PFI
PROJECT FINANCE INTERNATIONAL

Thomson Reuters

Europe Awards

PFI Yearbook 2018

Societe Generale had a significant role in many of the deals that shaped the 2017 European project finance market and contributed to define the main trends of the year.

Europe Bank of the Year – Societe Generale

Societe Generale had a significant role in many of the deals that shaped the 2017 European project finance market and contributed to define the main trends of the year.

Two years after its last success as Europe Bank of the Year, its role as an enthusiastic lender to offshore wind, telecoms infrastructure, and oil and gas M&A, as well as its lead in asset refinancing – some of the most active market segments across Europe – once again earned the French lender the title of top European bank.

Societe Generale was involved in almost all European offshore wind deals of the year. In the UK, it financed CDPQ's stake in the London Array offshore wind farm and advised China Three Gorges on its acquisition of 30% of the Moray offshore wind scheme. In Germany, it financed Deutsche Bucht's construction and took part in the refinancing of Butendiek. In Belgium, it contributed to the Northwind refinancing. In the Netherlands, it is advising a Shell-led consortium on the first financing for low-tariff offshore wind.

The bank's early entry into the broadband sector paid off with key roles in the Grand Est broadband financing in France and the Open Fiber bridge financing in Italy, soon to be followed by a long-term deal.

Societe Generale remained a driving force in the refinancing market, leading long-term institutional investor deals for the A19 and A150 roads in France, a mixed bank and institution deal for Budapest Airport, and the M6 Toll motorway restructuring in the UK.

As oil and gas upstream and downstream assets continued to change hands at a sustained speed, Societe Generale supported Chrysaor with a reserve-based loan for the acquisition of Shell assets in the UK North Sea and backed a Macquarie-led consortium's acquisition of a 61% stake in National Grid, the UK's largest gas distribution network.

Federico Turegano is managing director and global head of natural resources, energy and infrastructure. Olivier Musset is the global head of energy, while Herve Le Corre is global head of infrastructure.

Europe Power Deal of the Year – Italy-France Power Interconnector

By 2020, a new 190km underground power line will cross the Alps connecting Italy and France, becoming the world's longest direct current underground power line.

A 350MW section of this project, promoted by the European Union as a vital infrastructure link to adjust to a rapidly-changing energy market, became Europe's first privately financed power interconnector.

The Piemonte-Savoy interconnector was financed in an innovative deal that brought together EIB cover and bank debt. The parties involved navigated around complex regulatory challenges over cross-border power grid ownership and third-party access as well as hard-to-stomach merchant risk to land a €441m debt package in a deal that could set a template for more project fiancings to come.

Interconnector Italia, the consortium of high energy-intensive private companies responsible for the deal on the Italian side, worked with grid operator Terna and the EIB to mitigate the risks.

Terna provided EPC and O&M contracts to take out construction and operational risk, and committed to buy back the infrastructure after 10 years of operation to reduce the risk of power price volatility. The EIB provided a €70m junior undrawn letter of credit (SDCE) primarily to mitigate merchant risk. It was the first time the new SDCE product was used on a greenfield project.

The structure allowed the sponsors to obtain a €322m 14.5-year bullet senior loan from Cassa Depositi e Prestiti, Intesa Sanpaolo, Natixis, UniCredit, UBI Banca, and the EIB, plus other debt lines such as VAT, stand-by and guarantee facilities.

The project will be remunerated with a share of the interconnector's congestion rent, ie the price differential across the border. The cash flow will be subject to power price changes in France, where electricity is generally cheaper, and Italy, where it is more expensive.

Paul Hastings advised the sponsors and Legance advised the lenders. Bonelli Erede advised Terna. Chiomenti and Clifford Chance advised the multilaterals. Pöyry was the market adviser and Rina Consulting was the technical adviser.

European Renewables Deal of the Year – Walney Extension

The Walney UK offshore wind expansion debt financing was some time in the making and by the time it closed one of the main sponsors had changed its name. But it was a landmark deal for the offshore wind sector and one of its leading proponents, Dong – now called Orsted.

The £1.3bn 16-year deal backed the acquisition of a 50% stake in the 659MW offshore wind farm by Danish pension funds PKA and PFA in a deal valued at £2bn. Orsted held 50% and decided to opt for a capital markets solution for the prospective buyer of the stake. The deal was therefore a staple, an acquisition deal and a project financing rolled into one.

For Orsted, it wanted a capital markets solution to diversify its funding sources going forward. Holdco bank debt has been used already on its deals and now it has bond debt in its toolbox. The deal is the largest bond issue in the offshore wind sector to-date. It obtained an investment grade rating during construction. The scheme will use Siemens 7MW turbines and MHI Vestas 8.25ME turbines.

