

# Innovative Bond issuance involving Public Private Partnership(PPP) & Private Finance Initiative( PFI)

**INNOVATIVE BONDS &  
SECURITISATION  
SUMMIT 2015**

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**3<sup>rd</sup> - 4<sup>th</sup> September, 2015 |**

**Hyatt Regency, Mumbai**



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- PPP and PFI – Some concepts.
- Case Study
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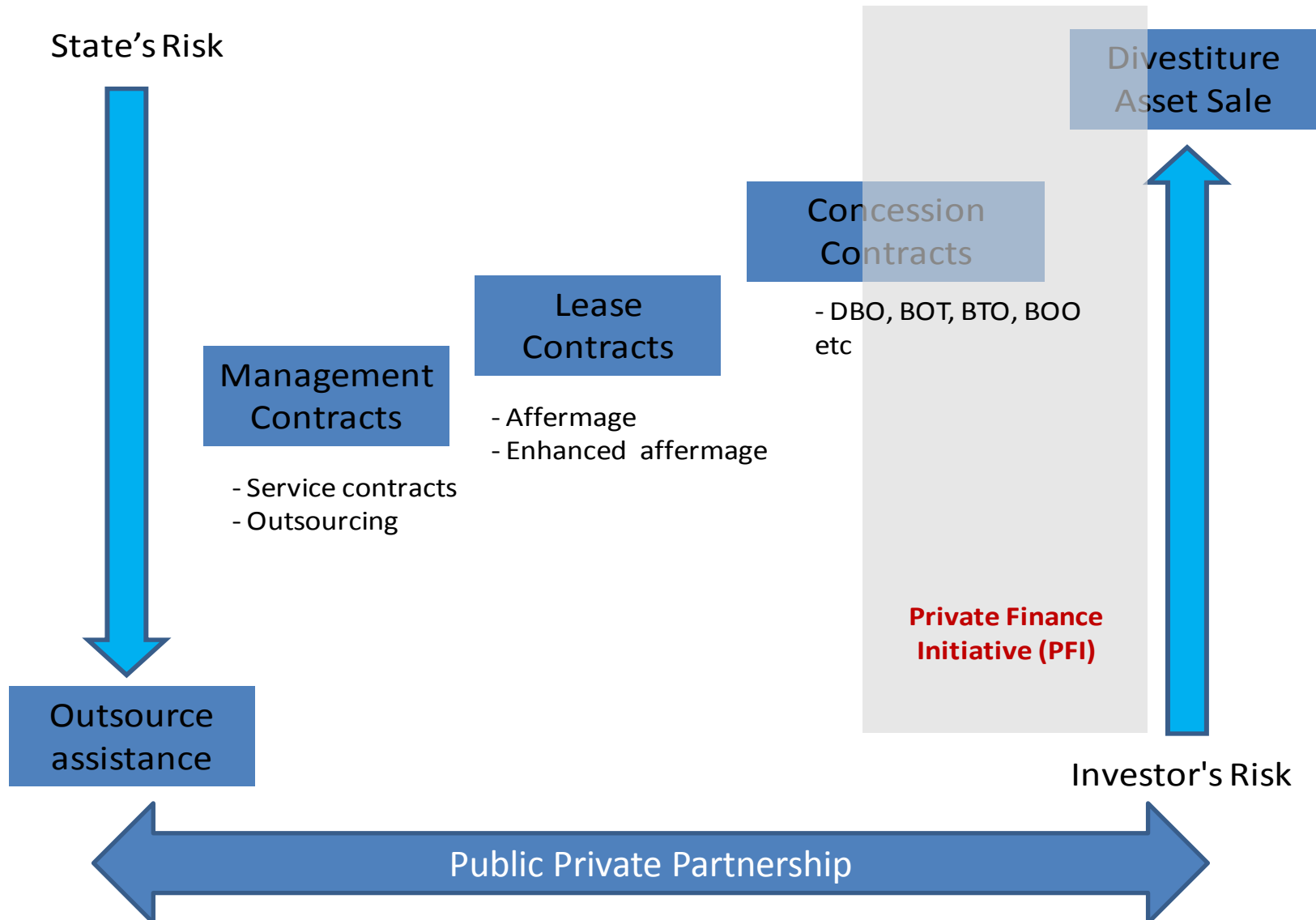
# What is PPP & PFI

