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TLBs creeping into the infra landscape

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There's a cheeky little financing mechanism that's starting to impact the European infrastructure space… a riskier debt instrument borrowed from the US that brings with it the far-from-subtle aroma of leveraged finance.

Word of this first made it to this infra hack during a lull in lockdown imprisonment earlier this summer that allowed for a meeting in the local tavern with some infra types who live nearby.

It was in that surprisingly capacious beer garden, shielded from the A205 that an old chum leant over – keeping his distance to 1 metre – mumbling through his hospital-grade mask: "Have you heard anything about Term Loan Bs in the market?"

Patting down spilt ale that made standing unadvisable for at least 15 minutes (warm evening) I ventured: "Are we talking Europe here? And when you say Term Loan B… you mean in infrastructure?"

A mental note was securely logged to be revisited when the opportunity arose to take a closer look at TLBs in European infrastructure.

So, earlier this week I picked up the phone to a ratings agency and some lenders for that all-important sanity test.

The call to Moody's Investors Service armed me immediately with not 1, but 2 credit opinions on deals that involve TLB structures while the first call to a banker elicited: "Funny you should say that, we're looking at something almost exactly along those lines… but whether we'll be able to get there, I don't know yet."

What I was being alerted to earlier this summer was the emergence of a lev fin structure in European infra lending, and now we have a second one written up by Moody's it's starting to feel positively commonplace.

Added to that, a London-based banker (with no encouragement whatsoever) lets the cat out of the bag about a TLB deal doing the rounds from a "well-known private equity house" that has 3 US banks on board for a deal in Europe.

Working from the received wisdom that 1 is a dot and 2 is either a line or a coincidence.. well, if we're scampering down that line of logic, we'll have to agree that 3's a trend.

By jiminy, that's a trend!

The holy trinity…

The first one to be mask-mumbled in early summer was an Irish waste deal that dates from June (2021) with MIRA announcing the leveraged buyout of Beauparc via [Macquarie European Infrastructure Fund 6]() (MEIF6). This deal is slated

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to close this month (September).

On 23 July, Broom Holdings BidCo Limited – the future holding company of Irish waste management firm Beauparc Utilities Holdings – upsized by €30 million to €555 million the proposed senior secured term loan issued for the acquisition of Beauparc. The €555 million term loan is rated B1.

Those who take the time to read the Moody's credit opinion (that I skim-read!) will note: "The stable outlook reflects our expectation that in the 12-18 months following the acquisition Broom will achieve debt/EBITDA (as adjusted by Moody's) below 5x."

If you hadn't already cottoned on to this being a lev fin arrangement, this should set you on the right direction as project finance people focus on DSCR and LLCR, while lev fin people live or die by debt/EBITDA.

Then there is Luna III which is 100% owned by Platinum Equity having signed a definitive agreement to acquire it on 4 June (slated to close by end Q3). The B1 rating of Luna III primarily reflects the underlying credit quality of its main operating subsidiary – Urbaser – another key player in the waste sector.

Following the acquisition by Platinum and the refi of Urbaser's capital structure, total debt will stand at around €2.4 billion by the end of 2021. The size of the TLB in this case is €1.63 billion over a 7-year tenor.

And the other one… well, that's hearsay… but from a good source.

Something borrowed…

Now Term Loan Bs are long-established in the scheme of things – either as a covered debt tranche from a DFI or in the lev fin environment – but they are anything but regular fare for the infrastructure community.

Paul Marty, senior VP at Moody's, says: "What makes it new in the infra space is that most of our credit ratings tend to be investment grade and therefore you don't tend to find this kind of structure.

"We have very few speculative-grade names because of the nature of the infrastructure business which lends itself to strong credit quality and investment grade ratings."

The TLBs that are catching the imagination of infrastructure lenders are – in reality – a lot closer to corporate loans that move in the speculative-grade space, reflecting the credit quality of the underlying business.

However, given lack of opportunity in the market right now and a surplus in liquidity, it comes as no surprise that banks are sidling towards this à la Arthur Daley, anticipating better returns and shorter tenors (typically in the 7-year range).

As one sidling infra banker puts it (VAT at the ready): "Funding costs aren't going down and yet there's a lot of appetite for good quality project finance, long-dated loans – so the margins are coming down again… and this is a way to get an extra bit of return. So, you have to look at it."

Given this enthusiasm, it comes as little surprise to note that on the Broom transaction the loan was upsized to the tune of €30 million on the back of strong demand as bankers looked to fill their boots and Macquarie (never one to miss a trick) was only too happy to oblige.

While this is not an unusual state of affairs in leveraged finance (upsizing loans), it's not something you see terribly often in infrastructure. On Broom the borrower was only too happy to take advantage of market appetite… adding liquidity to the capital structure.

But is this something we are going to see increasingly and will the benighted IJ data team have to shoehorn these debt packages into a separate category of the database… much like they do with green bonds.

Marty says: "To the extent that there are assets of this type of quality, I would expect to see an ongoing deal flow of leveraged finance transaction in this space."

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But this will only impact half-way corporate finance / infrastructure finance deals on the back of an M&A where the borrower has exposure to some of the volume risk and competition that is less common in your common-or-garden infra deal.

And why wouldn't you do it?

Smaller loans, some infra characteristics, some barriers to entry, better returns, less security than project finance, a hybrid feel you can likely smoke past the credit committee… heck, it makes more sense than Bitcoin.

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