Port-Net II

Project Financing – Case Study

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UniCredit
Markets & Investment Banking

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Section 1

PROJECT OVERVIEW

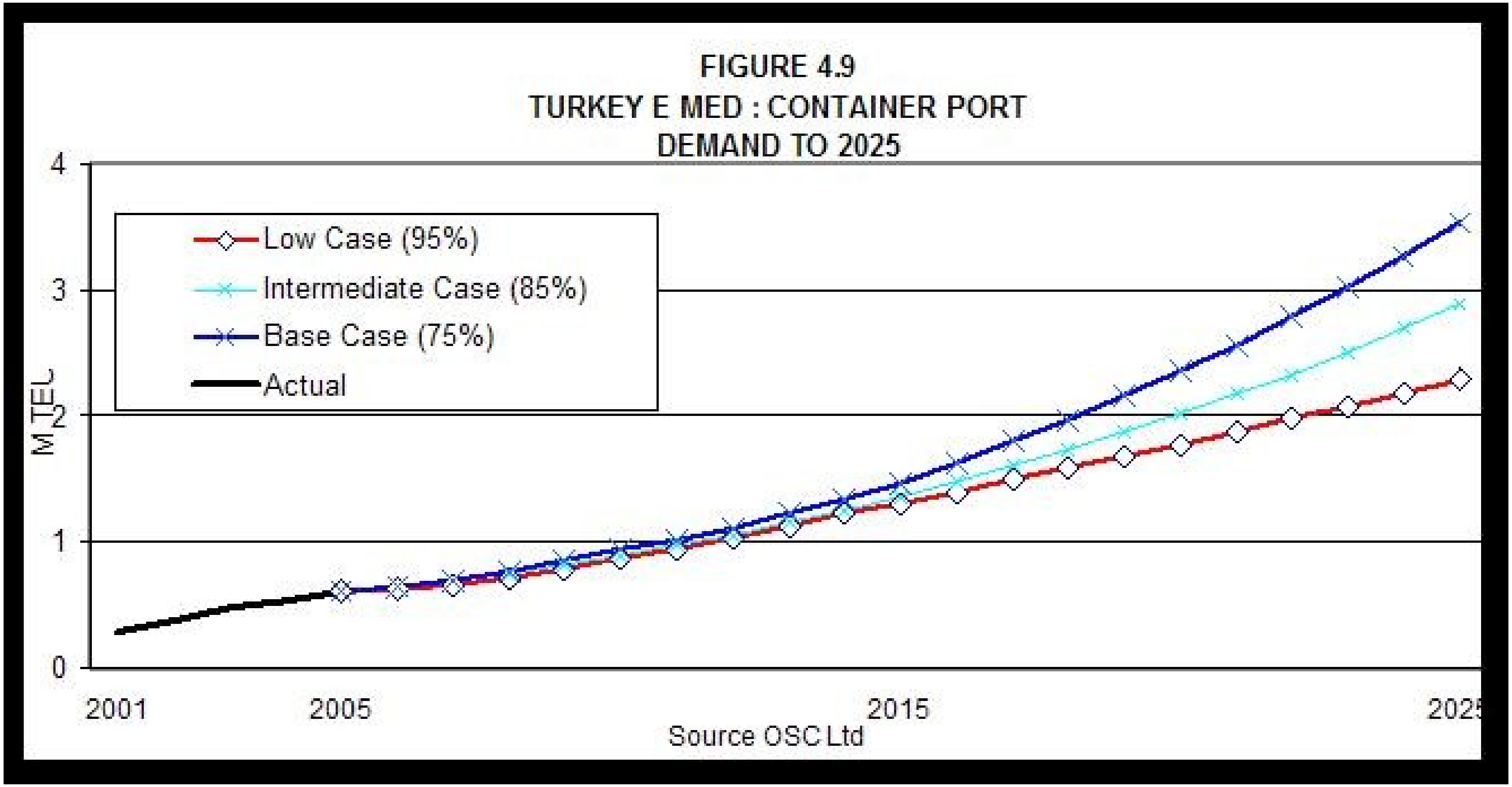


FIGURE 4.9
TURKEY E MED : CONTAINER PORT
DEMAND TO 2025
Low Case (95%)
Intermediate Case (85%)
Base Case (75%)
Actual
M TEU
0
1
2
3
4
2001
2005
2015
2025
Source OSC Ltd

