Latin American Roads Deal of the Year 2013: RCO

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The Ps7.5 billion global peso bond financing for toll road operator Red de Carreteras de Occidente (RCO) marks an important step in the evolution of the Mexican capital markets.

The RCO bond issue, which priced on 22 May 2013, and closed in early July that year, was not its first. In 2012, it issued Ps8.13 billion in senior secured notes that benefited from a partial guarantee from Banobras, Mexicos state-owned development bank.

The guarantee brought the notes Fitch local rating from AA+ to AAA, the same level as S&P, and the best rating to maximise interest from Mexicos pension funds, or afores. Banobras was willing to offer a guarantee of up to 15% of principal, but only had to cover 6.5% to eliminate the split rating. The 2013 bonds do not feature any guarantee, and are denominated and payable in Euroclearable Mexican pesos.

But RCOs 756km portfolio of roads is exposed to traffic risk and has a complex backstory. ICA and Goldman Sachs Infrastructure Partners formed RCO in 2007 to acquire the concession for the first package of toll roads that the Farac toll road trust was divesting.

Farac had been formed to take over 1990s-era toll roads from their bankrupt owners. The first sale was timed exquisitely to exploit the pre-2008 leveraged infrastructure acquisition boom. The two sponsors paid Ps44 billion for the 30-year concession in 2007, and financed the acquisition and required upgrades with Ps37 billion in bank debt from Santander, Banorte, Dexia, HSBC and Nord/LB.

The crisis put a stop to the sponsors plans for a swift bond refinancing of the seven-year bank deal, and to the Mexican governments hope of realising similar multiples on the remaining Farac assets. But the first Farac package, while highly leveraged, performed well, and has benefited from Ps2.8 billion in capital expenditure since 2008. The operator has the ability to increase toll rates with inflation, and by more if the consumer price index exceeds 5%. It has also spent heavily to promote the roads and stopping drivers bypassing toll plazas.

Red de Carreteras de Occidente, SAPIB

Status

Priced 22 May 2013, closed July 2013

Size

Ps7.5 billion

Description

Cross-border Peso-denominated bond refinancing of 756km toll road network.

Sponsors

Goldman Sachs Infrastructure Partners; ICA; CCD holders

Maturity

2028

Coupon

9%

Bookrunners

HSBC, Goldman Sachs, Morgan Stanley, BBVA, Santander

Bookrunners legal counsel

Milbank Tweed (international); Greenberg Taurig (local)

Issuer legal counsel

Gibson Dunn & Crutcher (international); Raz Guzmán (local)

In October 2009, the operating company issued Ps8.5 billion in Certificados de Capital de Desarrollo de Infraestructura (CCDs), essentially new equity, as part of a recapitalisation in which the sponsors participated along with new investors. That issue was a milestone for the listed infrastructure market in Mexico, and other infrastructure operators followed suit.

As part of the CCD issue, the sponsors persuaded the banks to extend some of the debts maturities to 2016 and 2018, but still had to roll over some of the bank debt by 2014. All lenders have pro rata access to the cashflow waterfall that the trust owning the roads supplied.

ICA subsequently sold some outside road concessions Concesionaria de Vias Irapuato Queretaro and Concesionaria Irapuato La Piedad to the listed vehicle. It also steadily reduced its stake in RCO, so by the time of the 2013 financing the Goldman fund owned 51.3%, with ICA owning 18.7% and institutions the rest, mostly through the CCDs. The main carve-out from this package is the assets of the concession companies that ICA has subsequently sold to RCO, since they have their own project-level debt.

The bonds, for which HSBC, Goldman Sachs, Morgan Stanley, BBVA, and Santander were bookrunners, attracted orders of Ps11 billion, and priced for a coupon of 9% (payable semi-annually), inside the initial 9.5% guidance from the leads. Mexican, US and European investors split the book roughly equally.

Fitch, in its AAA (Mex)/BBB- rating on the new issue, noted that the deal should produce a healthy average debt service coverage ratio (DSCR) of 1.92x. Additional protections include blocks on distributions if the DSCR falls below 1.25x, and if the operators available liquidity falls below a certain level.

The bonds have a final maturity of 2028, and start amortising in 2018. The proceeds of the bond will pay down some of the remaining bank debt, and fund a 12-month debt service reserve account. In June 2013 RCO reopened the local bonds for a Ps1.8 billion follow-on issue, to maximise the Ps10 billion in principal that Banobras was able to cover. The Ps7.7 billion remainder of the 2007 debt now matures in 2018, but the risk is manageable.

Following the closing of the second bond issue, ICA sold its remaining 18.7% stake in RCO to the Goldman fund for Ps5.07 billion, or 14.1x 2012 Ebitda.