

DEAL ANALYSIS: Rodovias do Tietê

17/09/2013

Brazils Concessionária Rodovias do Tietê (CRT) priced Brazils first bond issue with a project finance structure in mid-June. But, facing challenging markets and regulatory headwinds, the bonds priced at the top end of their inflation-plus 550bp-800bp target range. The deals 15-year tenor is the longest in the Brazilian market for a private sector company, and the brownfield nature of the bonds may encourage additional creativity in Brazilian capital markets. The R1.065 billion in amortising debt carries ratings from Moodys of Ba2 (international) and Aa2 (national). The deals global coordinator and bookrunner was BTG Pactual, while Banco ABC, Espirito Santo, Safra and Morgan Stanley were bookrunners. This was the toll road operators second attempt to price a real-denominated bond after it pulled a Barclays-led R650 million bond last year. The bonds eventually priced in June 2013 at 800bp over the IPCA inflation index.

Tietê is the first Brazilian bond issue to feature reserve accounts for capital investment and operations & maintenance, as well as a reserve account to help make up potential initial cash-flow short-falls, because of a heavy work schedule early in the early years of the bonds life. The deal also requires an independent engineering consultant ARUP to approve annual expenditure budgets and any expenses other legal fees.

The structure of the bonds allowed Moodys to give the secured debt a rating one notch above the issuers Aa3 long-term corporate rating the maximum uplift it can provide. The proposed R1,065 million debentures benefit from several structural features such as step-in-rights in the event of default, limitations on additional indebtedness, ability to pursue opportunistic corporate activities and/or investments outside the core concession, restrictions on dividend payments based on financial covenant performance, a robust set of cash funded reserves, as well as a trusted cashflow waterfall structure upon an event of default and a cash collateral reserve, says Moodys. These credit enhancements should allow creditors to quickly detect deterioration in the companys operating performance, and provide enough support in our opinion to justify a rating uplift.

The bond documentation prohibits distributions until 2017, and only permits them after that if all reserves are fully funded and the forward- and backward-looking debt service coverage ratio is above 1.2x. If the DSCR is below 1.3x free cash will be used to fund a cash collateral reserve account. If the DSCR falls below 1.15x after 2015 then the debt can be declared in default with the approval of two-thirds of bondholders.

The proceeds of the bonds will be used to repay outstanding short-term debt and provide capital for the issuers programme of road-widening. The project company holds a concession running to 2039 (ten years after the bonds mature) from Sao Paulo states transport regulator Artesp. The 415km network serves a small but growing region in the state, and handles 115,847 vehicles per day on average, though it is still in ramp-up.

Concessionária Rodovias do Tietê

STATUS

Book-building: 19 June 2013, close: 5 July 2013

SIZE

R1.065 Billion

DESCRIPTION

Bond refinancing for 415km of toll road in Sao Paulo state, Brazil, whose concession runs to 2039

SPONSORS

Atlantia (25%), Bertin (25%), Mota-Engil (30%), Banco Espirito Santo (20%)

ARRANGER AND GLOBAL COORDINATOR

BTG Pactual

TENOR

15 years (2028s)

BOOKRUNNERS

Banco ABC, Espirito Santo, Safra and Morgan Stanley

ISSUER LEGAL ADVISERS

Machado Meyer (Brazilian law),

Clearly Gottlieb (International law)

BOOKRUNNER LEGAL ADVISERS

Brazilian law: Mattos Filho (Brazilian law),

Simpson Thatcher (International law)

INDEPENDENT ENGINEER

ARUP

ENVIRONMENTAL CONSULTANT

ERM

INSURANCE ADVISER:

AD Corretora de Seguros

TRAFFIC CONSULTANT:

Under its concession contract Rodovias do Tietê must invest at least R1.3 billion during the concession period, of which R707 million will be spent over 2013-2020 (the majority of that in the next four years) on the construction of second lanes on the toll roads that link the cities of Campinas and Tietê, and Piracicaba and Salto.

CRT was a natural candidate to open the project bond market in Brazil because its sponsors have experience with these structures in Europe. The Portuguese-Italian group of sponsors comprises Atlantia Bertin Concessões (a 50/50 joint venture of Atlantia and Bertin, 50%), and Ascendi (a 60/40 joint venture of Mota-Engil and Espirito Santo).

The deal qualifies under Lei 12431, a relatively new law that provides tax exemptions for international investors and individual domestic investors. The law, a final amended version of which passed into law in November 2012, is designed to attract international capital to Brazilian infrastructure and the bookrunners took the issuer on an extensive roadshow in a bid to sell a significant portion of the deal outside Brazil. The roadshow comprised investor meetings in Santiago, Lima, London, New York, Boston and Los Angeles.

