Abengoa Transmisión Sur refinancing, Peru

Rosie Fitzmaurice

30/04/2014

The Abengoa Transmisión Sur (ATS) refinancing of its Peruvian transmission lines through the international capital markets successfully tested a model that the industry hopes will become the new paradigm for infrastructure financing across Latin America. It marked the largest ever dollar-denominated project bond in Peru and the first in the region to reach a 29-year tenor.

Like many of its Latin neighbours, Peru has been working to boost power generation and expand the coverage of its national grid. Private investment agency ProInversión has procured a large number of transmission projects to the private sector in support of this initiative.

The Chilca project consists of three 500kV power transmission lines between Chilca-Poroma-Ocoña-Montalvo in Peru, three new substations and three newly expanded substations. It is Peru's largest in terms of capacity. Chilca provides connectivity from Lima to the underdeveloped south of Peru, which continues to witness growth in industry and consumer power demand.

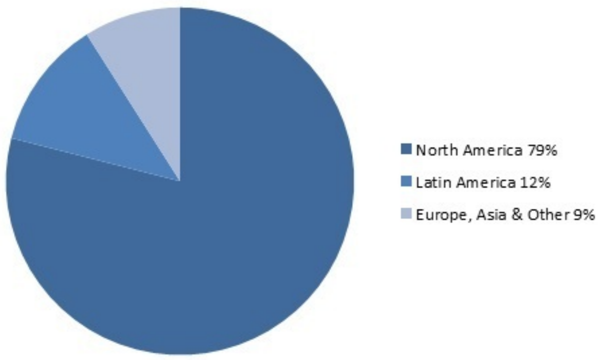
The Peruvian Ministry for Mines and Energy granted the 30-year build, operate, own and transfer (BOOT) concession for the Chilca project to the engineering and construction arm of Spanish conglomerate Abengoa in 2010. Upon reaching commercial operation in January 2014, ATS sought to refinance the roughly $340 million bank debt closed in 2012 with a bond.

Christopher Erckert, a partner at Mayer Brown said, "This is a textbook example of what everyone is saying should be the new model, with commercial banks financing to construction and being taken out by a bond."

The issuer engaged in an atypical 10-day roadshow prior to launch with an initial target of $412 million, anticipating strong appetite for the deal. Investor meetings were held in Santiago, Lima, LA, Houston, New York, Hartford, Boston and London and complemented with calls with accounts in Philadelphia, Atlanta, Geneva and Chicago.

The extended roadshow was aimed at providing investors, particularly private placement accounts and especially those new to Peru, sufficient time to source internal approvals. Nearly all accounts met by ATS during the course of the roadshow came into the transaction.

Orderbook by geography:



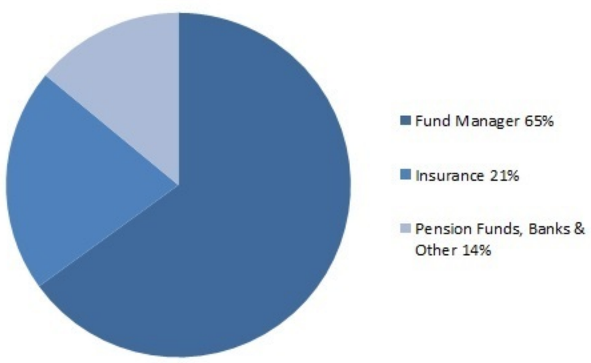
The fully amortising bonds have a coupon of 6.875%, priced at a yield equivalent to 30-year Treasuries +333.7bps. Initial guidance on the transaction came out at around 7.25%, but the company was able to further tighten the price and go below 7% at final guidance after attracting a $2 billion orderbook from 115 accounts. BNP Paribas and HSBC were bookrunning managers and Société Générale was co-manager on the bond.

The issuance was subsequently upsized to $432 million, driven by the lower coupon and certain minimum and target DSCRs that ATS wanted to achieve. The 'BBB-' rated notes (Fitch and S&P) will mature nine months prior to the expiration of the concession (January 2044). HSBC and BNP Paribas underwrote the bond.

Katia Bouazza, managing director and co-head of global debt capital markets, Americas HSBC Securities, commented "With such a small yield, and so highly oversubscribed, we were still able to tighten the price even below what the project's objective was without losing any investors at all".

The orderbook is understood to be dominated by high-quality names, including several crossover and private placement investors, not traditional buyers of emerging market assets, and some which were completely new to Peru. "You are starting to see a crossover between those investing in the US market, and those now starting to buy Latin American bonds." added Bouazza.

Orderbook by type:



A small portion of the proceeds were intended to repay some of Abengoa's subordinated debt, as well as fund the debt service reserve account (DSRA), the operation and maintenance reserve account (OMRA) and terminate interest rate swaps.

Mayer Brown and local firm Estudio Rubio represented BNP Paribas and HSBC as underwriters, and Shearman & Sterling and Miranda & Amado Abogados provided counsel to the issuer.

Growing project bond market

Peru is emerging as a frontrunner in the region for the innovative use of project bonds, though transactions still do not compare in size with those in more mature markets, such as Brazil. Nevertheless, ATS has pushed the boundaries in terms of maturity with this deal and the bond distribution is a vote of confidence for the market, which will likely encourage other similar ones.

The recently awarded Lima metro Line 2 and Chincheros airport are just two examples among Peru's record-breaking 2014 project pipeline which market observers suggest could be compatible with a similar financing structure.

Juan Pablo Gallipoli, director, debt capital markets, capital financing, Latin America, HSBC Securities said, "The transaction attested the prevailing demand for duration in USD fixed-income assets and the strong commitment by accounts to the long-term path of key emerging market economies like Peru".