

Acquisition of HES International, The Netherlands

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Funds managed by Macquarie Infrastructure and Real Assets (MIRA) and Goldman Sachs investment bank signed a €1.3 billion (\$1.6 billion) deal on 3 April (2018) to acquire one of Europe's largest dry and liquid bulk terminals operators – HES International. The acquisition is pending final completion.

HES International is a newer player in the liquid bulk space, primarily focused on petroleum products. Private equity firms on the sell-side put forward a business case of major growth as a handler of liquid bulk products through capital expenditure, rather than in the solid bulk products in which HES International is very well-established, particularly iron ore and coking coal.

Bank lenders from Europe and Asia Pacific stepped up to provide commitments over €1 billion to finance the acquisition and significant future capital expenditure in liquids.

Meanwhile, HES International is nearing signing a project financing for a major new liquids terminal at the Port of Rotterdam.

Buyers and sellers

The new shareholding structure once MIRA and Goldman Sachs' purchase completes will be:

- 50% – €4 billion [Macquarie European Infrastructure Fund 5](#)
- 50% – \$2.5 billion [West Street Infrastructure Partners III](#) fund

Completion of the sale is pending regulatory approvals from competition authorities and works councils over the next few months.

The acquisition signed at the end of March and approvals could take around four months from then.

Current owners are US-based private equity firms:

- 70% – Riverstone Holdings
- 30% – The Carlyle Group

[Carlyle and Riverstone acquired HES International](#) in a take-private deal in September 2014, de-listing then-named HES Beheer from the Amsterdam Stock Exchange. The buyers valued 99.71% of shares at €406 million at the time, and raised €315 million acquisition debt from Deutsche Bank, DNB and RBC.

HES International in 2015 raised a €100 million leveraged loan from the same three banks to finance the purchase of the remaining shares in the Europees Massagoed-Overslagbedrijf (EMO) terminal in Rotterdam that it did not already own.

Financing

The enterprise valuation for HES International in MIRA and Goldmans Sachs' acquisition is around €1.3 billion, which is a little above 12x EBITDA, sources have said.

Interestingly this is a lower valuation in terms of EBITDA multiple than a fairly recent sale of another European bulk terminals operator – [Koole Terminals](#). Koole, which unlike HES International only handles liquids, sold in 2015 for a rumoured enterprise valuation of around 16x EBITDA.

IJGlobal has heard that the buyers raised a debt package in the region of €1.1 billion, which is split between a term loan and a capital expenditure facility. However, with the capital expenditure facility mostly undrawn at this stage, the amount of drawn debt at completion will be less than half of that total.

The lender club on the holdco-level acquisition debt is an international field, featuring Dutch, British, French, German, Italian, Spanish, Japanese and Australian commercial banks. The full 10-strong lending club comprises:

- ABN Amro
- Banca IMI
- Banco Santander
- Crédit Agricole
- Rabobank
- Lloyds Bank
- Deutsche Bank
- National Australia Bank
- National Westminster Bank (NatWest)
- Sumitomo Mitsui Banking Corporation

Competitive auction

From the get-go, the MIRA and Goldman Sachs' team was well-known to be bidding. Market watchers were less certain as to the competition.

First round non-binding bids went in on 4 December 2017.

IJGlobal reported US-based fund manager BlackRock as a potential bidder early on.

By the final bid submission in March (2018) the rival contender was BlackRock, which did submit a final binding bid. A source says that these two were “not neck-and-neck” close, however.

HES' rising liquids business

The sale documents pitched the upside potential for HES International in bulk liquids, which potential buyers could achieve with significant capital expenditure programmes for new projects. HES International's liquids business is focused on clean petroleum products.

HES International is relatively new to the liquids space and to grow needs to be winning new contracts. Koole Terminals, for example, is well-established as a liquids handler with a sticky long-term contract base. “HES' liquid terminals are almost brand new, though”, a source pointed out.

A major project for the company is the HES Hartel Tank Terminal in Rotterdam. HES will own the terminal, for which BP is due to be key customer. The terminal will store oil products and biofuels. Operations are scheduled to start in 2019, while construction is expected to start soon and HES is still in the process of raising the project financing. The undisclosed project cost is in the hundreds of millions of euros.

A bid-side adviser said: “One interesting aspect [of HES] is that it is looking to convert some refinery kit they have in Germany to start processing fuel to produce low-sulphur fuel oil, which could be stored in terminals for ships. Ships need to comply with new regulations that cap the percentage of sulphur particularly when in ports.”

HES' solid bulk business

The sale documents emphasised that HES International has a stable solid bulk terminals business, with cost optimisation potentials in scope. It handles iron ore and coking coal for German steel production, some thermal coal for German power plants, and increasingly agribulk.

There were discussions in this sale process around how the main EMO coal terminal at Rotterdam might be repurposed in the future though this was looking out to a 20-year time horizon, a source said. Use of coal is on the decline, but shutting-down coal plants is not a straightforward and rapid process.

Terminals M&A in Europe to come

Around 80% of HES International's business is in the Netherlands, while Germany is the second market and then there are small operations across Poland, Belgium, the UK and France.

A fresh competitive sale is just launching, with the information memorandum due and teasers already out, for another bulk terminals company in Europe – [Euroports](#).

Euroports handles liquid bulk, and its liquids commodities base has a different focus to HES International's – handling for example agribulk, forest products, sugar beet and fertiliser. Whereas HES International's main hub is the Port of Rotterdam, Euroports' main base is Antwerp Port.

Advisers

The buy-side advisers include:

- ING and Goldman Sachs investment banking division – financial
- RBS – debt
- Wood MacKenzie – commercial
- Arcadis – technical
- Allen & Overy – legal
- Clifford Chance – lenders' legal
- EY – financial and tax
- Marsh – insurance
- Ramboll – environmental

The sell-side advisers are:

- Morgan Stanley – financial
- EY – financial due diligence
- McKinsey & Company – commercial
- Clifford Chance – legal
- Mott Macdonald – technical

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