BNP Paribas, Crédit Agricole, Santander and Société Générale, as bookrunners on those issues. It did, however, choose a bank financing for the 102MW Oaxaca III, because it thought that that projects structure was too complex for institutional investors, and did not get Oaxaca III rated.

It considered a private placement for Oaxaca II and IV, but that audience of investors is smaller than the 144A market, which would have reduced liquidity. Acciona settled on the 144A market to finance Oaxaca II and IV simultaneously but separately. It was the first time the US capital markets had been asked to finance Mexican renewables projects.

Acciona priced the 144A bond refinancings of its 102MW Oaxaca II and 102MW Oaxaca IV wind farms on 8 August, after the bookrunners held roadshows in the US, UK and Mexico. The bookrunners initially sought all-in yields of 6.5% for the two issues and ultimately accepted 7.25%. It had to pay slight premiums to win over investors sensitive to the unfamiliar credit, market observers say, but the adjustment in yields necessitated cutting the issues to maintain their BBB- credit ratings. The Oaxaca II issue fell to $148.5 million from $164.5 million, while Oaxaca IV dropped to $150.2 million from

$167 million.

CFE is paying $65 per MWh to Oaxaca II in 2012, a price that will increase annually before reaching $112 per MWh in 2031, the year the PPA ends and the bonds mature. The Oaxaca IV PPA starts at $63 per MWh in 2012, increasing annually to $109 per MWh in 2031.

The Oaxaca II refinancing has a projected minimum debt service coverage ratio of 1.40x and an average of 1.41x, though 40% of the debt will amortise in the final five years of the notes life, according to Standard & Poors. It features a six-month debt service reserve fund and a six-month operations and maintenance reserve. For the Oaxaca IV bonds, the DSCR is expected to average 1.35X, with a minimum of 1.33x, according to Fitch. Oaxaca IV is also structured with a back-ended amortisation, as more than 40% of the debt will be repaid in the final five years of the bonds life.

Pension funds including the afores accounted for 61% of the buyers of the two issuers. Their ability to write tickets that rivalled US investors may prove the foremost legacy of the deals. Before Oaxaca II and IV, the afores had yet to fully understand the workings of CFE contracts and how the credit agencies produced their stress cases for wind farms. Now, they are likely to be important players in coming 144A deals backing Latin American renewables projects.

The CFE may soon provide a test for the renewables appetite and capacity of afores. The utility is considering denominating future PPAs in Mexican pesos not US dollars which favours issues in the Mexican capital markets.

CE Oaxaca Dos,
S de RL de CV and CE Oaxaca Cuatro, S de RL de CV
STATUS
Priced 8 August 2012, placed 10 August 2012
SIZE
$148.5 million (Oaxaca II) and $150.2 million (Oaxaca IV)
DESCRIPTION
Bonds refinancings for two 102MW wind farms in Oaxaca, Mexico, that took out $250 million from a bridge facility
SPONSOR
Acciona Energia México
BOOKRUNNERS
BBVA, BNP Paribas, Crédit Agricole, Santander and Société Générale
INDEPENDENT AUDITOR
Deloitte
TURBINE SUPPLIER
Acciona
LEGAL ADVISERS TO THE ISSUER
Mayer Brown; Lopez Velarde, Heftye and Soria
LEGAL ADVISERS TO THE BOOKRUNNERS
White & Case; Gibson, Dunn & Crutcher
TRUSTEE
BNY Mellon
WIND RESOURCE CONSULTANT
ALATEC
UNDERWRITER INSURANCE ADVISER
Willis

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