- Mobilising private sector's money, expertise and capacities for government's infra development.
- Long-termed relationship between government and private sector ( usually>10years)
- Sharing of Risks and Rewards (*no lop-sided agreements-privatising the profits, nationalising the loses*)
- Private sector having to perform to agreed KPIs(key performance indicators)(*need to monitor performance of private company*)
- Life cycle costing(*understanding maintenance*)

Role of Government

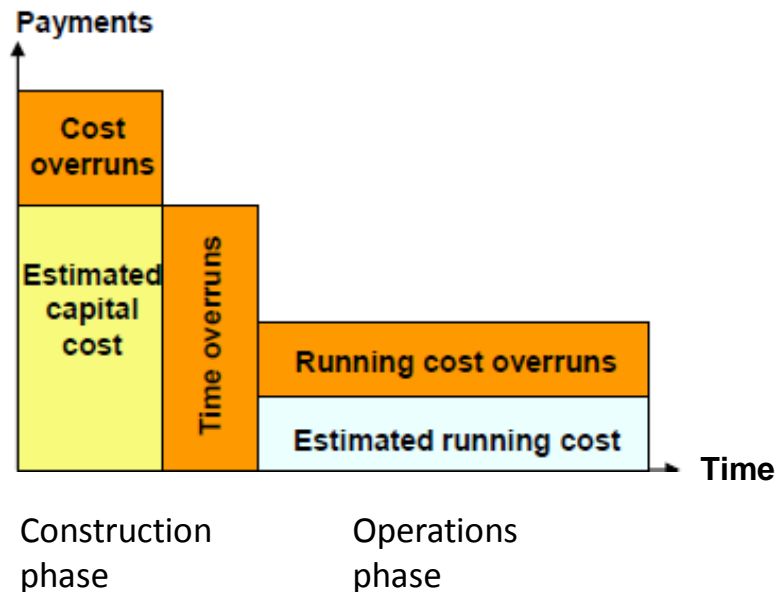


# PPP & PFI

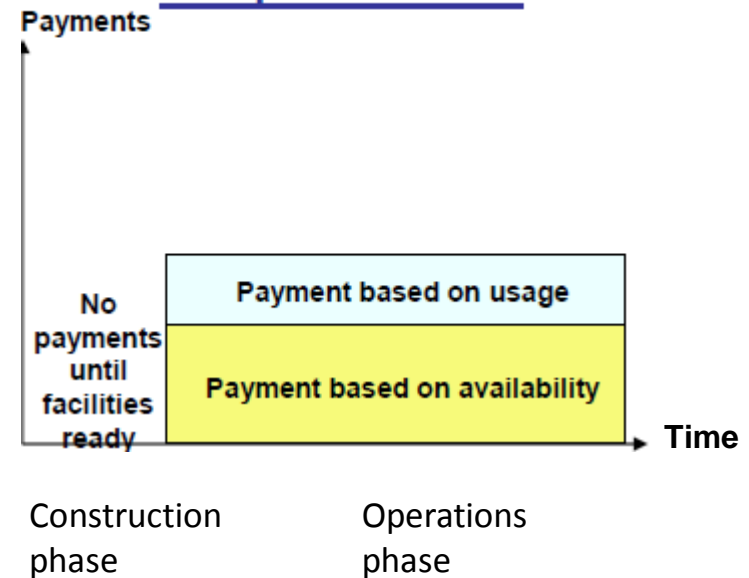


# Conventional Pubic Procurement vs. PPP procurement

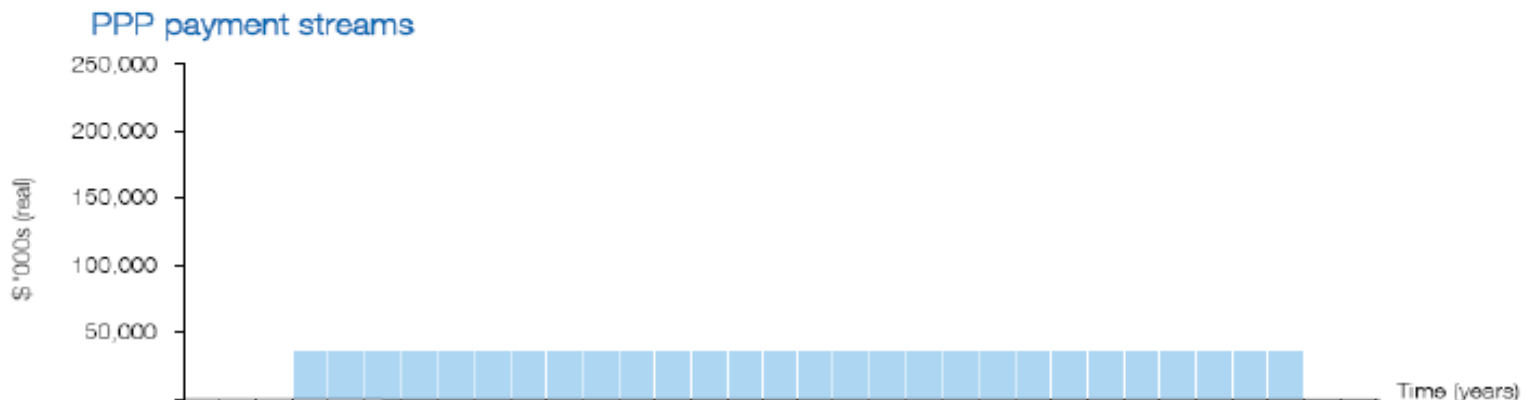
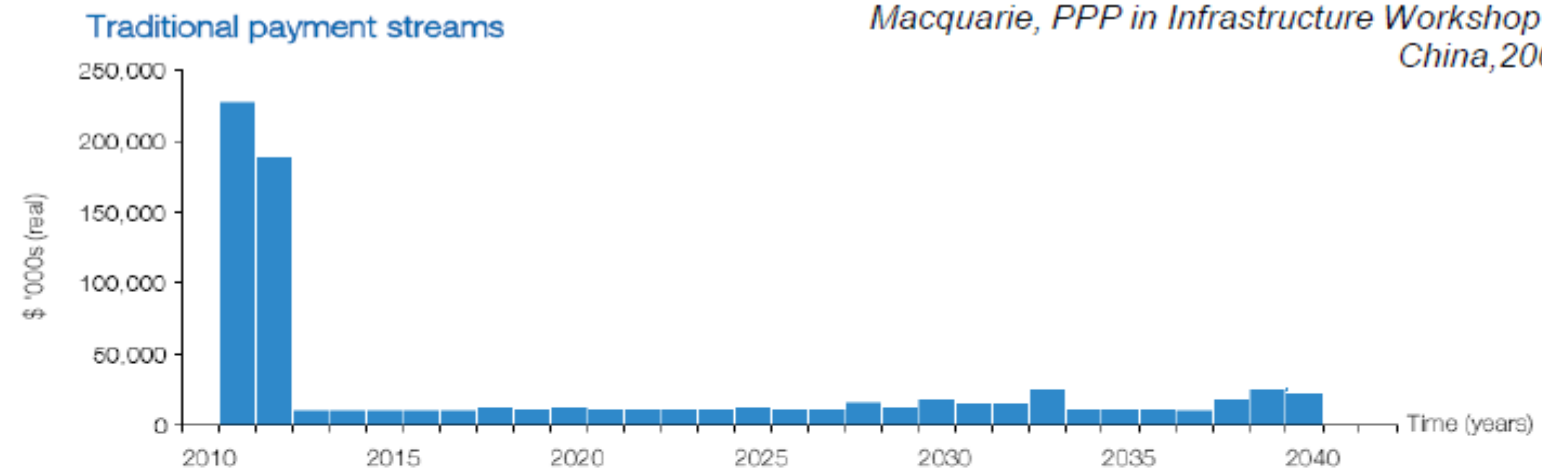
## Conventional public procurement:



