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DEAL ANALYSIS: Brussels Airport

02/09/2013

Brussels Airport Company (BAC) closed a Eu1.35 billion ($1.8 billion) bank and bond refinancing on 1 July 2013. The proceeds of the deal refinance Eu1.17 billion in existing bank debt that dates back to 2007 and pay swap breakage costs. The refinancing of Belgiums largest airport shows that non- hub facilities with shaky anchor airlines can still raise cost-effective debt.

The debt package, which involved 15 banks, featured Eu500million of 7-year bonds, a Eu350 million 3-year term loan A, a Eu500million 5-year term loan A, a Eu250 million 5-year capital expenditure loan and a Eu50 million 5-year working loan. The existing debt was due to mature in 2015 but had already started to sweep cash because of restrictive covenants, putting the sponsors under pressure to refinance.

The airports sponsors are the Belgian state holding company Société Fédérale de Participations et dInvestissement (FPIM) (25%), Ontario Teachers Pensions Plan (39%) and Macquarie European Infrastructure Funds I (10%) and III (36%). Macquarie led the acquisition by several of its funds of 70% of the airport in 2005. Teachers acquired its stake as part of an asset swap with Macquarie Airports in 2011.

In June 2013 BAC won an investment grade rating of Baa1 from Moodys, and BBB from Fitch. Standard and Poors assigned a BBB-, before the issuer asked it to withdraw its rating. Not being a hub may actually have reduced Brusselss revenue volatility.

Brussels has a high proportion of origination and destination (O&D) traffic, around 84%, compared to transfer traffic, which is much more volatile and susceptible to the health of airlines. Belgian flag-carrier Brussels Airlines, now a Lufthansa subsidiary, accounts for 30% of traffic, but has reported net losses in 2011 and 2012. But O&D traffic is less susceptible to airline health, and there are a large number of other airlines using the airport well over a hundred.

Brussels Airport Company

STATUS
Closed 1 July 2013
SIZE
Eu1.35 billion
DESCRIPTION
Refinancing of Eu1.17 billion of debt
SPONSORS
Ontario Teachers (39%), Macquarie (36%), FPIM (25%)
BOOK RUNNERS
Santander UK, BTMU, Belfius, Credit Agricole, BNP Paribas, EDC, ING, Lloyds, Natixis, RBS, RBC, SG, SMBC
MANDATED ARRANGERS
Santander UK, BTMU, Belfius, Credit Agricole, BNP Paribas, EDC, ING, Lloyds, Natixis, RBS, RBC, SG, SMBC.
FINANCIAL ADVISERS
JPMorgan and Morgan Stanley
LENDERS LEGAL ADVISER
Linklaters
SPONSORS LEGAL ADVISER
Allen & Overy

The airport receives little competition from Belgiums other airports and benefits from a light regulatory framework. The tariff regime is particularly favourable and remains fixed until 2016. The airport typically negotiates and agrees tariffs with airlines, historically at a competitive rate, before regulators step in. The airport can immediately pass on increased costs to airlines without the need to await regulatory review. The airport can use debt to finance up to 70% of aggregate capital expenditure and distribute 100% of cash flow.

The bond issue bookrunners were RBC, RBS, Societe General, Crédit Agricole and Lloyds. According to a banker that worked on the issue, there was so little supply in the Euro market, with no issuance the day before, that we were very anxious as to whether to be the first out. The low supply in Europe was symptomatic of the US markets lull, following closely on from the US Federal Reserves suggestions that it might gradually reduce its quantitative easing programme, and a resulting drop in the dollar.

The 7-year unwrapped bonds priced on 25 June with a 3.25% annual coupon and a margin of 160bp over mid-swaps, at

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the lower end of the bookrunners 160-170bp target. The UK led the list of buyers, at 44%, with France at 20% and Benelux 11%. BlackRock and Legal & General took large tickets, with fund managers purchasing 71% and insurers and pension funds 25%.

The books closed with orders in excess of Eu1.4 billion, with over 120 accounts participating. The banker close to the process says the airport might have been able to issue as much as Eu750million, however the presence of a public shareholder in the airport and the banks willingness to agree low pricing on their tranches in December limited the issue to Eu500 million. The yield is relatively generous in the current market, where any spread over 100bp is attractive, and the airport is considered to be a stable asset.

A large club of commercial banks provided senior secured debt under a common terms agreement, and this debt priced at a 140bp above Euribor. Under EU procurement procedure (the presence of the Belgian state as a shareholder required this) the airport invited lenders to bid in a prequalification stage for either a large ticket or a smaller ticket. Of the participating banks, only two took smaller tickets: SEB and Fortis.

The bookrunners, with equal participations, were: Abbey National (Santander UK), Bank of Tokyo-Mitsubishi UFJ, Belfius, Credit Agricole, BNP Paribas, Export Development Canada, ING, Lloyds, Natixis, RBC, RBS, SG and SMBC. The debt will be repaid as bullet repayments at the various tranches 3 and 5-year maturities. The 2013 debt, bank and bond combined, features a debt service coverage ratio of 2x and a debt to Ebitda ratio of roughly 7.3x.

The airports plans for expansion between now and 2015 will require it draw on Eu50 million of the capex facility. The maturity of the Eu350million 3-year term loan A would prompt another refinancing within the next 12 months, with the process expected to start later this year.

The sponsors ended up coming to market much more quickly than that. Credit Agricole, Lloyds, RBC, RBS and Societe Generale priced a second Eu200 million ($265 million) issue on 8 August. These senior secured bonds have a maturity of 12 years, a fixed annual coupon of 3.3%, and a bullet repayment is due on 9 September 2025. The sponsors had considered a dollar-denominated US private placement, but ultimately settled for a follow-on issuance under the same Euro medium-term note programme as the first issue.

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