



MACQUARIE

# PPP Case Study

Asia PPP Practitioners' Network

Macquarie Capital

November 2018



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# 01

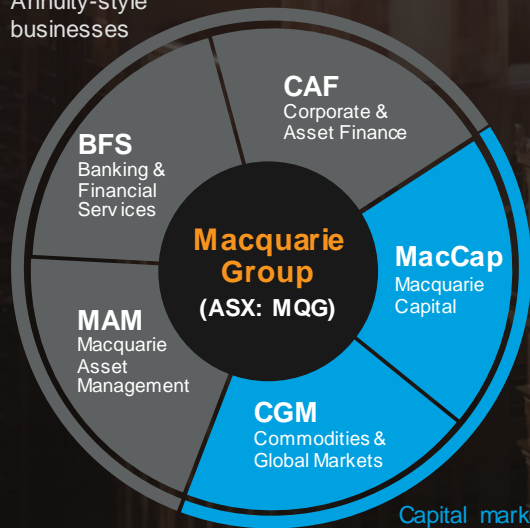
## Introduction to Macquarie



# Introduction to Macquarie

Macquarie Group Limited is a global provider of banking, financial, advisory, investment and funds management services in all major financial markets

Annuity-style businesses



Capital markets facing businesses

- Founded in 1969 as the Australian subsidiary of UK merchant bank Hill Samuel
- Global provider of banking, financial, advisory, investment and funds management services
- Main business focus is providing products and services to clients
- Listed on Australian Securities Exchange (ASX: MQG; ADR: MQBKY)
- Macquarie currently employs over 14,469 people and operates across 25 countries

Total  
\$US **381.8** billion  
assets under management

\$US **27b<sup>+</sup>**  
market capitalization

Advised on 402 transactions<sup>2</sup> worth  
\$US **271** billion

\$US **8,446** million  
net operating income

1. All statistics are current as at 31 March 2018.

2. Dealogic and IJGlobal (FY18), for Macquarie Group completed M&A, balance sheet positions, ECM and DCM transactions.



# Our Infrastructure team global footprint

Over 200 infrastructure executives across the world in most major markets / cities

Americas **over 300** transaction executives / **12** renewables executives

- |             |               |
|-------------|---------------|
| Arlington   | Mexico        |
| Austin      | New York      |
| Calgary     | San Francisco |
| Chicago     | Toronto       |
| Houston     | Vancouver     |
| Los Angeles |               |

- |           |              |
|-----------|--------------|
| Abu Dhabi | Johannesburg |
| Amsterdam | London       |
| Dublin    | Madrid       |
| Frankfurt |              |

Europe, Middle East  
and Africa

over **150** transaction executives

over **160** transaction executives

Asia

- |              |           |
|--------------|-----------|
| Beijing      | Mumbai    |
| Hong Kong    | Seoul     |
| Jakarta      | Shanghai  |
| Kuala Lumpur | Singapore |
| Manila       | Tokyo     |

- |          |           |
|----------|-----------|
| Adelaide | Melbourne |
| Auckland | Perth     |
| Brisbane | Sydney    |