1. Project Overview

- Nov 2005: Consortium (Int. Port Operator, Turkish Holding Company) wins auction for Osman Port concession for a one-off payment of USD 830 m at signing of TOORA (Transfer of operating rights agreement).
- Nov 2005: HVB mandated along with 2 more int. Banks as Mandated Lead Arranger. After the other banks dropped out, HVB continues as sole structuring and arranging bank, and teams up new international and local banks to form final Lender consortium.
- May 2007: due to some court challenges, signing of TOORA and upfront payment occured with delay of 18 months.
- Concession period 36 years until 2043
- Expansion Requirements: minimum capacity of 1.2 m TEU (containers) and 7.5 mt (dry bulk) to be achieved within 5 years (2012)
- Operation and Management of the Container, Bulk and General Terminals within Project company

1. Project Overview

Shareholders

- International Port Operator (50%):
- One of largest Container Port Operator worldwide.
- Operates 25 container terminals worldwide with a combined throughput of > 50m TEU
- 2006: Total Revenue > USD 2.4 bn, Total Assets: USD 11.2 bn
- Rationale to Invest: Expanding worldwide footprint, Securing access to dynamic markets; Strategic advantage from worldwide coverage

- Turkish Holding (50%):
- Large diversified Turkish Holding company, operating airports, concessions and real estate investments.
- 2005: Total Revenue USD 240 m, Total Assets: > USD 640 m
- Rationale to Invest: expanding concessions business by building up portfolio of port concessions.

- Uses of Funds

Acquisition of Osman Port Concession (36 y Concession)	USD 830 m
Initial Capital Expenditure (years 2007-8)	USD 125 m
Prefunding of Reserve Accounts (MRA $11m, DSRA $8m)	USD 25 m
Transaction costs incl. Bank fees	USD 20 m
TOTAL:	**USD 1000 m**

- Sources of Funds

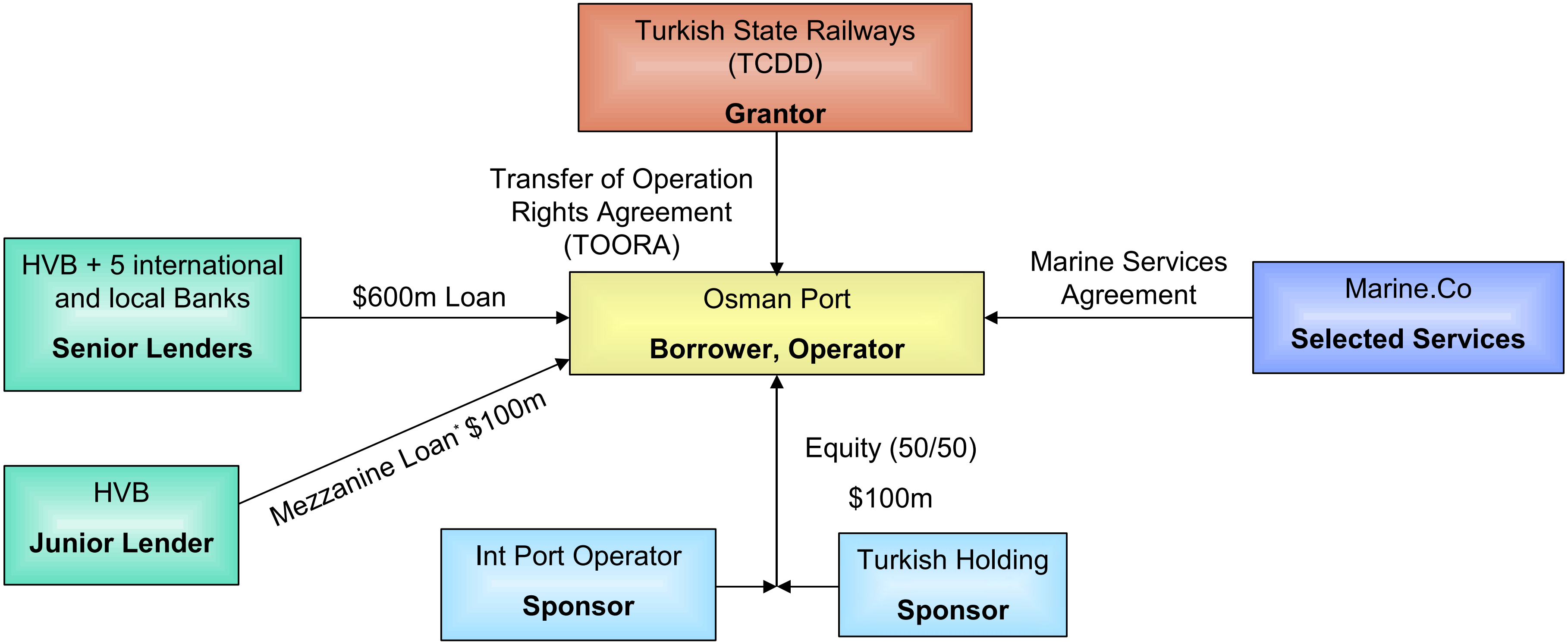
Senior Term Loan	Tenor 12 years (2019)	USD 600 m
Mezzanine Facility	Tenor 13 years (2020)	USD 100 m
Equity		USD 300 m
TOTAL:		**USD 1000 m**

