Eten cold reserve power plant, Peru

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Empresa de Mantenimiento, Construcción y Electricidad, part of Grupo Terra's energy division, and Cobra, a subsidiary of Spanish construction group Grupo ACS, reached financial close on a US$132.8 million cross-border private placement to fund a 224MW single-cycle cold reserve thermal power plant in the Reque district of Chiclayo province, in north-western Peru on 5 December 2013.

The transaction is the first international greenfield project bond in Latin America on which investors took on full construction and operation risk, and the first international project bond with a partial credit guarantee in the region.

The Project

The Peruvian Ministry of Energy and Mines granted a BOO concession to special purpose vehicle (SPV) Planta de Reserva Fria de Generación de Eten (Eten), owned equally by the two sponsors, in 2011. The 20-year concession will begin at commercial operation date, resulting in an 18-month tail after the debt matures.

The US$172 million Eten facility has a high marginal cost (roughly 10 times higher than Peru's average 2012 marginal cost, at around US$300 per MWh).

It will operate on a stand-by basis, at periods of heightened demand or shortage of supply for the national grid and will receive fixed availability payments and merchant revenues upon dispatch of power.

Cobra is also EPC contractor, and its obligations benefit from a letter of credit from Banco BTG Pactual. A 3km 220kV transmission line will be built along with the power plant to transfer the power to the grid.

General Electric (GE) is providing long-term servicing to the plant, which will consist of a single GE 7FA 5 series turbine. The project also has a fuel supply purchasing contract Uno Petroleos Peru.

The plant is already under construction and completion is expected in March 2015.

The Financing

The fully amortising variable-funded notes priced on 28 November at a fixed rate of 7.65 per cent and a maturity of 20 years. The offering was oversubscribed.

BTG Pactual (ex Celfin Capital) was bond arranger and placement agent.

Fitch and Standard & Poor's both rated the partially guaranteed senior secured variable-funded notes 'BBB-' outlook stable.

Corporacion Andina de Fomento (CAF) is providing a partial guarantee on 20 per cent of the debt, on a pre-default basis to pay interest and principal on a timely basis.

The project sponsors will provide equity capital of US$39.2 million, bringing the debt:equity ratio to 77:23.

Fitch saw significant value in the guarantee from a breakeven perspective, which nearly doubled the resilience of the transaction, covering an increase of 92 per cent without a principal loss. The rating was also driven by the fact that CAF's guarantee is available on a pre-default basis to pay interest and principal on a timely basis.

Under the Fitch base case scenario, the transaction debt service coverage ratios (DSCR) average 1.27x with a minimum of 1.19x, while Standard & Poor's average 1.20x and 1.20x respectively.

The future

Peru is emerging as a frontrunner for the use of project bonds. Their use in funding energy projects is gathering momentum in Latin America, particularly for power and transmission projects. Prior to this bond issues were typically linked to transport or social infrastructure deals.

Speaking to IJ News, Benjamin Tano, primary analyst to the transaction at Fitch Ratings said "the CAF guarantee is a strong and well-structured product which provides comfort to investors both as an explicit guarantee, as CAF is rated AA- by Fitch, but also the intrinsic value of having a third party monitoring performance and doing their due diligence in a contingent-equity like position for the life of the notes”.

“The guarantee is designed to be a product to serve the capital markets and our expectation is that we will likely see more of these in similar projects in the region.”

Advisors

Chadbourne & Parke and Rubio Leguía Normand provided legal counsel to the sponsor and issuer, DLA Piper and Estudio Echecopar (a member firm of Baker & McKenzie International) advised the underwriter and Shearman & Sterling and Delmar Ugarte represented CAF in the transaction.