Centre Hospitalier de l’Université de Montréal (CHUM)

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The C$3.17 billion (US$3.2 billion) Centre Hospitalier de l’Université de Montréal (CHUM) mega-project has been the largest bond deal in Canada till date. The sheer ticket size meant the deal was not going to be an easy or quick sale with investors.

However, the size of the 30-year deal was not the only challenge the project would face. Other hurdles needed to be passed before financial close could be reached. The complexity of the construction, which involves tearing down the old St. Luc Hospital and building a new 18-story-high facility in an extremely congested area with an 8.8-year construction tenor, made the project both innovative and difficult that would have to be divided into two phases. Most other hospital projects in Canada are straightforward greenfields with an average four-year construction periods.

Two of the sponsors from the winning consortium were also unknown to the Canadian market. Laing O’Rourke (LOR) and OHL had to actively go out and introduce themselves to investors in two road shows in a province which is known for being slightly closed to newcomers.

Another very important factor was the bond rating. DBRS a Canadian rating agency, gave the issuance a BBB (high) rating, which makes it an investment grade deal in the northern country. Most social infrastructure deals in Canada are rated A or higher. Moody’s Investors Service gave CHUM a Baa2 rating.

Project History

The CHUM PPP was the third of three Quebecoise hospital P3s to issue an RFP as part of the government's C$5.2 billion (US$5.278 billion) hospital investment programme. The other projects were:

- The Montreal University Hospital Research Centre (CRCHUM), which was awarded to a Meridiam and Fiera Axium led consortium. [Transactions Database]
- The Centre Universitaire de Santé McGill (CUSM) - also known as McGill University Health Centre (MUHC), which was awarded to an SNC-Lavalin and Innisfree led consortium. [Transactions Database]

The RFP was issued in December 2009 to two preselected consortia including a Babcock & Bown and Acciona team and an Innisfree, Dalkia, OHL and Laing O’Rourke team. The latter was announced as preferred bidder and financial close was reached by June 2011.

According to sources close to the deal the tipping point in choosing the preferred bidder was the way the deal was structured by the consortium. Once the capital expenditure is financed through bonds or bank debt, most consortiums receive substantial completion payments to leverage the initial investment.

In this case, the bidders proposed dividing the construction into two phases. In Phase I, the developer could build up to

80 per cent of the hospital and service area and 90 per cent of the clinical area, which should be completed by Spring 2016. During Phase II the St Luc Hospital would be demolished and the project completed.

Therefore most of the capital expenditure would be spent during Phase I and therefore all of the debt issued would be used to finance it. Secondly, the consortium instead of receiving substantial completion payments, agreed it would received monthly contribution payments from the authority starting construction.

Therefore the sources for C$2.3 billion (US$2.3 billion) needed for the construction of Phase I would be:

- Long term bonds: C$1.37 billion (US$1.39 billion)
- Equity and Subordinated Debt: C$180.2m (US$182.9 million)
- Contribution Payments: C$709.2m (US$719.9 million)
- Interest during construction: C$71.3m (US$72.3 million)

Once Phase I is built, which would consume the bulk of the total CAPEX required to complete the project, the authority reserves the possibility of descoping the project and cut down construction during Phase II. If that were to happen the authority is bound to a termination payment to pay off senior bond holders in order to maintain the financial metrics of the deal. If Phase II continues as planned the project is slated for completion by 2020.

The minimum DSCR expected id 1.25x and D/E ratio is 88/12.

Project Financing

*** Source: DBRS Sales Report – 10 June 2011. (click to enlarge, all figures in C$)*

Most of the capital expenditure was financed via a C$1.37 billion (US$1.39 billion) bond issuance, which was priced on 6 June.

The amortising bonds were priced at par with a yield of 315bps over the Government of Canada 5 per cent benchmark based on the 1 June 2037 maturity and carry a coupon of 6.721 per cent.

The end maturity of the senior bonds is due for 30 September 2049. However, their average life expectancy is 28.5 years. Bonds will only pay interest during the construction of Phases I and II with principal amortization beginning 30 September 2020, approximately six months after the substantial completion date, which is 27 March 2020.

RBC served as the underwriter and Investec was the financial adviser to the consortium. Blake Cassels and Graydon served as legal advisers to the sponsors.

The C$180.2 million (US$182.9 million) equity was split among the members of the consortia which include OHL, Innisfree, Dalkia, LOR, in the following way:

- 30 per cent to Innisfree
- 20 per cent to Dalkia
- 25 per cent to OHL
- 25 per cent to LOR

Project Description

The 30-year concession will commence its service phase only until the completion of Phase 1. Construction of the whole facility is expected to last 8.8 years.

The project involves the construction of 772-bed Hospital Centre including the following facilities:

- 39 operating rooms
- an emergency ward

- ICU
- birthing room
- radiology
- nuclear medicine
- labs
- pharmacy
- endoscopy
- support services

The hospital will be built on the current St. Luc Hospital Centre site on René Lévesque Boulevard.

Phase I includes the portion of the hospital destined for patients - operating rooms, patient rooms, clinical services, medical imaging, diagnostic and treatment services. Phase II includes the CHUM's administrative offices, ambulatory services, a library and amphitheatre.

Conclusion

The successful allocation of the massive bond issuance for this project proved a couple of things to the industry. For starters there is an appetite for investment grade bonds with higher yields. The issuance tested the market. However, both road shows and the active outreach on behalf of the sponsors proved to be a well thought out marketing strategy.

Though mega projects like this are scarce, the financial advisers and the consortium approached the financing in a creative and innovative manner. Instead of relying on the typical substantial completion payments, the private partner accepted monthly contribution payments that would help finance the fixed-price construction expenditure.

Typically social infrastructure projects are much smaller, but as this deal proved as well as the Adelaide hospital in Australia that reached FC, last year, investors don't have to wait for large transportation projects in order to out-shine competitors.

Project at a glance

Project Name	Centre Hospitalier de l'Université de Montréal
Location	Quebec, Canada
Description	Two-phase redevelopment project including a 772-bed Hospital Centre, including 39 operating rooms, an emergency ward, ICU, birthing room, radiology, nuclear medicine, labs, pharmacy, endoscopy and support services. The hospital will be built on the current St Luc Hospital Centre site on René Lévesque Boulevard.
Sponsors	OHL, Innisfree, Dalkia, LOR
Loan Concession Period	30-years
Underwriter	RBC
FA to the sponsor	Investec
Total Project Value	US$2.03 billion
Equity Breakdown	Dalkia -20 per cent Innisfree - 30 per cent OHL – 25 per cent LOR – 25 per cent
Senior secured bonds	US$1.4 billion
Spread	315bps
Debt:equity ratio	88:12
Maturity	September 2049
DSCR	1.25x
Financial Adviser to authority	Raymond Chabot Grant Thornton
Technical Adviser to authority	AECOM
Legal adviser to authority	Fasken Martineau
Coupon	6.721 per cent