- Main Terms and Conditions
  - Project Finance structure
  - Loan Amount: up to USD 600 m
  - Tenor: 12 years (2019) with 2 years grace period
  - Repayment: 20 instalments from 2009, sculpted according Cash Flow projection
  - Prepayments: cash sweep mechanism (80% of excess CF)
  - Extensive list of Representations and Warranties
  - Financial Covenants: ADSCR > 1.1x (backward & forward looking), LLCR > 1.15x at all times
  - Hedging: min 75% of interest rate risk
- Lending Banks: All Facilities are provided by HVB and 5 additional Banks; HVB as sole Structuring Bank

1. Project Overview

Security

- Off-shore account structure with 6-months Debt Service Reserve Account (DSRA) and 9-months Capital Reserve Account (CRA)
- Pledges of shares in Osman
- Pledge of all earnings of Osman.
- Pledge of all movable project assets
- Assignment of insurance proceeds relating to the project
- Commercial political risk insurance available to non-Turkish Lenders if required so during syndication phase



Turkish State Railways (TCDD)
Grantor
Transfer of Operation Rights Agreement (TOORA)
HVB + 5 international and local Banks
Senior Lenders
$600m Loan
Osman Port
Borrower, Operator
Marine Services Agreement
Marine.Co
Selected Services
HVB
Junior Lender
Mezzanine Loan* $100m
Equity (50/50)
$100m
Int Port Operator
Sponsor
Turkish Holding
Sponsor

1. Project Overview

Parties Involved in Financing

- Borrower: Osman Ltd. (Turkish law share company)
- Parent Companies: International Port Operator, Turkish Holding Company
- Lenders: Unicredit MIB (through HVB) + 5 International and Local Banks
- Lenders’ Advisors: OSC (Market, Technical), Environ (Environment), Marsh (Insurance), Legal (Allen & Overy, Pekin & Pekin), E&Y (Model Audit)
- Borrowers’ Advisors: Legal (Clifford Chance)

Section 2

MAIN RISKS

2. Main Risks

Overview

Development Risk

Covers preparation of the project before financial close where the development risk is borne by the private Sponsor as the lenders and other parties are not committed to the project at that stage.

Construction Risk

Includes the failure to complete construction of the port/terminal on time and on budget and the failure to meet design and construction requirements. This risk is normally allocated to the construction contractor.

Technology Risk

If a project is using new or unproven technology (e.g.software) lenders will require warranties from the parties such as performance related damages and latent defects liability should the technology not perform to expectations.

Operational Risk

A project faces certain operational risks that are primarily allocated to the operator who is responsible for the day to day maintenance and operational aspects of the asset.

Traffic Risk

Port business is a long term business thus affected by the cyclicality of the maritime (shipping, container) industry. External factors (economic & trade development) can have significant impact on the market and the port in particular

Political Risk

Includes changes in legislation and laws, wars & conflicts, change in governments. Insurance may be used to cover a number of these risks; for those not insurable, the risks would be placed within the remit of the authority or sponsors.

Revenue Risk

The Project company generates revenues from operating the port. Sources are either authorities, in which case revenue risk is availability based, or customers, in which case revenues are subject to market risk. Revenue will fluctuate either from the level quality of services provided and/ or from market demand.

Force Majeure Risk

Liabilities that are beyond the control of all parties such as natural disasters and famine cannot be borne by any parties therefore if a force majeure clause is invoked and accepted, all parties are able to terminate the agreements.