However, on the evening of the first day of the roadshow, the Brazilian government announced that it was withdrawing the IOF tax from international investors purchases of Brazilian sovereign and corporate bonds. This removed any preferential tax treatment that CRT bondholders would enjoy over other issuers. At the same time, volatility in the international capital markets, caused by Federal Reserve Chairman Ben Bernankes comments about the likely tapering of its US bond buying programme, led to a re-pricing of debt from emerging markets.

The Brazilian central bank then raised its base rate, the Selic, by 50bp far above the market consensus expectation of 25bp. Beyond these financial and regulatory obstacles, the public protests on the streets of Brazil or manifestações which peaked with one million people protesting in nearly 100 cities, cast Brazil in a chaotic light.

In the end, only 3% of the deal went to international accounts, but Ricardo Oliveira, chief financial officer at Rodovias do Tietê, believes it would have been a much higher proportion had it not been for the governments decision to scrap the relevant IOF tax. The removal of the IOF made [Brazilian] government debt competitive with corporate debt once that was done then immediately corporate debt increased by 150-200bp, says Oliveira. The 5.5% target became unfeasible all reference points had moved and government paper was an attractive tax-free alternative for foreign investors.

The NTN20 [National Treasury Note with a return linked to IPCA, plus interest set at the time of purchase and maturity in 2022] was the reference paper for our bond the duration of our bond is 7.4 years and when we were on the roadshow this yield went from 4.5% to 5.5%, adds Thiago Jordão, controller at Rodovias do Tietê.

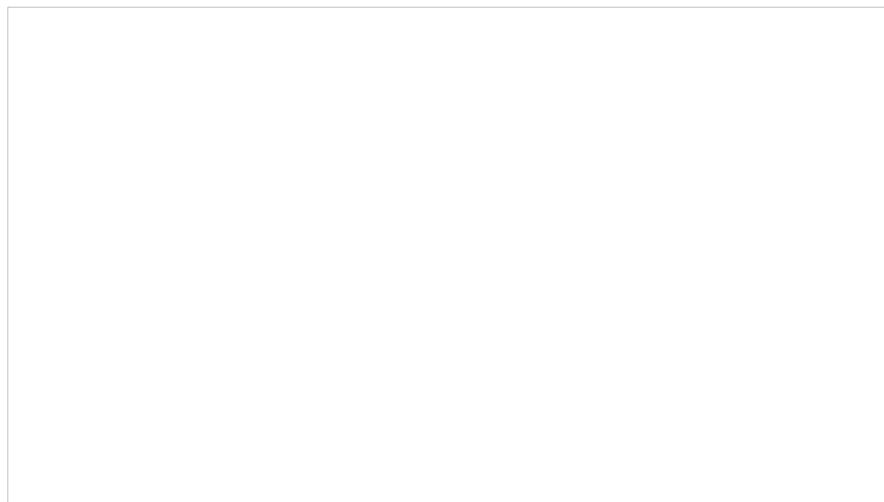
Daniel Vaz, head of capital markets and fixed income at BTG Pactual, says the bank could have priced the bond at the floor of the target range if the deal had come to market before Junes volatility. If we had been in the market in early May we would have priced at 5.5% but the market deteriorated very fast and [in the end] we were very glad we were able to price, because its the first time a toll road was able to finance itself entirely through the capital markets, with no support from BNDES. According to its own rules, BNDES, Brazils national development bank, could have bought up to 20% of the bond but chose not to participate. On the morning of the pricing day we definitely felt the effects of the increasing market volatility on the size of the book, as some investors, who were seriously engaged a few days earlier, started to walk away, says Vaz.

The deal was never in jeopardy of failing to close, according to Oliveira, because when BTG Pactual had taken over the mandate from Barclays the proposal for a firm underwriting commitment passed on to the Brazilian bank. The deals bookrunners had promised to buy 100% of the bonds at the top of the target range if the deal ultimately failed to be fully distributed to the market. BTG Pactual passed 10% of this firm underwriting commitment to each of the four bookrunners it brought into the deal.

Oliveira says the deal attracted about R650 million of bids at a price of 6.5% but because demand fell short of the total value the firm underwriting commitment provision was triggered and all the notes were sold for 8%, with about a third of the deal going to Banco ABC, Esprito Santo, Safra and Morgan Stanley. BTG Pactual didnt take any of the notes because its 60% commitment was only to become active once the other bookrunners 40% allocation had been exceeded.

The four bookrunners have since sold their allocation of the deal down in the secondary market. The bonds have been active in the secondary markets and in early August were trading at 7.49%. Its excellent paper you have IPCA plus 8%, which pays better than stocks, and since the paper is structured as a project finance with a AA-rating its very safe, says Oliveira. What more could investors want?

CRT's ownership structure



Source: Moody's Investors Service

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