## PPP procurement:



# PPP vs Traditional Financing: Payment Streams



# Risk Sharing- The tricky bit

Type of risk	Government	Contractor	Shared
Design		✓	
Construction		✓	
Availability/ performance		✓	
Operating costs		✓	
Macro economic factors			✓
Demand	?	?	
Third party use	?	?	
Obsolescence		✓	
Residual Value		✓	
Legislative change			✓

# What makes PPPs successful

- **Political support**(flip flop policies , election time, contract sanctity, windfall taxes)
- **Enabling environment**(legislations & champions)  
(facilitate flow of funds & expertise... can government go into a contract –the PPP Act?)
- **Expertise**(centralised, in-house) (PPP Unit & PPP Nodes)
- **Project prioritisation & preparation**(central planning)  
(start with low hanging fruits)
- **Deal flow and standardisation of agreements**(maintaining interest and consistency)



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PLUS Malaysia Sdn. Bhd.



## Case study of Toll Road Privatisation and Financing

# Background

- PLUS Expressways Berhad (PEB) was founded in 1986 and was listed on the main board of Kuala Lumpur(KL) stock Exchange in July 2002.
- It had Assets in Malaysia , India and Indonesia.



UEM Group

Company



It was a subsidiary of the UEM Group Berhad, which is one of Malaysia's largest construction , Infrastructure and Real Estate Firms. PEB and Employees Provident fund held a majority in PEB.

# Background

- UEM Group Berhad is in turn held by state investment agency , Kazanah Nasional Berhad.

PEB , with its concessions used to operate 950 Km of toll roads , used to be the largest toll road operator in ASEAN and eight largest toll operator in the world



# Background

There were widespread public opposition to toll scheduled toll hikes ....which often lead to deferment of the same ....



And consequently ,as per the concessions the government had to pay out certain compensation to make up for the revenue loss. This proved to be a fiscal burden.

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- Lesser toll hikes
- Less frequency of hikes



- Concessions were in place
- The company was listed.
- There were bonds issued based on this concessions.





- De-listing/Privatisation
- Buyback of Bonds
- Re- negotiation of Concessions



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# Sources and use of funds

Uses of Funds	Amount (RM 'bil)
Privatisation of PLUS Expressways Berhad and acquisition of asset of PBSB	22.65
Buyback of outstanding debt of PEB and PBSB	10.35
Pre-funding and other fee and expenses	1.00
<b>Total</b>	<b>34.00</b>

Sources of Funds	Amount (RM 'bil)
GG Sukuk	11.00
Stand Alone Sukuk	19.6
Reedeemable convertible unsecured loan stock	3.35
Common stock	0.05
<b>Total</b>	<b>34.00</b>

In addition to this , RM 2.35 Billion was to be raised at a later date to fund required CAPEX

