DEAL: Qantas' loan with switchable collateral

Labbé, Amélie . International Financial Law Review ; London (Nov 2, 2017).

TEXTO COMPLETO

The Australian airline will be able to mix and match aircraft used as security to achieve regular pricing adjustments In aviation financing, using a pool of aircraft as collateral and not individual assets is common, in order for the airline to have the flexibility of different tranches and associated interest rates. But relying on a regular substitution of collateral is a first.

Australia's Qantas has become the first airline in the Asia-Pacific as well as globally to rely on this new feature for its latest loan, an eight-year A$350 million ($270 million) facility part of a wider programme.
The structure is regularly tested so whenever an aircraft is added or removed, this results in pricing and collateral adjustments, said Shukor Yusof, founder at aviation advisory firm Endau Analytics.

Flexible security

Airlines typically use a combination of equity and debt to finance their activity, with a preference for equity. In a typical scenario, 50 to 80% of the funding is raised as debt (loan-to-value or LTV) with the remainder as equity or cash. Levels of LTV vary depending on the size, model and creditworthiness of the aircraft or pool of aircraft pledged as collateral.
But raising debt finance is not a cheap exercise, which means that including a rotating structure could save on costs.

"One of the critical things lenders bear in mind is depreciation in the value of the aircraft," said Shamshad Ali, M&A partner at PwC. "This is more predictable in the early years of its life but in later years, judgments can be more subjective."

Lenders typically do calculations upfront based on predictable factors, using collateral which won't change during the tenor of the loan. This means the tenor, interest rate(s) and tranches associated with the loan are fixed from the start.
But Qantas' collateral swapping deal structure means that every time the pool of collateral changes, they have the option to re-price. This would give Qantas the opportunity to switch older aircraft for younger models and secure more flexible financing terms.
The security for the loan includes a significant pool of unencumbered aircraft, said a Qantas spokesperson. Reuters lists these as assets including Airbus SE A320 family and Boeing Co 737 narrowbodies as well as A330 and 787 widebodies. There is no cross-collateralisation or cross-default between this loan and other loans that Qantas has taken out.
"This facility will provide a platform where older aircraft can be efficiently re-geared to refinance existing debt maturities and extend tenor or to facilitate the delivery of new aircraft on an unencumbered basis," they said.
There is no cross collateralisation or cross default between series and the tenor of each series that is issued can be tailored to suit the Qantas debt maturity profile and market conditions. The program provides further

diversification for Qantas funding and provides a platform for the efficient financing of older unencumbered aircraft whilst maintaining full operational flexibility.

Re-pricing

Several recent deals have featured an in-built re-pricing mechanism. These include Crescent Capital's collateralised loan obligation in September which includes an embedded refinancing feature, expected to make such future transactions cheaper and faster. The automatic margin reset feature. It's based on a mechanism which means that each class of debt is subject to auction after the mandatory two-year non-call period.

In Qantas' case, the difference is nature and age of the assets means that each aircraft doesn't carry the same risk, which will have an impact on pricing. Rather than using only a limited number of aircraft as collateral, Qantas has underwritten a full fleet which causes minimum disruption when re-pricing happens.
"The ability to switch collateral would give Qantas more flexibility to manage their portfolio without disturbing the financing in place," said Ali.

The funding will be used to refinance existing debt which matures in 2018.

Tear sheet

BNP Paribas is the sole structuring bank and, with National Australia Bank, is the joint mandated lead arranger and bookrunner. Legal advisers are unknown at this time.
IFLR100's October 2017 deal round-up can be found here

See also

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CREDIT: Amélie Labbé

DETALLES

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