The private placement attracted a range of institutional investors, including MIDIS, L&G, Aviva, MetLife, Babson, IFM, BlackRock, PIC and Hastings. RBC was the debt adviser and Citigroup and Goldman Sachs were the placement agents. The debt was both CPI-linked and fixed-rate. Danish export credit agency EKF backed some of the bonds. Three banks provided short-term debt to back the cable link to the project – Barclays, MUFG and RBS.

Clifford Chance advised the Danish pension funds, Watson Farley & Williams advised the lenders, Slaughter & May advised Orsted and Allen & Overy advised the placement agents. FIH Partners was the corporate adviser to the Danish pension funds.

Orsted has a large pipeline of new offshore wind schemes to fund around the world. First up will be the mega 1,200MW Hornsea 1 scheme in the UK. An equity sale and a mega debt financing are on the cards.

Europe Wind Deal of the Year – Markbygden Ett

Close to the Arctic Circle in Sweden's far north, General Electric and Macquarie are building Europe's largest single-site onshore wind farm – the 650MW Markbygden Ett project.

The €800m project, comparable in size to an offshore wind farm, is backed by a 19-year fixed-price and fixed-volume power purchase agreement with aluminium producer Norsk Hydro. The PPA made the deal possible despite the low and volatile electricity prices that have affected the Scandinavian market until now.

"The PPA was the linchpin of the entire transaction," said Bob Psaradellis, GE Energy Financial Services' managing director of global capital advisory when the deal was closed. "We needed to secure the offtake contracts to get the banks interested in financing the project."

Banks were indeed interested in the deal, dubbed "North Pole", and came on board with a €500m long-term debt package. The financing relied on heavy German bank and export credit agency (ECA) backing.

The EIB lent about €180m, including €80m covered by German ECA Euler Hermes. NordLB, HSH Nordbank and KfW IPEX provided €300m of commercial term loans, partly covered by Euler Hermes, plus a €20m contingency facility, a €5m working capital facility, and a €6m decommissioning letter of credit.

"The deal is a clear kick-starter for the market's evolution in a world where tariffs are going down and renewable projects are relying less and less on subsidies," said a banker involved in the financing.

Most of the project's revenues will indeed come from electricity sales through the PPA. The sale of EL-certificates, Sweden's subsidy system, will play a minor role.

Macquarie and GE have a 50% stake each and contributed €300m of equity. GE will supply 179 of its 3.6MW turbines equipped with an ice mitigation system, with a view to completing construction by late 2019.

The project was originally developed by Swedish firm Svevind and sold to GE and Macquarie. CMS advised the sponsors and Simmons & Simmons advised the lenders.

Europe Transport Deal of the Year – Pedemontana Veneta

Against the expectations of many in the market, a group of arrangers led by JP Morgan achieved a remarkable feat of financial engineering this year with the closing of Italy's first project bond for a greenfield motorway.

The €2.3bn Pedemontana Veneta motorway in north-eastern Italy, sponsored by Italian construction group Fininc and Spain's Sacyr, is the first availability-based road deal in the country.

The €1.57bn of notes issued to finance its construction are Europe's largest project bond issue to-date without relying on multilateral credit enhancement such as the EIB's PBCE. The whole financing package was largely provided by private investors, with limited involvement by multilaterals.

JP Morgan was the global coordinator and worked with Akros, Intesa Sanpaolo and Santander as co-global coordinators and Kommunalkredit as joint bookrunner.

Distributing the €1.22bn 30-year 5% senior tranche and the €350m 10-year 8% mezzanine tranche was no simple task, considering many investors' reluctance to take construction risk in Italy and the risk of pending litigation.

Eventually, the deal attracted more than 30 investors with tickets ranging from €0.5m to €225m, without having to rely on a handful of names with deep pockets. The bonds were bought by asset managers, insurers, pension funds, and others from Germany, Italy, Australia, France and other countries. Australian investor Westbourne Capital and the EU-sponsored Marguerite fund were the two largest investors in the mezzanine tranche.

The 94km motorway between Vicenza and Treviso is 30% complete and the sponsors will complete the work under a lump-sum turn-key EPC contract, while providing €430m of equity. They will then operate the road under a 39-year concession. The motorway will be tolled but the Veneto Region will take traffic risk, as well as providing some €900m of upfront subsidies.

Ashurst was the issuer's main legal adviser and White & Case was the underwriter's main legal adviser. Simmons & Simmons advised the sponsors and Chiomenti advised the underwriters on administrative law. Arcadis was the technical adviser, Marsh the insurance adviser and Bishopsfield Capital Partners acted as project adviser.

Europe Telecoms Deal of the Year – Grand Est Broadband

Last year's record of Nord-Pas-de-Calais's €600m broadband network as France's largest high-speed internet to be funded was short-lived. In August, a consortium led by NGE and Altitude broke the record with the financing of the €1.3bn Grand Est broadband project.

The consortium, known as Losange, will build the fibre-optic network by 2022 and operate it under a 35-year concession, installing about 1m connections in 3,600 municipalities across seven departments in the eastern French region around Strasbourg. It will remain France's largest project under the government's *Plan France Très Haut Débit* to connect the whole country to a broadband network.