# A look at the assets involved

Concession Company	Concession Assets	Description
Projek Lebuhraya Utara-Selatan Berhad (PLUS)	(Collectively known as PLUS Expressways) <ul style="list-style-type: none"> <li>• North South Expressway (NSE)</li> <li>• New Klang Valley Expressway (NKVE)</li> <li>• Federal Highway Route 2</li> <li>• Seremban-Port Dickson Highway</li> </ul>	<ul style="list-style-type: none"> <li>• 772km inter-city highway from the Johor Causeway, Johor to Bukit Kayu Hitam, Kedah</li> <li>• 35km intra-urban highway from Bukit Raja, Klang to Jalan Duta, Kuala Lumpur</li> <li>• 16km tolled segment of the Federal Highway between Klang and Subang</li> <li>• 23km highway from Mambau in Seremban to Lukut</li> </ul>
Expressway Lingkar Tengah Sdn Bhd (ELITE)	North South Expressway Central Link (NSECL)	63km highway connecting Shah Alam at NSE to Nilai
Linkedua (Malaysia) Berhad (LINKEDUA)	Malaysia-Singapore Second Crossing (Second Link)	47km highway and bridge from Senai, Johor to Tanjung Kupang, Johor to Tuas, Singapore
Konsortium Lebuhraya Butterworth-Kulim Sdn Bhd (KLBK)	Butterworth-Kulim Expressway (BKE)	17km inter-city highway from Seberang Jaya, Penang to Lunas, Kedah, main link between Butterworth port and Kulim Hi-Tech Park
Penang Bridge Sdn Bhd (PBSB)	Penang Bridge	13.5km bridge from Butterworth on the mainland to Penang Island

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# North –South Expressway



Connects the Northern and Southern part of Peninsular Malaysia







# Penang



- An island named as “pearl of the orient”...  
Now more famous for trading & Industries...



# Penang Bridge





# Butterworth –Kulim Expressway (KBLK)



Connects the Industrial town of Kulim to the main highways





# North Klang Valley Expressway( NKVE)







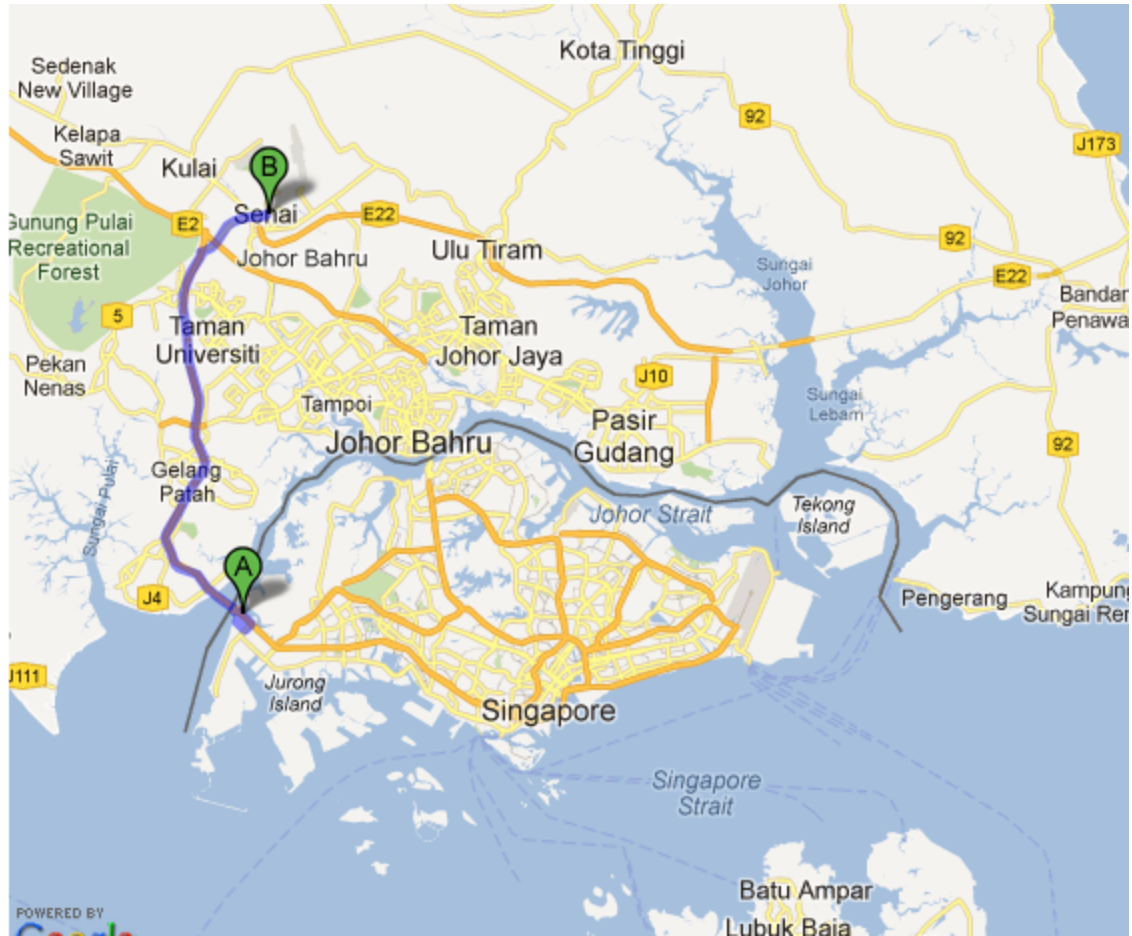
# The North South Expressway Central Link