Environmental Risk

Requirement to meet local environmental regulation. If project location is in Emerging Markets or development countries, the project also needs to meet other environmental and social criteria, like Equator Principles (financial institutions standards) or IFC/ World Bank Performance Standards

2. Main Risks
Applied on Osman Port (1/3)

Construction/ Technology Risks	Risk Taker(s)	Mitigants/ comments
Delay, Cost overruns	Contractors/ Project Company	No Date Certain EPC Contract due to cost reasons, but direct contracts with construction companies, liquidated damages provisions
Design / Technology Risk	Contractors/ Project Company	Proven technology & design, experienced contractors
		General Mitigants: Sponsor experience with Port expansions Coordination & supervision through experienced maritime projects engineering company Banks' technical consultant supervises construction on behalf of banks, monthly reports Financial Projections include a 6 months delay and 16% cost overrun Completion guarantees by Sponsors Insurance package

2. Main Risks

Applied on Osman Port (2/3)

Operational Risks	Risk Taker(s)	Mitigants
Macro-economic shocks	Project Company	Robust financial structure, satisfactory sensitivity tests
Operating, Management and Maintenance Risk	Project Company	Experienced Management Resources
Traffic / Market Risk	Project Company	Conservative traffic projection, satisfactory sensitivity tests
Early Concession Termination due to Operator Default	Project Company	Early termination events very limited; Step-in rights for Lenders
Financial Risks	**Risk Taker(s)**	**Mitigants**
Currency mismatch	Project Company	100% of revenue are USD-based; 65% of expenses USD-based; residual risk covered by satisfactory sensitivity tests
Interest Rate Risk	Project Company	Interest Rate Swaps to cover > 75% of debt outstanding; residual risk covered by satisfactory sensitivity tests

2. Main Risks
Applied on Osman Port (3/3)

Political Risks, Force Majeure	Risk Taker(s)	Mitigants
Expropriation, Nationalization, Confiscation (country risk), Currency Convertibility / Transferability Restrictions, Political Violence – War, Terrorism, Civil Disturbance	Project Company, Sponsors	Improved Turkey country rating (S&P: BB-; Moody's: Ba3); Commercial PRI to facilitate Syndication Insurance Package Offshore account structure with regular transfers from onshore accounts
		Other Potential Mitigants: ECA Cover

Section 3

FINANCIAL RISK (CASH FLOW MODEL)

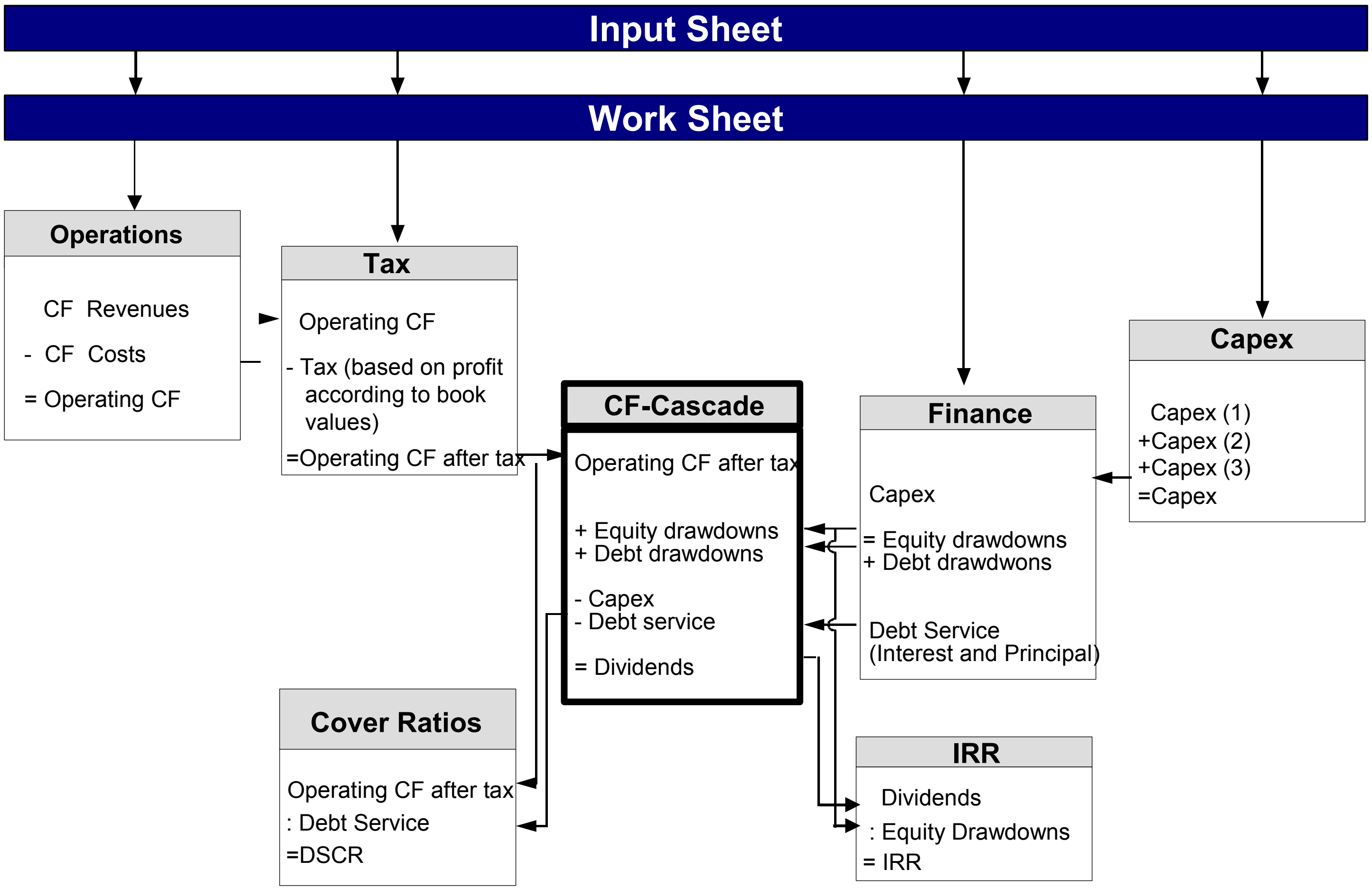
3. Financial Analysis
Where to start?

