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DEAL: Argentina resumes power project finance funding

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GE's energy investing unit and YPF Energía Eléctrica have secured international funding for two power projects in Argentina, one of the first times in 20 years that project finance has been used to fund the development of local infrastructure.

The $219.5 million five-year loan, provided by Credit Suisse, Citigroup and Export Development Canada, will be put towards the completion and operation of two of the largest projects awarded in 2016 under a tender issued by the Secretary of Electric Energy. These are two thermal power plants with a combined capacity of 374MW in the western provinces of Tucumán and Neuquén respectively.

Argentinian president Mauricio Macri announced last year that he was ending the long-term practice of subsidised electricity, which had resulted in financial difficulties for the country's utilities. This formed part of a wider initiative to promote the use renewable energy under the RenovAr programme. Of the 60 projects awarded over two rounds of auctions since, which have a total value of $4 billion, only a limited number have managed to secure financing.

"While we have seen many corporates go to market with plain vanilla issuances over the past few years, project finance is more of a market issue," said Lucas Aristizabal, senior director in Fitch's Latin American corporates group. "It's more oriented towards investment-grade organisations – this has been hard to achieve in Argentina because of the economic context."

KEY TAKEAWAYS

- **Argentine electricity company YPF and partner GE have secured funding from a syndicate of lenders for two thermal power plants;**
- **The five-year loan was granted on non-recourse basis, and signals the return of international lenders to the country, after years of absence due to economic turmoil;**

- **YPF has secured a 10-year PPA with the electricity regulator for the plants, which brings stability and certainty t the project;**
- **The projects are part of a wider push in Argentina for the development of cheaper energy, notably through the involvement of the private sector.**

Difficult questions

While the project finance structure used to underpin this deal is conventional by international standards, the fact it was used in the first place is noteworthy for a number of reasons. Bruchou Fernández Madero & Lombardi partner Matías López Figueroa, who advised the lenders, called it the first genuine project financing over a decade.

“Up until recently, the political and economic framework in Argentina was not medium-to-long term financing friendly, especially when it comes to non-recourse financing,” he said.

Tomás Allende, partner at Estudio Beccar Varela, who advised YPF and GE Capital, said: “As this typically involves financing over 10 to 20 years, it was not justifiable.”

This had an impact on international lenders’ appetite for funding transactions onshore in Argentina. Project finance involves sponsor guarantees until completion, and in light of the general uncertainty, lenders seek to have sponsors with assets outside the country. The fact that Argentina defaulted on its sovereign debt in 2001 – and went through several restructurings in the following years – also means that many international lenders were prohibited from financing projects in Argentina.


Government House in Tucumán, site of one of the two plants

“This situation also caused some caution among lenders regarding potential foreclosing of collateral in Argentina,” Allende added.

According to Aristizabal, corporates in Argentina also faced a very high domestic cost of borrowing and regularly expected currency depreciation.

“They tended to link their cash flows to the US dollar to avoid any FX exposure,” he said. “But now the situation has stabilised, it’s expected that local lending activity should pick up.”

The two projects at the centre of the transaction - the Tucumán and Loma Campana II fastpower plants – are nearing completion. For this reason, the funding for them was provided on a non-recourse basis. YPF has already entered into 10-year power purchase agreements with the electricity regulator, *Compañía Administradora del Mercado Mayorista Eléctrico*, which provides some additional certainty to the lenders.

A way out

YPFEE's parent company YPF is considering selling up to a 49% stake in its subsidiary, one of several options it touted to recapitalise the company and fund some of the projects in its pipeline.

GE was rumoured in April to be among eight energy companies that could pay up to $1 billion for YPFEE, a move which would give the Argentine company access to international markets.

FINANCING

- Credit Suisse, Citigroup and Export Development Canada sought out an additional syndicate of lenders but remained responsible for a majority of the five-year loan;
- The loan started at a spread of 400bp over Libor, and will increase 575bp once construction of the assets are complete;
- YPF and GE announced in June 2016 they would invest $170 million to build the Tucumán plant and $100 million for the Loma Campana II project.

COMPLETION RISK

- The Loma Campana II and Tucumán projects are nearing completion. The first is expected to start commercial operations by the end of the year, and the latter in February 2018;
- Risks associated with the fluctuation of the price of electricity were mitigated by the fact that YPF entered into a 10-year power purchase agreements with the Argentinean electricity regulator.

LENDER SECURITY

- The financing was provided on a non-recourse basis.

Tear sheet

Bruchou Fernández Madero & Lombard and Clifford Chance provided legal advice to the lead arrangers. Estudio Beccar Varela, Shearman & Sterling and YPF's in-house team advised the borrowers and sponsors.

Tanoira Cassagne Abogados, in-house lawyers of the Argentine Branch of Citibank and Hinckley Allen acted as legal advisors to the administrative agent and collateral agent.

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