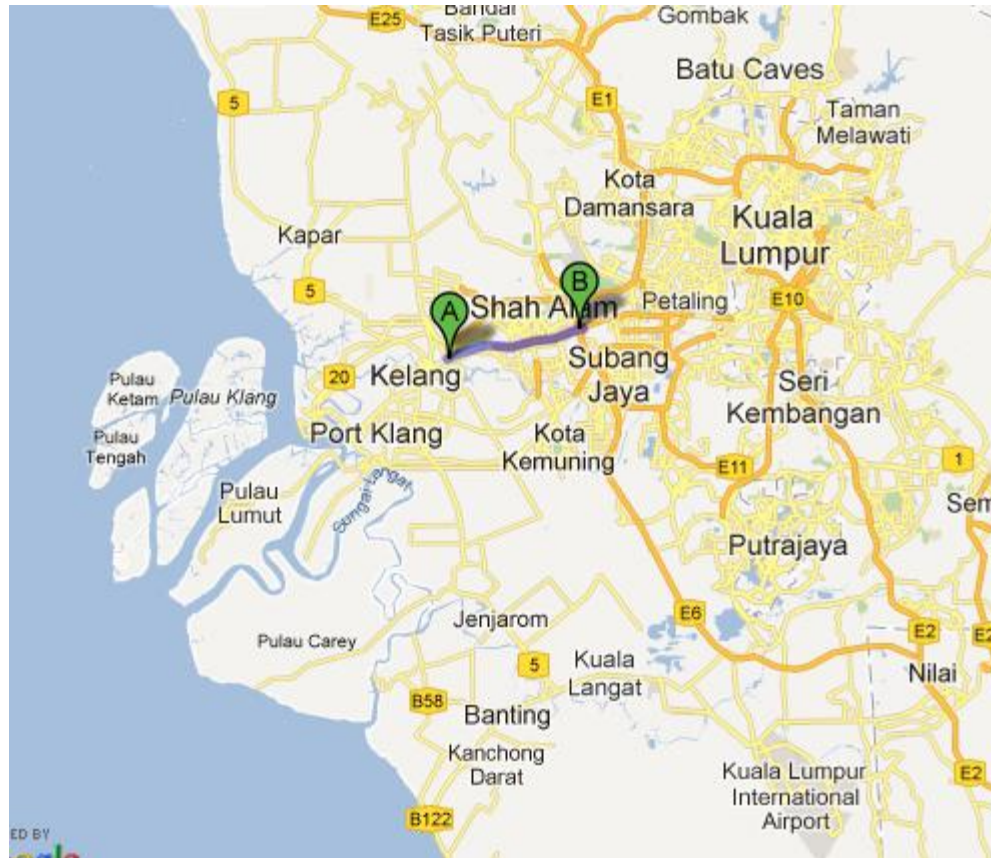


# The Linkedua





# The Federal Highway



Connects Kuala Lumpur to some Residential and industrial suburbs.