- Basis of Financial Analysis: Business Plan and Advisors‘ Reports
  - Macroeconomic assumptions
  - Traffic and Tariffs Projections
  - Capital Expenditure
  - Operating costs
  - Revenue composition
  - Tax and Accounting

+ External Financing (Equity, Debt)

⇨ Cash Flow Model

3. Financial Analysis



3. Financial Analysis
Cash Flow Model

- Inputs:
  - General Input, Investments, Traffic, Tariffs
- Output:
  - Operations (Revenues, Expenses, Cash Flow)
  - Tax P&L
  - Balance Sheet
  - Financing
  - Reserve Accounts
  - Cash Flow Cascade

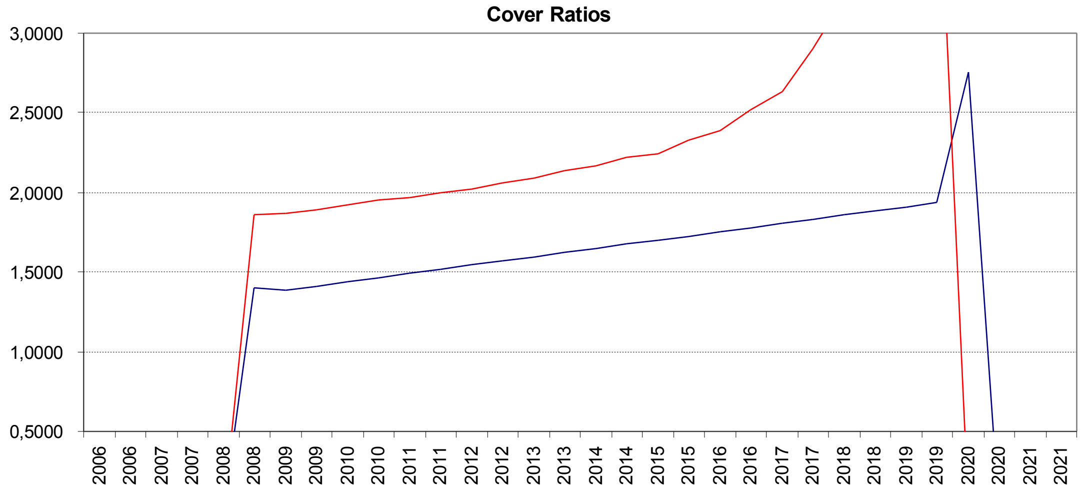
Features:

