

## Financial Modeling – Express Fiji

Express Fiji is a project company that was awarded the contract to build and operate a highway in a city in Fiji in 2023. (Fiji is an island country in the South Pacific Ocean).

UK Aid supports the project, and here are some details about it:



### A. Timing of the project

- Concession contract duration: 40 years
- Construction duration: 4 years
- Operations duration: 36 years

### B. Traffic & Project Revenues

Project revenues come from tolls.

Following traffic studies, the estimated traffic on the future road the first year of operation is:

- 3 125 000 Passenger Car (PC) per year
- 2 800 000 Heavy vehicle (HV) per year

Traffic will then evolve by 2% per year.

The tariff (2023 value) applied to each vehicle is as follows:

- 3,56 £/PC
- 13,96 £/HV

The project company anticipates an inflation of 4% per year (starting from contract award).

### C. Maintenance Costs

The cost of maintenance (including heavy maintenance and SPV costs during operation) has been estimated annually at £8,9M per year (value 2023).

The project company anticipates an inflation of maintenance costs of 4% per year (starting from contract award).

**D. CAPEX**

The construction cost (including SPV costs during operation) has been estimated at £75M per year of construction.

**E. Project Financing**

Funding will be provided in the form of non-recourse financing, i.e., equity and senior debt. The project company has secured binding funding offers on the following basis:

Debt:

- Door-to-door maturity: 40 years (for the sake of this exercise)
- Gearing: 65/35
- Fixed Rate:
  - o Base Interest Rate: 1,50%
  - o Fixed Rate Margin: 5,85%
  - o Arrangement fee: 1,50%
  - o Engagement fee: 35,00% of margin

**F. Tax & Accounting assumptions**

As a simplification, it is envisaged that for:

- Accounting: all investments are amortized on a linear basis over the term of the concession as of the commissioning of the motorway.
- Tax: The only tax is the corporate tax, and the rate is equal to 30%.

**What should be the tariff charged to HVs in order to obtain an IRR of 23% ?**