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Associated British Ports Refinancing, UK

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It was in 2010 that Associated British Ports, owner and operator of 21 UK ports, began to look at refinancing the facilities that had financed its acquisition in 2006, after a closely fought bidding contest, by a consortium of four funds: Borealis, GIC, Goldman Sachs Infrastructure Partners I and Infracapital Partners.

The deal, codenamed Project Cook, had overall market conditions behind it – liquidity had started to return to loan markets and debt capital markets in infrastructure that year – and of the £2.4 billion (US$4.37 billion at June 2006 rates), some had been paid down over the past three years as no dividends had been issued.

Background

Why did ABP decide to go to the markets in autumn 2011? Sebastian Bull, chief financial officer, recalls: "We had a significant amount of debt to refinance and we were mindful that there is a wall of other transactions to refinance out there as well.

"ABP's debt maturity was June 2013, but the business was operating well and we felt it was better to refinance from a position of strength. We were conscious of not wanting to be in a position where banks and the markets thought we had our backs against the wall."

With a refinancing wall looming in 2012, an approach was taken to capitalise on the expected return of confidence in the markets in 2011. In the meantime, a number of bank-and-bond deals took place in 2010 that seemed to point to growing co-operation between the two creditors and willingness to share control in financing investment-grade assets.

There was BAA's £1.5 billion subordinated debt refinancing in August-November 2010, featuring £625 million in loan facilities and £650 million in investment-grade bonds; the sale of HSBC's Eversholt Rail rolling stock company (ROSCO) in November 2010, with bank facilities alongside £700 million of BBB/A- bonds; and the £1.31 billion of bank facilities closed in December 2010 for the Channel Tunnel Rail Link (High Speed 1) acquisition, to be refinanced into the bond market.

Structure and security

In August 2010, Barclays Capital was appointed financial adviser to ABP and began to work with the firm on the best structure for the refinancing. ABP has a complex structure (see below) and it was restricted in how it could offer guarantees and security by the Transport Act 1981, under which ABP, the company at the bottom of the diagram below,

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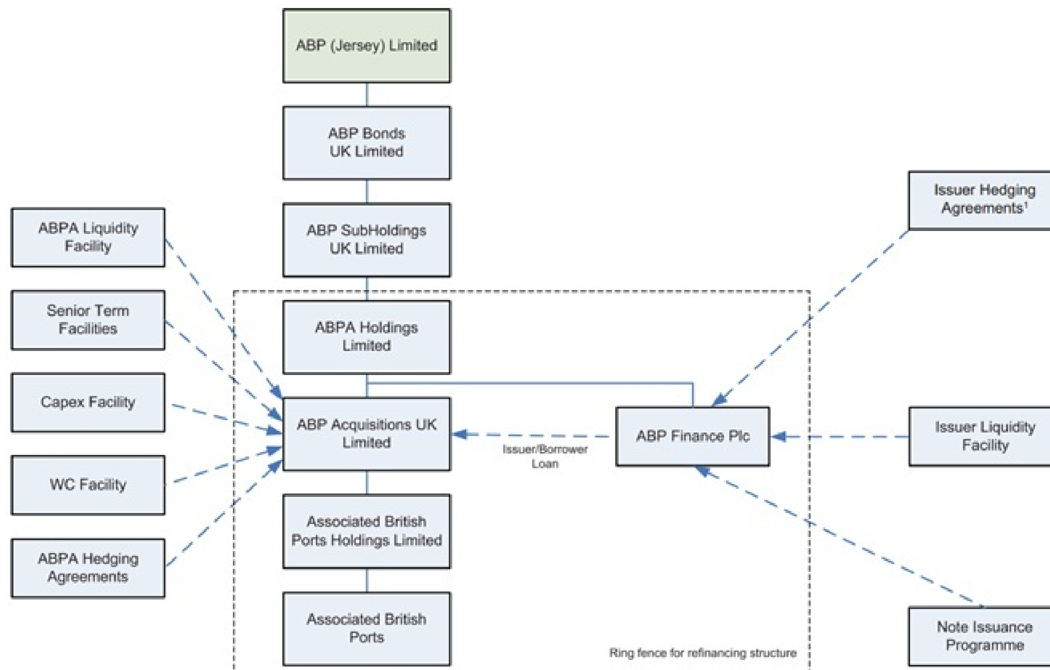

Ownership structure of ABP Holdings and structure of financing, as proposed in November 2011 (source: ABP)

was established out of the British Transport Docks Board. ABP itself had a limit imposed on the amount it could borrow, but bank debt facilities were to be raised at the holdco level. The Act also prevented ABP and its subsidiaries from guaranteeing any debt or providing security for it. As such, the guarantors would have to be Associated British Ports Holdings and ABPA Holdings, and the security providers would be these two companies plus ABP Acquisitions UK.