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## Key Concession Terms

### Toll Rates

- Maintain existing rates until 2015, 5% increase in 2016 and for every 3 years thereafter for PLUS, ELITE, Linkedua and KLBK whereas the toll rates for PBSB remain unchanged.

	Current Toll Structure	New Toll Structure
PLUS	• Every 3 years at 10%	• 5% increase in 2016 and every 3 years thereafter
ELITE	• Every 3 years at 10%	
Linkedua	• Every 5 years at 25%	
KLBK	• Every 5 years at 15% to 25%	
P1B	• Every 5 years at 10% to 50%	• No change

- Standardisation of the multiplier for commercial vehicles for Class 2 to be raised from 1.5 times to 2.0 times whilst Class 3 to be raised from 2.0 times to 3.0 times for PLUS and ELITE.



## Key Concession Terms

### Concession Period

- All concessions will expire on 31 December 2038 with no further extension.

	Current Expiry of Concession	New Expiry of Concession
PLUS	• 31 December 2038	• 31 December 2038
ELITE	• 31 May 2030	• 31 December 2038
Linkedua	• 31 December 2038	• 31 December 2038
KLBK	• 27 June 2026	• 31 December 2038
P1B	• 31 December 2021	• 31 December 2038

### GOM Guarantee (“GG”)

- GG on RM11 billion of PLUS Bhd’s debt in return for a fee of 0.1% p.a. payable to the GOM.

## Key Concession Terms

### Golden Share

- The GOM to hold 1 Golden Share in PLUS Bhd. This allows the GOM to appoint the Chairman and two directors of PLUS Berhad.
- Veto Power for voluntary winding up and dissolution.

### Government Support Loan (“GSL”) Waiver

- Write-off of existing GSL for Linkedua, ELITE and P1B. The breakdown of the GSL (as of 31 December 2010) is as follows:

	RM million	
<b>Elite</b>	428	(inc. amount owing to GOM of RM38m)
<b>Linkedua</b>	1,257	(incl. capitalised interest)
<b>P1B</b>	208	(incl. capitalised interest)
	<b>1,893</b>	

## Key Concession Terms

### Tax Waiver

- Waiver on the tax liabilities of PLUS Malaysia and PLUS Bhd and exemption from stamp duties, real property gains tax and other taxes arising from the proposed privatisation exercise and the associated proposed financing plan.

	RM million	
Elite	428	(inc. amount owing to GOM of RM38m)
Linkedua	1,257	(incl. capitalised interest)
P1B	208	(incl. capitalised interest)
	<b>1,893</b>	

### Financial Assistance from the GOM for Additional Capex of up to RM2.35 billion

- The GOM has agreed to provide financial support to PLUS Bhd to finance certain capex works of up to RM2.35 billion in the form of interest subsidy of up to 5.5% p.a.

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# Credit Aspects

Minimal operating risk due to the extensive experience of UEM Group	<ul style="list-style-type: none"><li>• UEM Group is an experienced operator of toll roads and highways in Malaysia which reduces the operating risks of the concessions.</li></ul>
GOM Support	<ul style="list-style-type: none"><li>• The GOM will maintain a Golden Share in PLUS Bhd at all times, evidencing its strong support for this transaction.</li><li>• The GOM has also demonstrated its support for this transaction via its willingness to provide a guarantee of up to RM11.0 billion for the GG Sukuk.</li><li>• <b>The Sukuk ranks pari-passu with the 19.6 Billion Sukuk( Series 1 Sukuk). However , they start redeeming only after the series 1 Sukuk.</b></li><li>• <b>A default in series 1 Sukuk results in a default in the GG Sukuk.</b></li><li>• <b>However a GG sukuk holder does not have the right to call an event of default ahead of Series 1 Sukuk Holder.</b></li><li>• <b>Covenants restricting repurchase, redemption and cancellation of the GG Sukuk ahead of the Sukuk Programme</b></li></ul>

