

DEAL ANALYSIS: N11/N7

05/06/2013

The Irish PPP market has suffered in the last five years from the departure of several sponsors and lenders, and has generally kept banks portfolio managers much busier than their originators. So the Eu160 million financing for the N11/N7 project is welcome news and it follows on the heels of the third Irish schools bundle, which closed in November 2012. Irelands PPP market is now looking healthier than any other member of the Eurozone periphery.

Both the road and schools PPP employed broadly similar financing structures, comprising direct lending from the European Investment Bank (EIB) and Bank of Ireland, as well as contingent support from the National Pensions Reserve Fund (NPRF). The funds presence in the financings is a response to the poor health of Irish banks. It gets the EIB comfortable with lending alongside Bank of Ireland, whose credit rating has slipped in recent years from the double-A to double-B level.

The structure will be difficult to repeat on some of the larger upcoming PPP projects. Bank of Ireland will struggle to write larger (or possibly even similar) tickets for other concessions, given the continued absence of a syndicated debt market in the country. There are also strict limitations on the types of projects the EIB can support and the amount of funding it can provide.

But the closings of the two transactions provide a burst of good news after two years without any PPP signings in Ireland. Both deals also show that there is still a market for long-term debt in Ireland, or at least for some of the more straightforward availability-based concessions. Deal participants hope that this will prompt other lenders to return to the market and help supplement existing liquidity.

The project entails the upgrading of existing stretches of the N7 and N11 roads under a 25-year-plus-construction design, build, finance and maintain concession. The first part entails the removal of bottlenecks at Newlands Cross on the N7, in particular with the construction of a new flyover. The sponsors will also be responsible for the construction of a new 16.5km four-lane dual carriageway on the N11 between Arklow and Rathnew.

The National Roads Authority (NRA) initially put the project out to tender in 2009 and shortlisted two bidders in May 2010. The two shortlisted bidders were BAM Balfour Beatty, a consortium comprising BAM PPP and Balfour Beatty Capital and GASTA roads, a consortium comprising GlobalVia, Macquarie, P Elliot & Co, Wills Bros and Jons Civil Engineering.

But the authority had to completely retender the project after the onset of the sovereign debt crisis towards the end of 2010 prompted several lenders to withdraw from the project, and from the Irish market. The NRA asked bidders to submit new offers without committed financing and decided to work alongside the preferred bidder to find financing.

The NRA eventually settled on the joint venture of BAM PPP and Balfour Beatty as preferred bidder in July 2011, although Balfour Beatty then withdrew from the project last year. BAM PPP transferred part of the shareholding to PGGM as part of the joint venture it had formed with the Dutch pension fund manager in 2011 to invest alongside each other in European infrastructure projects.

The deal closed towards the end of April this year through Eu140 million in long-term year debt, split equally between a

tranche from Bank of Ireland and a tranche from the EIB. The NPRF is also providing a contingent credit facility, which is designed to mirror the Bank of Ireland tranche and will be drawn in the event that the sponsors cannot draw on part of the tranche that Bank of Ireland is providing during the construction phase.

The inclusion of such a guarantee has precedents in other European projects, including larger projects with several several lenders, because the EIB usually required a minimum rating of A- from participating banks. This requirement has some drawbacks, particularly because it restricts the ability of banks to sell on commitments, but the participation of the EIB is usually important, given banks funding constraints.

The financing for the project is then rounded off with a Eu20 million equity bridge loan from Bank of Ireland, which has a bullet repayment. The long-term debt is fully amortising, with no cash sweeps and regular 6-monthly repayments designed to mirror the availability payments from the Irish government. There is a slight tail on both tranches of about 2 years.

The authorities will be hoping that the two deals could help kick-start the until-now dormant Irish PPP market and optimists would point to the rumoured interest in upcoming concessions of some overseas sponsors, which bring with them relationship lenders.

The most important factor will be whether the pool of lenders willing to fund long-term in Ireland will extend beyond Bank of Ireland. Dexia and NAB were both supporting BAM PPPs bid for the project but withdrew after the deterioration of the Irish sovereign credit.

BAM PPP PGGM Infrastructure Coöperatie

STATUS

Closed 30 April 2013

SIZE

Eu282 million

DESCRIPTION

Financing for the upgrading of existing stretches of the N7 and N11 roads in Ireland

GRANTOR

National Roads Authority

SPONSORS

BAM PPP (50%), PGGM (50%)

LEAD ARRANGER

Bank of Ireland

OTHER LENDERS

European Investment Bank, National Pensions Reserve Fund

SPONSORS FINANCIAL ADVISER

PricewaterhouseCoopers

GRANTORS LEGAL ADVISER

McCann FitzGerald

SPONSORS LEGAL ADVISER

Ashurst

MLAS LEGAL ADVISERS

Norton Rose, William Fry

LENDERS TECHNICAL ADVISER

Capita Symonds

LENDERS MODEL AUDITOR

Operis

EPC CONTRACTOR

BAM Contractors

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