The original leveraged acquisition in June 2006 had seen the owners raise £2.4 billion of short-term facilities, comprising:

• £1.46 billion in seven-year senior term debt
• £560 million in seven-year senior term debt to refinance existing facilities
• £350 million in eight-year junior debt
• £250 million capex facility
• £100 million in a working capital facility

“The decision was between a more complex whole business securitisation type structure with a bank and bond platform, such as BAA, Gatwick or some of the utilities, or a more standard looking corporate facility,” Sebastian Bull says. “The initial feedback from rating agencies highlighted that a more structured approach would optimise the level of leverage. The key decision was to go for a BBB-range rating and optimise the structure and covenants in order to make the best use of that rating.”

A whole business securitisation sees the assets of a company transferred to an SPV that allows them to continue generating cash flow within the operating company in the event of insolvency, protecting the interests of bondholders, whose notes are issued by the ‘bankruptcy remote’ SPV. Thus the company’s operating performance and balance sheet are disconnected from the creditworthiness of the borrower. In this case, ABP Acquisitions acted as the SPV.

Because of the Transport Act’s restrictions, it was not possible to have a pure whole business securitisation structure, but key features could be deployed, such as swaps, a covenant package and a liquidity facility. These and other features helped raise the rating on the debt, drive down pricing and avoid paying down more debt first. As Bull says, “It was necessary to choose that structure to raise a sizeable amount of debt with a BBB rating. In order to raise £2.4 billion all in one go, effectively one needed to use the more structured debt approach.”

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Another important issue was establishing a long-term debt platform so that ABP could issue debt in future without having to negotiate the terms (besides pricing) each time. Such a platform would establish common terms extending the benefits of representations (contractually binding statements of fact about the borrower), covenants and events of default to all senior creditors, unlike a simpler corporate financing structure. It would also allow ABP, through a medium term notes programme, to access the bond market in a short space of time – important given the limited opportunities to access it. ABP would become the first non-regulated company (excluding ROSCOs) to issue bonds under such a structure.

Derwin Jenkinson, senior associate at Clifford Chance who would come on board to advise the lenders, observes, "After the wave of ROSCO refinancings in 2010-11 it's yet another example of the maturing bond/bank market that is available to investment grade companies - and not just for regulated utilities or high yield bond issuers."

Tapping the market

In February 2011, ABP approached ratings agencies with an initial information pack. A due diligence team was then appointed: Freshfields Bruckhaus Deringer on the legal side, Arup on the technical side and Ernst & Young on the accounting side. Between March and June a financial model was drawn up before returning to the ratings agencies. Meanwhile Goldman Sachs was appointed in April to act as structuring bank alongside BarCap.

A combined bank and bond issue would allow ABP to minimise the part of the swap associated with the acquisition financing it would have to break, on which ABP was paying 4.7 per cent. This, says Bull, saved the borrower a lot of money. "If you issue fixed rate bonds, you have to terminate part of the swap, which has a huge cost given where rates are."

In autumn ABP was ready to issue a request for proposals to banks, which one source said at the time had "gone for as wide an audience as possible" – although the intention was to reduce the number of lenders. Rothschild was hired as debt and swaps procurement adviser in September, and the RFP went out in the same month.

It soon became clear that there was healthy bank appetite for the deal from Australian, Canadian and British banks. Some banks are understood to have been put off by the risk associated with the swap break options and high market-to-market value of the swaps.

By late October, ABP had chosen twelve banks to take various pieces of the loan financing:

- Bank of America-Merrill Lynch
- Bank of Tokyo-Mitsubishi UFJ
- Barclays Capital
- CIBC
- Commonwealth Bank of Australia
- Export Development Canada
- JP Morgan
- Lloyds
- National Australia Bank
- RBS
- Santander
- Scotia Capital

Bank of America Merrill Lynch, Barclays Capital (also bond arranger), Lloyds and RBS were appointed lead managers on the bond, while National Australia Bank, Scotia Capital and Bank of Tokyo-Mitsubishi UFJ were passive bookrunners.

The road to close

On 23 November 2011, Fitch announced that it had assigned a BBB+ rating to ABP Finance's expected £250 million 10-year bond and £250 million 20-year bond. Fitch noted that ABP's EBITDA had fallen by only 1.4 per cent in 2007-09,

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when cargo volumes slumped by 19 per cent, adding: “The expected ratings also reflect the structural protection provided for secured creditors, including a security package with regard to restrictions imposed by the 1981 Transport Act , leverage- and coverage-linked lock-up trigger and default covenants, debt maturity concentration covenants, etc. Noteholders will also benefit from protection provided by the issuer-borrower structure.” The structuring had paid off. Some key trigger events included in the common terms agreement are given at the end of this article.

In the bond prospectus issued two days later, ABP confirmed publicly it was seeking the following structure:

- £500 million bond
- £850 million three-year term loan
- £325 million five-year term loan
- £250 million revolving capex loan (undrawn)
- £225 million seven-year term loan
- £75 million working capital loan (undrawn)

Why did ABP not seek a larger bond issuance, given that it had just achieved a BBB+ rating?

According to Sebastian Bull: “Firstly, given the bank market appetite for the company, we did not need to issue more than £500 million on day one. Then, we were mindful that we were re-opening the ports sector in the UK, we were a new issuer in terms of the company as a structured, rated issuer, and these two facts meant there was a limit to the amount one can raise efficiently in the bond markets on day one, relative to the bank markets. One starts to pay a premium to raise more than a £500-750 million range.” In the long term, however, he expects 75 per cent of the drawn debt to be placed in the capital markets.