# Credit aspects

## Financial Support from the GOM

- GOM has agreed to provide a waiver on the tax liabilities of the PLUS Bhd and exemption from stamp duties, real property gains tax and other taxes arising from the Privatisation Exercise and Proposed Acquisition.
- Additionally, the GOM waived the existing GSLs of Elite, Linkedua and P1B, amounting to approximately RM1.9 billion.
- In respect of certain capex works, the GOM will be providing financial support of up to RM2.35 billion in the form of interest subsidy.

## Strategic Assets

- The North-South Expressway is an integrated toll expressway, linking North Peninsular Malaysia to Singapore. It is the backbone of Malaysia's highway system.
- It connects major industrial, commercial & logistic centres and links major seaports and airports.



# Credit Aspects

Industry risk	<ul style="list-style-type: none"><li>• Though private roads are very common , political opposition to toll rate hikes are increasing.</li></ul>
Competition	<ul style="list-style-type: none"><li>• A lot of new roads are at the planning and conceptualizing stage.</li><li>• Ambitious plans for public transportation in the Klang Valley( KL and suburbs).</li></ul>
Related risk	<ul style="list-style-type: none"><li>• Increase in fuel price leads to lesser vehicles on the road.</li><li>• However , Inter-urban roads usually prove quite resilient to this risk.</li></ul>
Traffic Volume Projections	<ul style="list-style-type: none"><li>• Traffic studies done done by Traffic Consultant Halcrow. It took into account GDP expectations , competition , expectations of fuel price movement etc</li></ul>
Financial Coverage	<ul style="list-style-type: none"><li>• DSCR levels of average of 4 time achieved ,with minimum being 1.72 times. This is calculated along with the cash balance in the company.</li></ul>

# Credit Aspects

Leverage	<ul style="list-style-type: none"><li>• At 9.69 time (assuming RCPLS is equity).</li><li>• Increases for a few years as it is projected to make losses.</li></ul>
RCPLS terms	<ul style="list-style-type: none"><li>• Rank below the Sukuk in terms of debt service and repayment</li><li>• Payment of coupon is restricted if such a coupon payment would result in PLUS Berhad's Finance Service Cover Ratio (FSCR) declining below 2.0 times</li><li>• Have no acceleration rights</li><li>• Coupon payment is not made because of the restrictions of the FSCR, the coupon payment would be deferred to the following year</li><li>• Restricted from paying more than 10% of nominal value of RCULS per annum in coupons and deferred coupons</li></ul>
Financial Coverage	<ul style="list-style-type: none"><li>• DSCR levels of average of 4 times achieved, with minimum being 1.72 times.</li></ul>

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# Bond Terms

Total Program size	<ul style="list-style-type: none"><li>• RM23.35 billion</li></ul> + RM 11 Billion Government Guaranteed Sukuk
Tenure	<ul style="list-style-type: none"><li>• 25 years</li><li>• <b>Government Guaranteed Sukuk to redeem equally in year 26 &amp; 27</b></li></ul>
Credit rating	<ul style="list-style-type: none"><li>• AAA – 2 notch upgrade from Stand alone rating because of government support.</li></ul>

At approximately USD 10 Billion , this was the largest SUKUK issuance.

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# Some questions

- Can PPPs be immune from political pressures?
- Should critical and strategic assets be managed via PPP?
- Do governments have a lot of hidden obligations via PPPs?
- Given the political issues involved, does listing a PPP create additional potential burdens for the government?