

North American Sponsor of the Year 2012: Hochtief

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Hochtief has attracted most attention in the financial press for its sale to Spanish construction group, ACS, and its subsequent boardroom changes. But the German construction company's concessions business has remained relatively unaffected and has continued to grow its presence in North America, closing three deals in 2012.

Hochtief closed a \$364 million financing for the Presidio Parkway transport project in San Francisco, California, which was also the first project that it has closed in the United States. Hochtief also built on its previous experience in the Canadian PPP market by closing the financing for the roughly C\$1.5 billion (\$1.4 billion) north-east Anthony Henday drive and the C\$200 million third bundle of the Alberta schools PPP.

Hochtief took its first steps in the North American market in 2010, after closing the financing for the C\$102 million second bundle of Alberta schools and the C\$158 million Ontario Provincial Police project. Hochtief has been able to balance a diverse number of funding sources – relationship banks, federal government loans, and bond markets – in order to optimise pricing without jeopardising tenor.

"We have a straightforward approach to project finance," says Eric Lieder, vice-president at Hochtief PPP. "We typically start by running a clean funding competition, unbiased between the bank and the bond market. We have a pretty good track record for that because if you go through our five projects, we have two long-term bank deals, two bond deals and a bank plus TIFIA deal. We have a history of using different kinds of solutions."

He adds: "We run a differential analysis. We scour the market on the banking side – and Hochtief has many relationship lenders – but with the bank market now, it's really difficult to get long-term funding, limiting banks to the shorter-term requirements of a project. We prefer door-to-door funding for projects as opposed to miniperm financings, so we often look the bond market, where we have many relationships with underwriters and investors."

Given banks' difficulties in raising competitive funding for long-term loans, the debate between bank and bond products is starting to look increasingly archaic and governments in nearly all jurisdictions are looking at ways, whether through enhanced security packages or mezzanine loans, to kick-start a liquid project bond market. Canada has stolen the show so far, and Hochtief earned the plaudits for setting the lowest spread twice this year.

In May 2012 bookrunners CIBC and National Bank Financial priced a C\$535 million bond issue due 2046 for the Henday NE project at 187bp over the equivalent government of Canada bond. In September Hochtief beat its own record when it closed the financing for the Alberta schools III project, which included an C\$87 million issue that priced at 185bp over the same benchmark.

Alberta has been a fairly sparing user of PPPs, but its triple-A rating and its stipulation that sponsors and underwriters commit to spreads has helped drive down bond yields when compared to other Canadian provinces. But Hochtief must take some of the credit for the low spreads, after it conducted several road shows and one-to-one meetings with key investors to make sure that the deal cleared the market.

The market for long-term bank debt in North America has become the preserve of a small club of lenders, and sponsors in the US are also likely to devote more of their attention to the bond markets. One of the advantages of the mature capital markets in US which is that even a BBB credit can access cost-efficient financing for 30 to 40 years.

But US bond underwriters are unwilling to provide hard commitments, which means that sponsors often look to source financing from other, or a variety of, funding options. Hochtief planned to access the capital markets to fund the Presidio Parkway concession, but the delay between commercial and financial close prompted a rethink.

Hochtief reached commercial close on the project in January 2011 but a legal challenge from the Professional Engineers in California (PECG) held up the deal. Hochtief eventually closed the deal in June last year using a mixture of long-term and short-term TIFIA facilities plus a construction bridge loan from a club of five banks – BBVA, BMO, BTMU, Santander and Scotiabank.

One of the few advantages of the delay was that the sponsors managed to win a much larger loan from the US Department of Transportation's TIFIA programme than they previously expected, although US DOT had to get comfortable that California, which at that time had the worst rating of any US state, would make its required appropriations in the future. Given that Hochtief only had to fill a small funding gap it opted for a commercial bank tranche because of the advantages in pricing and drawdown flexibility.

"In the US we don't have the interest of the banks in doing long-term funding beyond a small group," says Anne Rabin, senior vice-president at Hochtief PPP. "So for the bank financing, we look at it more in relation to construction and milestone payments, and for the long-term funding, most of the projects rely on a TIFIA loan, which provides fixed-rate, low-rate funding and crucially there's also no negative carry."

The legal delay on the Presidio Parkway transaction caused more than a few headaches for Hochtief and triggered a redrafting of the project documents to allow for design work to take place before financial close. Hochtief has managed to carve out a reputation in the last few years in the Canadian social infrastructure market and now has to replicate this success in the US, where the market is less mature. Hochtief is monitoring several projects that are about to come out to tender, including the Travis county courthouse in Austin, Texas, though it is also following the remaining sections of the Calgary ring road in Alberta.

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