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Abengoa green bond issue sparks recourse questions

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Spanish infrastructure developer Abengoa has been forced to defend the way it accounts for its projects' debt, after a green bond issue led to questions from nervous bond investors. Abengoa has had to persuade them that debt that benefits from a guarantee but which will eventually be refinanced with long-term non-recourse should not be counted as balance sheet obligations.

The issuer used a 17 November 2014 conference call to try and calm investors' nerves after it classified €500 million ($627 million) in green bond debt that carries a corporate guarantee as non-recourse debt in its third quarter 2014 accounts.

The bond issue, by Abengoa subsidiary Abengoa Greenfield, closed in late September 2014, and was the second high-yield green bond to close, behind a SKr1.1 billion ($150 million) issue from Swedish wind operator Arise. The proceeds of the Greenfield bonds, which broke down into €265 million in euro debt and a $300 million dollar issue, are designed to provide short-term bridge financing to longer-term project financings for eligible projects.

Abengoa said that it has consistently used the off-balance sheet classification, which it calls "non-recourse in process" in its accounts since 2002. But the application sits uneasily with generally-accepted principles of project finance, and the episode has thrown into sharp relief the changes that two popular renewables financing methods - green bonds and yieldcos - are making to developers' financing models.

Spanish sponsors have been enthusiastic users of project finance debt, and have been active in the Americas, Europe, the Middle East and Asia-Pacific, in power, renewables, water and toll roads. These sponsors have drawn heavily on European, particularly Spanish, banks to fuel their expansion overseas.

But there have been increasing constraints on bank lending following the 2008 crunch, constraints that persist for projects with high revenue, construction or technology risk. Abengoa took advantage of the increased popularity of green bonds to diversify its funding sources away from a reliance on banks to provide bridge financing for projects.

Abengoa is an experienced high-yield issuer, though it has occasionally baulked at the disclosure burden attached to capital markets issuance. One €250 million corporate issue that launched in November 2009 included a feature whereby the bonds' 9.25% coupon would step up if Abengoa declined to go through the ratings process.

At the time Abengoa was wary of undergoing a ratings process, but now carries ratings from Fitch (B+), Moody's (B2)and Standard & Poor's (B).

More recently, Abengoa closed a $255 million high-yield issue for Abengoa Yield, a yieldco that it set up in June 2014 to hold its contracted operational lower-risk assets. Abengoa Yield initially planned to issue in Euros because that market was thought to be more tolerant of unrated deals.

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In the end, and in part because a high proportion of its underlying assets and their non-recourse financings have dollar exposures, the bond issue was placed in the US dollar market, and the coupon on those bonds will go up if Abengoa Yield does not obtain a rating.

Abengoa owns 64.3% of Abengoa Yield, and the Abengoa Yield bonds are non-recourse to Abengoa. Abengoa Yield's underlying projects are themselves subject to €1.962 billion equivalent in non-recourse debt.

Central to Abengoa's argument that the Greenfield bonds should be off balance sheet is its record of converting recourse bridge loans to non-recourse project financings. It said it has "never failed to close non-recourse financing on any of its long-term concessional assets."

Abengoa did not say, however, whether those take-outs had always happened on schedule. And recognising in advance the outcome of future events often makes investors nervous, regardless of past performance.

Abengoa listed €854 million in project-specific bridge loans, €495 million in green bond proceeds, which must be dedicated towards eligible environmentally responsible projects, and €245 million in revolving bridge facilities as of the end of September. it has drawn on an additional €481 million in bridge debt since then. The green bond was not classified as non-recourse debt at close on 24 September, but was reclassified as non-recourse before the end of the third quarter.

Abengoa, the parent company, and Abengoa Finance, a corporate financing special purpose vehicle, are altogether subject to €4.8 billion and $1.1 billion in debt, while Abengoa Greenfield is subject to €265 million and $300 million in debt.

Abengoa's long-term plan is to use Greenfield as the vehicle for early-stage development of its projects, and Yield as their long-term home. Yieldcos are designed to offer investors cashflow from assets with long-term contracted assets, and are viewed as suitable vehicles for more mature assets.

The yieldco will have a preferential right to buy Abengoa-developed projects, and already distinguishes itself from other, primarily US-focused yieldcos with its high proportion of emerging markets assets. Still, Abengoa has not initially dropped down to the yieldco its assets in less stable markets like Brazil and Algeria.

In addition to calming bond investors' fears about the obligations associated with Abengoa Greenfield, Abengoa will also have to reassure these investors that by giving Abengoa Yield's lenders priority access to cashflows from the most stable access will not affect lenders to the rest of the group. It is started to find that bank bridge borrowing and bond bridge borrowing are quite different disciplines.

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