By early December, banks had been mandated – except one. Santander had dropped out, leaving the deal without one single eurozone bank lending. Was this a problem? Sebastian Bull says not: “Given the acute market difficulties at the time, we thought that two or three banks may fall away during the process... but we’d structured the group to accommodate that. It clearly underlines the extent to which raising large amounts of financing is increasingly difficult.”

In any case, the bond was out in the market. ABP eventually settled for a single 15-year tranche of £500 million instead of 10- and 20-year tranches, and on 7 December the bond was priced at 370bps over UK gilts, a coupon of 6.25 per cent. The borrowers appeared to have avoided the worst of the closing bond market in December. “It was as it happens no higher than the all-in rate we would have had if we had refinanced at the end of June,” Bull says.

On 16 December, the bank group signed £1.4 billion of drawn bank debt: the planned £225 million seven-year facility had grown to £375 million. Part of this was used to pay off what left of 2006’s junior debt. Planned undrawn facilities were also signed, plus a £130 million liquidity facility to provide debt service in the event of poor cash flow.

Conclusion

The ABP refinancing is one of those deals where how it was done – specifically the setting up of the perpetual debt platform – is as noteworthy as the figures. Sebastian Bull says: “It’s a significant achievement. We have complete freedom to add or repay debt or take out or repay swaps, so long as we live within the covenant package. It gives us the flexibility to manage our arrangements over the long term.

“We have a structure that’s going to have to be in place for 20 years or more. One has to be mindful of being able to operate effectively over the long term.” The new package appears more to ABP’s taste than the covenants imposed by the 2006 deal. ABP had reduced its bank lenders from over 40 to 11.

ABP felt that it had opened up the capital markets for the port sector and showed that a fairly leveraged deal (in the region of 8x EBITDA, according to the Fitch expected rating) could be done right at the end of a tough year for the eurozone and a choppy period for bond markets. Given the apprehension about the upcoming refinancing wall, this can only reassure other borrowers. But ABP had to work for it: the whole process lasted 16 months from BarCap’s

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appointment. Proceeding with the bond issue at the end of 2011, as opposed to waiting and starting again in 2012, was not set in stone. But it paid off.

Derwin Jenkinson of Clifford Chance says: “The transaction is another example of the role capital markets can play in managing refinancing risk. It demonstrates the robustness of the asset class that even in the very challenging market conditions at the end of last year, the market will price bonds for essential infrastructure.”

Transaction at a glance

Name	Associated British Ports refinancing, 2011
Location	United Kingdom
Description	Refinancing of a £2.4 billion acquisition debt raised in 2006 and establishment of a euro medium term note programme and perpetual debt platform
Borrower	Associated British Ports, through securitised structure. Top-level company Associated British Ports (Jersey), owned by Borealis (Luxembourg) and Borealis International Investments Corporation (33.34 per cent); GIC (33.33 per cent through Cheyne Walk Investment), GSIP (23.33 per cent through Admiral Global & International and Admiral Institutional), and Infracapital (10 per cent through Infracapital Nominees)
Loan bookrunners	CIBC, Commonwealth Bank of Australia, Export Development Canada, JP Morgan,
Bond arranger	Barclays Capital
Active bookrunners (bond)	Bank of America Merrill Lynch, Barclays Capital, Lloyds, RBS
Passive bookrunners (bond)	Bank of Tokyo-Mitsubishi UFJ, National Australia Bank, Scotia Capital
Total value	£2.355 billion
Total senior debt	£1.9 billion (drawn), £455 million (undrawn)
Debt breakdown	£500 million 15-year bond paying 370bps over UK gilts (6.25 per cent coupon) rated BBB+/Baa2; £850 million three-year term loan; £325 million five-year term loan; £250 million revolving capex loan (undrawn); £225 million seven-year term loan; £75 million working capital loan (undrawn). Lenders: Bank of America-Merrill Lynch, Bank of Tokyo-Mitsubishi UFJ, Barclays Capital, CIBC, Commonwealth Bank of Australia, Export Development Canada, JP Morgan, Lloyds, National Australia Bank, RBS, Scotia Capital (all facilities except three-year term loan taken by BAML, BTMU, BarCap, Lloyds, NAB, RBS and Scotia Capital only)
Sample trigger events	Historic/projected interest cover (interest payable to historic/projected adjusted consolidated EBITDA) : >1.75x Historic/projected net debt to EBITDA: 8.25x (up to December 2013); 7.75x (during 2014); 7.50x (after 2014) Rating downgrade on bonds: below BBB- or Baa3

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Financial adviser to borrower	Barclays Capital and Goldman Sachs (structuring banks), Rothschild (debt and swaps adviser), Erias Finance (adviser to board of ABP)
Legal adviser to borrower	Freshfields Bruckhaus Deringer
Legal adviser to lenders	Clifford Chance
Technical adviser to borrower	Arup
Date of financial close	16 December 2011

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