Bursa hospital exposes lender limits in Turkey

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Turkey’s Bursa hospital PPP, for which sponsors Meridiam and Ronesans completed the first debt drawdown on 31 October 2017, was funded by loans from European and Asian commercial banks as well as DFIs.

Though part of the lending group, Siemens Bank and Kommunalkredit provided less than 20% of the €391 million ($454 million) debt package however, with the majority coming from Japanese banks MUFG and SMBC and four multilaterals. This reliance on DFIs and major Asian lenders is increasingly common for projects in Turkey's hospital PPP programme, as local lenders and major European banks lose appetite for the sector.

DFIs such as EBRD and EIB, along with Asian lenders, have played an important role in the €12 billion hospital programme ever since it launched in 2011. But recent transactions such as Bursa, Gaziantep, and Ikitelli (for which first debt disbursement is expected to occur at the end of November 2017) have seen sponsors almost completely reliant on these sources of credit.

BBVA, UniCredit, Intesa Sanpaolo, Credit Agricole, and Deutsche Bank were all previously active on the programme but were completely absent from these recent deals.

Admittedly, Meridiam and Ronesans were also reliant on DFIs, MUFG and SMBC for their previous Turkish hospital deals of Adana, Yozgat and Elazig, but they had in the past also benefited from loans from BBVA (Adana), and Intesa Sanpaolo (Yozgat).

While part of this trend can be explained by these lenders naturally reaching exposure limits for the sector, a number of market sources believe last year’s attempted coup and subsequent government crackdown have negatively impacted confidence in the Turkish market.

And this means that with around half of the €12 billion hospital PPP programme still to come, and debt-to-equity ratios typically at 80:20, it remains to be seen whether Japanese and other Asian lenders together with a handful of DFIs can meet the roughly €5 billion debt requirement for these projects.

Bond investors

The Elazig hospital financing, another one of Meridiam and Ronesans’ deals, featured Turkey’s first greenfield project bond. While the sponsors, who had been planning the bond issue since before the failed coup, may have hoped European institutional investors would snap up the notes, in the end Elazig's bond investors are thought to have been Japan’s MUFG, French DFI Proparco, and the International Finance Corporation.

In the programme to date, Turkish banks have typically supported projects sponsored by local developers, while the most recent deals have had international sponsors. But some market observers expect Turkish lenders to be far less active in the second wave of hospital deals, having reached their maximum credit exposure to the sector. Turkish banks are also less competitive because of a limit on the length of tenor they are able to offer.

While DFIs have to date been happy to fill the funding gap, even some of these institutions are reaching credit limits. Adana, Elazig and Bursa fit with Proparco investment strategy due to their innovative financing structures, because they promote equitable distribution of basic services and social infrastructure, and support Turkey's health reforms towards universal coverage, said senior investment officer Mehdi Tanani. Proparco will consider further transactions of this type but will be managing its exposure on the country and sector which is approaching its internal prudential limit, he said.

Bursa

The debt package for the Bursa deal breaks down as follows:

- The European Bank for Reconstruction and Development - €135 million
- European Investment Bank - €150 million
- DEG - €20 million
- Proparco - €15 million
- Siemens Bank - €31 million
- SMBC - €40 million

The EBRD’s contribution was made up of a €55 million A-loan and a B-loan of €80 million syndicated to other banks. Of the €80 million EBRD B-loan, €40 million came from MUFG, and €40 million was provided by Kommunalkredit.

The project cost is around €500 million with gearing of about 80:20 debt-to-equity.

Pricing on the debt starts around 350bp over Euribor and steps up to about 400bp over the course of an 18-year tenor.

Advisers were:

For the sponsors:

- SMBC - financial
- Wilkie Farr & Gallagher and local firm Bezen - legal

For the lenders:

- Clifford Chance – legal

The hospital will have capacity for 1,355 beds. It will include a general hospital, as well as departments for cardiology, oncology, maternity/paediatric care, physical therapy and rehabilitation, and a high security forensic psychiatric hospital.

New legislation

The Turkish government seems committed to pushing forward with new hospital PPPs, with president Erdogan making an appearance at the signing of Sojitz and Ronesans’ Ikitelli hospital PPP in July 2017.

And some sources believe support for upcoming projects may come from capital markets. In fact, a draft law that is under review by Turkey’s Parliament aims to encourage capital market financing for PPP projects by providing exemptions from both stamp duty and taxes for agreements between offshore entities issuing bonds to finance PPPs and project companies. However, as the Elazig deal shows, convincing investors to buy Turkish infrastructure bonds may not be easy.

The next project in the programme to reach financial close, possibly before the end of the year, is CCN Yatırım Holding’s Bilkent Laboratory PPP project in the district of Ankara. And further tenders are expected in 2018, including possibly for the long-anticipated Sancaktepe hospital, which is expected to be the country’s largest healthcare PPP project.