

Asia-Pacific Water Deal of the Year 2013: Aquasure

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Aquasure Finance, the project company for the Victoria desalination project, closed a two-stage refinancing of its construction debt in December 2013. The refinancing followed a resolution of disputes between the project and the state of Victoria, and is the first time an Australian PPP has closed a US private placement.

Aquasures sponsors are UniSuper, Suez Environment, Itochu, Korean Teachers Credit Union, Macquarie Prism, InfraRed Capital, Thiess, Korea Development Bank, Samsung C&T, and Korea Life Insurance. The project originally reached financial close in 2009 on \$3.7 billion of construction bank debt.

Shortly after the project completed construction in 2012 Aquasure and the government of Victoria came to blows over delays to construction, mainly as a result of bad weather and industrial action. The extent to which some or all of the delays were the result of a force majeure event was central to the dispute. The two settled in October 2013, and the refinancing started immediately.

The first stage, a A\$3.7 billion bank deal that repaid the plants 2009 construction financing, closed in November 2013, 10 months ahead of the sponsors schedule. The debt broke down into tranches of three, five and seven years. The three-year A\$2.08 billion debt is floating rate and priced at 90-135bp over BBSY. The five-year debt comprises a A\$1.25 billion floating rate term loan, priced at 165bp over BBSY. The seven-year A\$400 million term loan priced at 185bp. Accompanying the bank refinancing is a small A\$15 million loan, the proceeds of which pay for an extension to the plants defects liability period.

The lenders on the deal include: HSBC, Westpac, NAB, CBA, BTMU, Mizuho, SMBC, Crédit Agricole and Scotiabank. The three-year tranche was designed to serve as a bridge to a capital markets refinancing, and shortly afterwards Aquasure refinanced roughly \$530 million of the three-year debt with a US private placement and a placement of Australian medium-term notes.

The biggest attraction of the US private placement market was that it offers sponsors longer tenors than those available in Australia. Australian banks struggle to provide debt at tenors of beyond seven years and refinancing risk is endemic to the Australian market. Even accounting for the volatility of the US dollar/Australian dollar exchange rate and the resulting need to pay for cross-currency hedging, the US is a popular destination for Australian infrastructure issuers.

The bond financing breaks down into two tranches of US private placement notes, of \$310 million and A\$100 million, both due 2024 and underwritten by HSBC and NAB. The US dollar

Aquasure Finance

Status

Financial close November 2013 and December 2013

Size

\$3.5 billion

Description

Bank and bond refinancing of construction debt on the Victoria desalination project.

Sponsors

UniSuper (26 %), Suez Environment (21%), Itochu (13%), Korean Teachers Credit Union (13%), Macquarie Prism (8%), InfraRed Capital (6%), Thiess (5%), Korea Development Bank (4%), Samsung C&T (2%), and Korea Life Insurance (2%).

Grantor

Government of Victoria
Debt

A\$3.7 billion

Mandated lead arrangers

HSBC, Westpac, NAB, CBA, BTMU, Mizuho, SMBC, Crédit Agricole, Scotia

Bond arrangers

HSBC, NAB, CBA, Westpac

Financial adviser to the sponsor

Macquarie

Legal adviser to the sponsor

Ashurst

Legal adviser to the lenders

King & Wood Mallesons

Technical adviser

Hyder Consulting

tranche carries a coupon of 4.48%. Aquasure also issued A\$150 million of Australian medium-term notes, due 2020 at priced at 5.75%, underwritten by CBA and Westpac.

Fitch rated the senior secured debt A- (stable). Fitch noted that the financing featured strong counterparty credit risk because it receives regular monthly payments from the government of Victoria for operating and maintaining the plant. The financing is not vulnerable to volume risk, because the state asks at the beginning of the year for the plant to provide a certain volume up to 150 million gallons. High recent levels of rainfall in the state mean that the state has not asked the project to supply any water until June 2014.

The project attracted criticism for being too expensive and contributing to higher water bills in Melbourne, Victoria's largest city. The construction financings starting margins of 350bp did not help the state and sponsors make a case that the plant offered value for money. The state had offered the sponsors a syndication guarantee and received in return most of the gains on any refinancing, though if market conditions worsened the two had agreed to split the burden 50/50.

The Victoria plant is the biggest reverse osmosis plant in the world. The plant was commissioned to provide 150 billion litres of high quality drinking water a year to Melbourne, Geelong, Westernport and Wonthaggi. The concession runs until September 2039.

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