DEAL ANALYSIS: Zaanstad prison

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The Zaanstad Prison deal is the first PPP financing to feature INGs pan-European bank to bond loan equitisation (PEBBLE) and NIBCs Commute structures. The deal involves banks providing subordinated debt to enhance a project bond credit, and is the latest manifestation of a spurt of project bond creativity in Europe. The Dutch lenders products have taken time to gain traction, after PEBBLEs appearance in unsuccessful bids.

Close on Zaanstad suggests that commercial banks could retain a useful and profitable role in PPP financing, even as institutions take on a greater share of long-term lending. Put simply, banks provide a subordinate first-loss tranche, but get paid back much earlier, with their debt amortising seven years from financial close.

The Rijksgebouwendienst, the Dutch government building agency, awarded a 25-year plus construction availability-based concession to the Pi2 consortium on 22 July 2013, beating BAM PPPs bid. The concession involves the design, construction, financing, operations and maintenance of a new prison for over 1,000 inmates in the Hoogtij industrial estate in Westzaan. Ballast Nedam is the sole equity provider, whilst the consortium contracted to construct and maintain the prison is split between Ballast Nedam (65%) and Royal Imtech (35%). Construction is due to complete by 2016.

Zaanstad has a total project cost of Eu195 million, and the financing features Eu72 million in A notes, a Eu12.3 million B loan, about Eu9.2 million in equity bridging loans, Eu42 million in working capital facilities and about Eu56 in bridge loans to two Eu28 million milestone payments. The debt-to-equity ratio for the project is 90:10, with Ballast Nedam sole equity provider.

Pi2

STATUS
Closed 27 September 2013
SIZE
Eu195 million
DESCRIPTION
New prison in Westzaan, the Netherlands.
SPONSOR
Ballast Nedam
GRANTOR
Rijksgebouwendienst
DEBT
Eu72 million A note, Eu13 million B loan
COMMERCIAL LENDERS
ING, NIBC
SPONSORS LEGAL ADVISER
Allen & Overy
LENDERS LEGAL ADVISER
Stibbe

The project company issued the senior secured 28-year A notes as a private placement. The banks marketed the notes to a small number of institutions, and placed them to two accounts. Dekabank took a Eu30 million ticket, while an unnamed French investor took the other large ticket. ING and NIBC split the 7-year B loan equally. The ratio between the A notes and the B loan is 85:15, and the pricing is roughly 200bp over Euribor for the A note and 550bp for the B loan, with no step-ups on either.

The eight-year B loan is fully drawn at close, and after that banks fund on the construction revolving facility in an amount equal to a quarter of the A notes. The A notes will fund in four equal installments, and pay down each draw on the revolver, after which the project will make another draw of the same size on the revolver. The Dutch state will make one milestone payment immediately upon construction completion, and the other during the operational phase.

The B-loan will fully amortise four years post-construction, before the A notes begin to amortise. The A-notes mature 25 years post-construction, with no financing tail on the 25-year operations phase.

As a relatively small project, this financing has several differences with the PEBBLE that ING had been marketing. The B loan is fully funded at close rather than drawing along with the A notes. The deal does not feature a special purpose financing vehicle that lends on debt proceeds to the project company. ING had also suggested that a single PEBBLE vehicle could be used to finance multiple projects alongside the European Investment Bank (EIB), but that structure has yet to materialise.

The financing features voting rights that shift along with lenders exposures to the project. Post-completion, and after the initial four years of operations, there is a shift in control. Once the B loan has reached a point of 35% amortisation, the institutional shareholders acquire the majority voting rights from commercial banks for the remaining operational phase. The Dutch banks willingness to take on construction risk was reassuring to investors, particularly in the wake of Royal Imtechs announcement in July that it needed to record hefty write-offs.

This bank-to-bond structure now takes its place on the menu of bond options alongside the EIB project bond credit enhancement, the funded subordinate bond enhancement, monoline-wrapped deals (Leeds social housing and the Edinburgh student accommodation), and unwrapped financings.

Its nearest competition, however, is the stapled institutional bond financing, which has made just one appearance, on the Netherlands N33. That product struggled to attract interest from institutions, and the Dutch government had to offer such generous inflation protection that it unlikely to repeat the experiment. If the Zaanstad template can accommodate bank lenders preference for lending shorter-term and their higher tolerance for construction risk, it should build market share both inside and outside the Netherlands.