

Project Finance

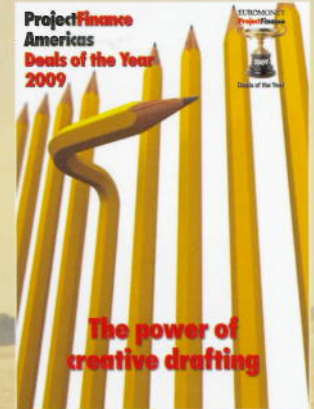
and Infrastructure Finance

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Nassau Airport: Maximum flexibility

A strategic structuring for a strategic asset – the Citigroup led \$265 million non-recourse financing for phase 2 of the \$410 million Lynden Pindling International Airport project in Nassau, sponsored by Nassau Airport Development (NAD), is the largest debt financing for the longest project to date in the Bahamas.

More significantly, the deal includes multiple tranche bank and bond debt in both Bahamian and US dollar tranches sized according to the expected currency requirements of NAD. Debt pricing is also linked to a future ratings grid, leaving the onus on the sponsors to dictate the future cost of debt. In short, the deal is a flexible solution to multiple problems caused by the uncertainty of the lending climate in which it was financed and provides the solid foundation for a full project bond refinancing at a future date.

The Government of the Bahamas officially handed over the development, operation and management of the Lynden Pindling International Airport, debt free, under a 30-year lease to NAD in 2007. NAD is managed by YVR Airport Services (YVRAS), the commercial arm of Vancouver Airport Authority, and in which Citi Infrastructure Investors owns a substantial stake, under a 10-year management agreement.

Due to the sponsor set-up, the deal has some peculiarities. The airport is not operated under a full concession and the financing does not benefit from an equity cushion. Instead the deal features a \$70 million accreting coupon subordinated facility designed to provide the borrower with a cash cushion, much like an equity tranche would.

Furthermore, even though NAD is government-owned, the debt is not considered to be on the balance sheet of the Bahamas. The government aim is to make the airport self-sustaining and finance improvements by levying a passenger charge on top of the typical airport revenues like landing fees – a move which eliminated the need for a government subsidy that had totalled over \$45 million between 2000 and 2007.

Revenues at the airport, principally the passenger fee, but also revenues from concessions and landing fees, are placed in an offshore account and are then subject to a waterfall. Operations and maintenance are paid first, then interest and principal, then the funding of a debt service reserve, and then any surplus can be distributed to the owner of the airport.

The phase 2 project – the terminal redevelopment project – is the primary goal of NAD. In 2006 YVRAS conducted a terminal review study to determine what would be required to meet the expected growth of tourism in the Bahamas, to bring the terminals up to an acceptable international standard and quantify the rising cost of maintenance of the old infrastructure and associated equipment. In April 2008, Stantec, an airport design firm, was awarded a \$20 million contract as the prime consultant for designing the new terminals.

YVR has scheduled the phase 2 development in three sections – the first for pre-cleared travellers to the US, the second for other international travellers, and the third for domestic passengers. This financing will cover the first section, and if after the US section is completed the borrower can get more bonds away, the

proceeds will pay down the revolver and free up capacity for the next stage.

The financing comprises a \$153 million seven-year senior-secured revolving credit, which breaks down into a \$123 million US dollar tranche and a \$30 million dual-currency tranche. The arrangers on this tranche were Citigroup, First Caribbean, Export Development Canada, Royal Bank of Canada and Scotia Capital.

The seven year debt, priced against a future ratings and currency grid, varies by as much as 150bp depending on the performance of the project, with the US dollar debt ranging from 400bp over Libor in years 1-3 for BB+/Lower, to 275bp for BBB- in the same period and 250bp for triple-B. The US dollar debt peaks in years six to seven at 425bp over Libor for BB+, 300bp for BBB- and 275bp for triple-B.

The Bahamian dollar seven-year debt has a margin of 250bp over Bahamian prime for BB+, 125bp for BBB- and 100bp for triple-B in years one to three. The increase in years six to seven is 275bp for BB+, 150bp for BBB- and 125bp for triple-B flat.

The bond debt is divided into a \$42 million senior secured 23-year fixed-rate tranche with an 8.5% coupon and \$70 million subordinated 25-year participating debt that carries an accreting coupon of 13%.

Of the senior bonds, B\$30 million were in Bahamian dollars (unofficially pegged at 1:1 to the US dollar) and \$12 million in US dollars. The subordinated bonds were split

into a series A of \$10 million and B\$10 million, and a series B of \$50 million. The Bahamian dollar is subject to exchange controls, which, together with the fact that some of the costs of the expansion are in Bahamian dollars, mandated that the bonds be issued in two currencies.

The financing is calibrated to get the maximum amount of long-term debt given the constraints in the bond and debt markets at the time of financial close, and provide sufficient medium-term bank financing to cover stage 1 of phase 2 financing costs whilst maximising refinancing flexibility between stages. Particularly notable is the use of the accreting coupon subordinated tranche, which was placed almost entirely with the islands' National Insurance Board.

The senior bonds attracted considerable interest from local and regional investors – 10 lenders participated in the \$42 million notes facility and two investors in the \$70 million participating debt – with local investors in particular hungry for fixed rate bonds that offer better yields than government securities, and constricted in their investment targets. ■

EUROMONEY ProjectFinance



Deals of the Year

Nassau Airport Development Co Limited

Status: Closed 30 March 2009
Location: Nassau, The Bahamas
Description: \$265 million refinancing and expansion financing for \$410 million terminal redevelopment
Sponsor: Government of Bahamas, under contract with YVR Airport Services
Financial adviser, bookrunner, structuring and administrative agent: Citigroup Global Markets
Lead arrangers: Citigroup, First Caribbean, Export Development Canada, Royal Bank of Canada and Scotia Capital
Lender legal counsel: Shearman & Sterling (international), McKinney, Bancroft & Hughes (local)
Borrower legal counsel: Morrison & Foerster (international), Higgs & Johnson (local)
Technical consultant: Jacobs Consultancy (IE)
EPC contractors: YVRAS (project manager)