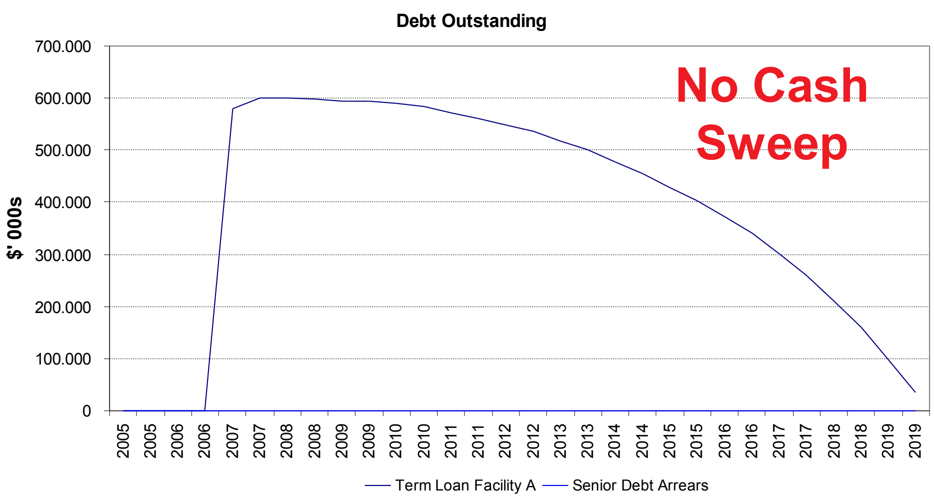
- Scenario Selection (Management Case, Banking Case, Sensitivities)
- Ratios (DSCR; LLCR, Return)
- Sensitivities: How does the Project behave under poor assumptions?
- Summary
- Graphs

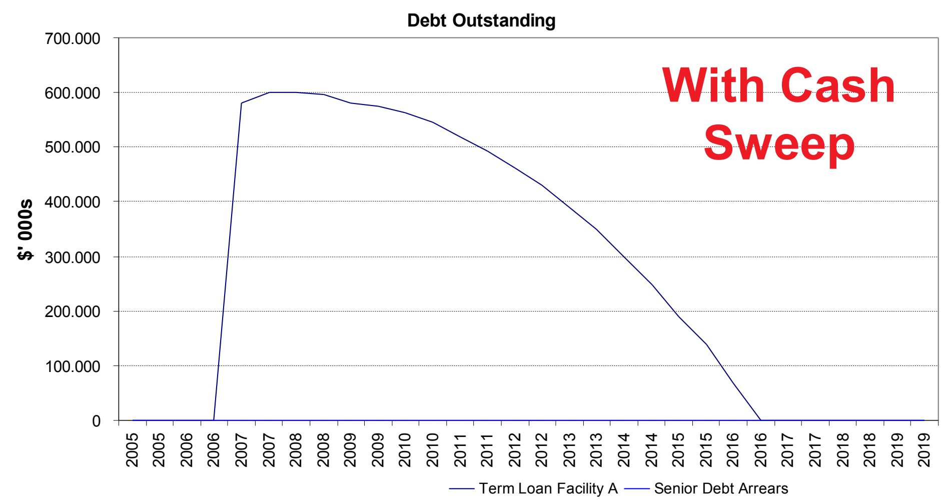
Osman Port Break-Even and Sensitivities

Case	Description	Result	Average	Minimum
Banking Case	Banking Base Case HVB	ADSCR	1,70	1,40
Traffic breakeven	all Throughput ./. 15% vs banking case until 2015	ADSCR	1,31	1,00
Tariffs breakeven 1	Full Container handling charges ./.24% vs banking case until 2015	ADSCR	1,34	1,00
Tariffs breakeven 2	All Container handling charges ./.20% vs banking case until 2015	ADSCR	1,34	1,00
Tariffs Sensitivity	All Tariffs ./. 15% vs banking case until 2015	ADSCR	1,20	1,01
Traffic Sensitivity	All Traffic ./. 15% vs banking case until 2015	ADSCR	1,39	1,12
Opex Sensitivity	All Opex + 20% vs banking case until 2015	ADSCR	1,25	1,11
Combined Sensitivity	Traffic ./.10%, Tariffs ./.10%, Opex +10% vs banking case until 2015	ADSCR	1,11	1,01
FX Sensitivity	TRLm/USD gradually increasing to 1,25 by Dec 2006, then remaining stable	ADSCR	1,47	1,12

3. Financial Analysis
Summary







Section 4

CONCLUSION

4. Conclusion

Why did HVB commit to Osman Port?

- Stable political environment (BB- S&P/ Ba3 Moodys rating)
- Previous good experience with Sponsors
- Project has strong comparative advantages due to location & supporting infrastructure, and will be benefiting by the strong demand in container throughput
- Strong local and international strategic investors
- Long concession period (2043) vs. final maturity (2019)
- Robust project economics: DSCR – min./average 1.45x/1.65 in base case
- Robust contractual structure and risk mitigants

Section 5

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