

LOCKING IN GOOD TERMS

ICA's local bond in Mexico to fund the construction of penitentiaries was the first time a Mexican company securitised future flows of a project even before it was ready. For changing the way project financing is done in Mexico, ICA's Ps7.1bn 21-year dual-tranche project bond is IFR's Latin America Domestic Currency Bond of the Year.

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The Mexican government has talked for years about the need for private financing of public infrastructure projects. ICA took the leap and priced the first ever project bond to be issued in Mexico. Even as it broke new ground, the company still managed to secure funding at levels significantly below the typical banking alternative for this kind of project.

"This was the first PPP transaction in Mexico and opened the door for all different types of new infrastructure-related bonds to be issued," said Juan Claudio Fullaondo, head of global capital financing in Mexico for HSBC. The structure is not new only in Mexico: this was just the second ever local project bond issued in Latin America.

The project bonds will be repaid with the future flows of payments by the government for a contract given to ICA to build two penitentiaries in Mexico. While asset-backed securitisations are not new in Mexico, they are normally done after the project is completed. Companies use a bridge loan to construct the project, then do the takeout with an ABS. ICA was the first to skip the bridge loan.

In times when bank lending is becoming scarcer, especially for project financing, ways of avoiding having to resort to lenders are very welcome. ICA's choice has already proved wise. There were other construction companies awarded government contracts, but they went to the bank market. They are yet to start building.

"[ICA] is the only company to date that has secured financing, with the others being delayed because of difficulty in securing financing," said Gonzalo Manon, head of origination for Mexico at BBVA.

ICA also managed to achieve a much longer tenor than it would have with the banks. The bond has a 22-

year nominal maturity with an average life of 12 years and 14 years. Reception was quite warm, considering the size of the deal was substantial for the local market at Ps7.1bn (US\$565m). The achievement was all the more impressive, given the greenfield site and the fact that construction only started this year, and is not expected to finish until August 2012.

But it was not too hard for investors to see the value. The bond securitises multi-annual payments by the government according to the concession contract and includes other measures to mitigate risks. "Investors were protected in the case of bad performance by ICA or against construction risk," said Manon.

Furthermore, the approximate value of the project is about Ps10bn, which means around 30% of the project will be funded by equity contributed by ICA. The "skin in the game" gave investors further reassurance. HSBC also issued a standby letter of credit, to cover up to 5% of any project cost overruns.

One of the most important qualities of the deal, however, was how completely forward looking it is. The huge infrastructure need in Mexico means the government's interest in securing private financing is considerable. This type of bond, contract and securitisation could be issued for many types of government projects.

"It is without doubt something that can be replicated for bridges, roads, schools, motorways or any type of infrastructure project," said Fullaondo.

"I don't know if this could happen in other LatAm countries as there needs to be government willingness, and there might be difficulty in achieving the tenors, but in Mexico this has definitely set the blueprint ... for many more of these types of issuances to come," added Manon.

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