The Grand Est scheme was financed with some €900m of private capital, including €620m of senior debt and the rest made up of equity. The remaining investment costs will be covered by €222m of subsidies and revenues during construction.

The Losange consortium won the deal in July with a bid that slashed the public contribution, initially expected at 60% of total investment costs, to just 15%. It overcame fierce competition from telecoms group SFR.

Alongside NGE Concessions and Altitude Infrastructure, the consortium included Caisse des Dépôts et Consignations (CDC), Quaero Capital and the Marguerite Fund.

The debt was provided by Societe Generale, which acted as financial adviser, sole bookrunner and documentation bank and agent, and a group of lenders including BNP Paribas, La Banque Postale, Arkea, Crédit Industriel et Commercial (CIC), four regional subsidiaries of the Credit Agricole group in the Grand Est region (Alsace Vosges, Lorraine, Nord Est, Champagne-Bourgogne), and the Caisse d'Epargne et de Prévoyance d'Alsace. Two institutional investors, Scor Investment Partners and AXA, also took part in the deal.

Allen & Overy advised the sponsors alongside Bird & Bird. The lenders were advised by De Pardieu Brocas Maffei, and CDC was advised by DLA Piper.

Europe PPP Deal of the Year – Ikitelli Hospital

The Ikitelli city hospital PPP in Istanbul represents the first Japanese overseas healthcare project financing and one of the largest hospital PPPs financed in Turkey to-date.

Japan Bank for International Cooperation (JBIC), Sumitomo Mitsui Banking Corp (SMBC), Dai-ichi Life Insurance, Iyo Bank, Mitsubishi UFJ Financial Group, Nippon Life Insurance and Standard Chartered signed a full non-recourse ¥163bn (US$1.456bn) debt package in July. White & Case advised the lenders. Wilkie Farr & Gallagher and SMBC advised the sponsor.

The 18-year debt is split into a JBIC-direct tranche, a JBIC-covered tranche and a Nippon Export & Investment Insurance (Nexi) portion, and uses a mix of fixed and floating rates.

The sponsors are Turkish construction company Ronesans Holding and Japanese trading company Sojitz Corp, with 70% and 30% stakes in the project company respectively. They will design, build, finance and maintain the 2,682-bed city scheme based on a 25-year concession period with operations to begin in 2020. The scheme includes a general hospital, a cardiovascular hospital, an oncology hospital, a women's hospital, a children's hospital, and a neurology and orthopaedics hospital,

The debt is fully yen-denominated and is matched to yen-tied availability payments from the Ministry of Health. It is the first time a Turkish hospital PPP has been financed without a euro, US dollar or Turkish lira payment structure. It is also one of the first uses of deal contingent hedging in greenfield project finance, a mechanism more familiar in acquisition finance.

European Oil & Gas Deal of the Year – Chrysaor

The Chrysaor deal was the standout reserve based lending (RBL) deal across the world this year. With the oil price sticking at around US$50 for the most of the year, and only ticking up late in the period, RBL activity was limited. However, acquisition activity was steady once buyers and sellers could come together to agree a price.

Chrysaor was one of the new breed of private equity-backed deals in the sector. The small independent bought Shell assets in the North Sea for US$3bn backed by a US$1.5bn RBL with a UDS$500m accordion, a US$400m junior loan from Shell and a cool US$1bn from Harbour Energy, a EIG/Noble Group joint venture and from EIG itself.

In doing so, Chrysaor has become one of the largest producers in the North Sea. The company is run by Phil Kirk. Linda Cook, an ex-Shell board member now at EIG, has become the chairman. BMO Capital Markets advised Chrysaor while Bank of America Merrill Lynch advised Shell.

Given the low oil price environment at the time, a cap and floor mechanism was put in place. Shell will pay Chrysaor up to US$100m between 2018 and 2021 if the oil price falls below US$52.50 and Chrysaor will pay Shell up to US$600m if the oil price moves above US$60.

Chrysaor will make payments to Shell of up to US$180m subject to the achievement of certain exploration milestones payable on production. Shell is retaining a fixed decommissioning liability of approximately US$1bn, reducing Chrysaor's future decommissioning cost obligations.

The RBL was underwritten by Bank of Montreal, BNP Paribas, Citigroup, DNB and ING. ABN AMRO, CBA, Lloyds, RBS, Societe Generale, Standard Chartered, Barclays, Natixis, Nedbank, JP Morgan, GE Capital and NIBC joined the deal, White & Case advised the sponsor and Watson Farley & Williams advised the lenders.

To see the digital version of this review, please click here (URL=http://edition.pagesuite-professional.co.uk//launch.aspx?eid=d45a07c5-6669-478d-bb33-e5832776f886) .

To purchase printed copies or a PDF of this review, please email gloria.balbastro@tr.com (URL=mailto:gloria.balbastro@tr.com) .