

# Mactan-Cebu International Airport PPP, Philippines

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Four years after the launch of the much-anticipated Philippines' flagship PPP programme, its first project financing – for the Mactan-Cebu International Airport (MICA) PPP – has closed.

Sponsors Megawide and GMR signed a Ps33 billion (\$744 million) financing with a consortium of local lenders in December 2014, before the Asian Development Bank (ADB) in January refinanced a portion of the debt in US dollars.

The presence of the ADB is a little unusual. Local banks, liquid in both dollars and pesos, have all but eliminated the need for developers to tap offshore funding – even for airports with access to hard currency revenue. The lag between the signing of the initial loan agreement and the signing of the refinancing suggests that the sponsors experienced some difficulties in assembling a dual-currency debt financing, but the ADB's participation in Mactan-Cebu may have wider implications.

Mactan-Cebu “is a landmark deal for several reasons, foremost because the sponsors were able to incorporate a mixture of local bank debt and US dollar debt from the ADB into a workable financial structure,” said James Harris, global head of infrastructure at Hogan Lovells in Singapore. “It also bodes well for future PPP deals in the Philippines, with several other large projects due to come out to tender shortly.”

## ***Local bank liquidity***

Philippine banks have eliminated the small foothold that overseas lenders had established in the country. The US high-yield market had been an exception, but the last notable example dates to 2012, when BDO and the Rizal Commercial Banking Corporation closed a \$160 million high-yield issue for the Manila-Cavite toll road.

Local banks enjoy advantages in tenor and pricing over their international counterparts. They tend to offer flexible covenants, and understand the domestic market.

For Mactan-Cebu, a syndicate of six banks is providing a Ps23.3 billion 15-year loan. That loan priced at 225bp over the Philippine Dealing System Treasury (PDST) with a floor on the PDST of 6%. BDO Unibank led the deal and the five other lenders are:

- • Bank of the Philippine Islands
- • Development Bank of the Philippines
- • Land Bank of the Philippines
- • Metrobank
- • Philippine National Bank

The ADB then signed an agreement for \$75 million 15-year loan, whose proceeds took out a portion of the local bank

debt. The dollar tranche is understood to be priced at 250bp over Libor. The signings of the peso and dollar loans took place separately because the ADB had to seek approval for some features that the sponsors were looking for, including dividend declaration and prepayment.

Megawide, 60% owner of project company GMR-Megawide Cebu Airport Corporation, and GMR, with 40%, are providing Ps9.7 billion in equity.

### ***Large enough size***

Mactan-Cebu was not the first Philippine PPP to be awarded, but the seventh. But the airport was the first PPP large enough to require a limited-recourse financing.

Several other large Philippine projects in procurement have been delayed because of problems with land acquisition, payment of concession fees, tax immunity or legal challenges.

The Mactan-Cebu PPP was comparatively straightforward. GMR-Megawide Cebu Airport Corporation is not responsible for land acquisition, and because the project mostly entails operating the existing terminal, capital expenditure is limited to building a next-door terminal. The owner of the land for that development is the Philippine government, whose air force currently uses it.

The competition for the concession was fierce. Six of the seven shortlisted bidders submitted formal proposals – and all offered premiums for operating the airport, even though the tender documents allowed bidders to ask for subsidies. The Department of Transportation and Communications awarded the project to Megawide and GMR in April 2014 after they offered the highest upfront fee – of Ps14.4 billion.

The concession's main revenue source will be airport terminal fees levied on passengers, and those fees are renegotiated every six years and indexed to inflation. The sponsors were fairly comfortable with revenue risk for the project, since the airport already far exceeds its existing capacity of 4.5 million passengers per year. Economic growth projections suggest that this growth in passenger numbers will continue, even if the airport does not serve as an international hub.

The concession will also allow the sponsors to earn revenues from commercial activities at the airport. But the balloon payment at the end of the loan effectively acknowledges that these commercial revenues will not take off immediately.

### ***Source of financing***

For Philippine PPPs large enough to be financed on a limited-recourse basis, the Mactan-Cebu financing serves as a useful precedent – though domestic lenders will be able to handle most of these projects on their own.

The ADB and other multilaterals face limitations in the types of projects that they can support. And sponsors may decide that closing deals with international lenders would require too much effort, even if project revenue streams include partial dollar payments.

One exception could be the Ps116.23 billion bundle of six regional airports, which is due to be tendered imminently. Several European airport operators are expected to join with local developers on bids. If they are successful, those operators may decide that they want to work with their international relationship banks.

SyCip Salazar Hernandez & Gatmaitan advised the local banks, while Hogan Lovells advised the ADB. MVGS Law advised the sponsors.

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