Australia and  
New Zealand

over **190** transaction executives

**67** offices  
in 25 countries

**200+** infrastructure executives globally

**70+** infrastructure executives in the Americas

**40+** infrastructure executives in Asia



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# 02

Case Study: LRT1

# PPP Case Study – Manila’s LRT1 Rehabilitation and Expansion



## PPP to operate, maintain and extend existing LRT1

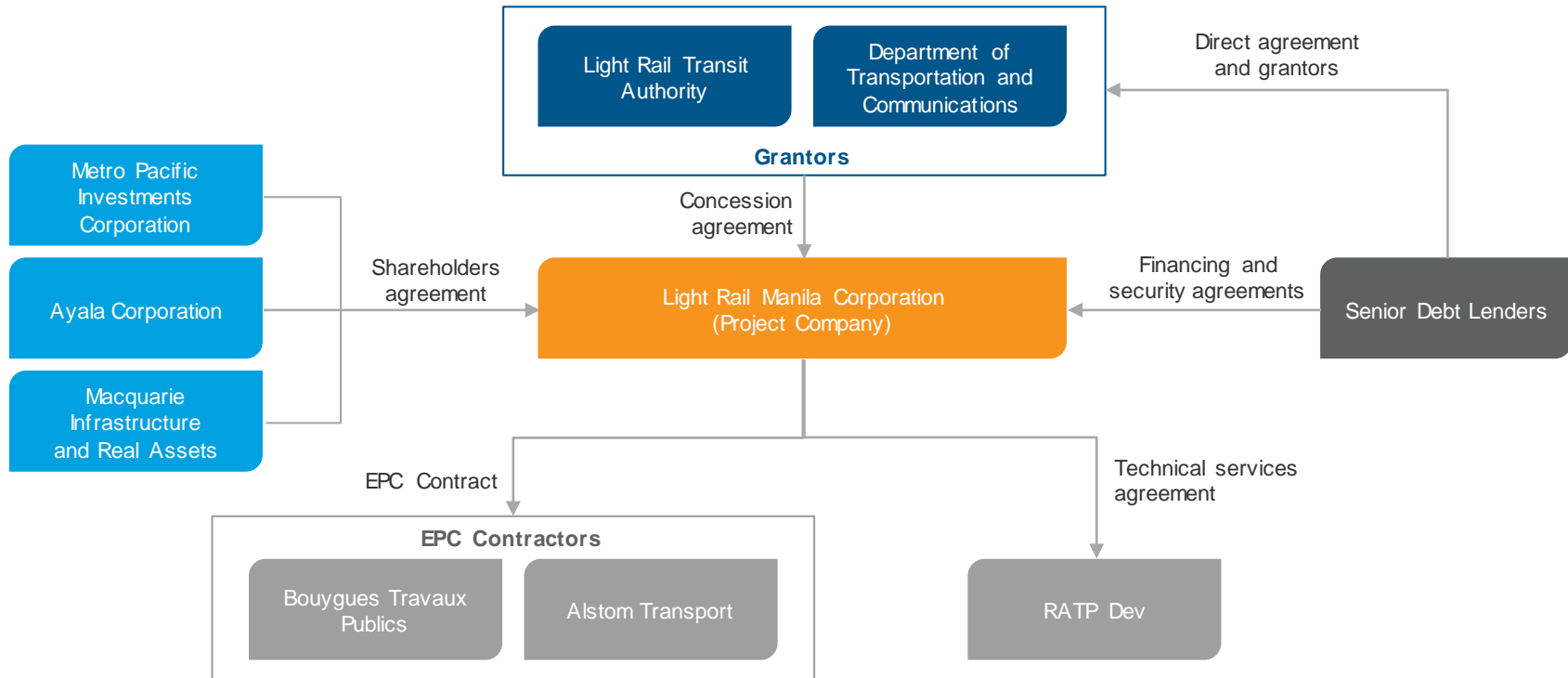
Client	Light Rail Manila Corporation (“LRMC”)
Owners	<ul style="list-style-type: none"> <li>— Metro Pacific Light Rail Corp.</li> <li>— AC Infrastructure Holdings Corp</li> <li>— Macquarie Infrastructure Holdings P/L</li> </ul>
Project particulars	<ul style="list-style-type: none"> <li>— The Philippine Department of Transport and Communications (DOTC) signed a 32-year concession agreement with LRMC in October 2014 to undertake design, procurement, engineering, construction, testing, commissioning, financing, operations and maintenance of the existing LRT1 system, and an extension of a further 11.7km of track and 8 new stations.</li> <li>— Once complete, the project is expected to benefit more than 800,000 daily passengers.</li> </ul>
Project value	~\$US1 billion
Operations	12 September 2015 (commencement date)
Track extension	The track extension will lengthen LRT1 from 20.7km to 32.4 km, with a new south endpoint in Niog, Bacoor, Cavite. Approximately 10.5 km of the Cavite Extension System will be elevated and 1.2 km will be at grade level.
EPC contract	~\$US550 million
EPC contractor	Bouygues/Systra/Alstom

## Macquarie’s role in this pivotal transport rehabilitation project in Asia

- Advised the consortium led by Metro Pacific Investment Corporation (“**Consortium**”) on successfully bidding for this project. This included the following services:
  - Assisting with the preparation of the consortium’s proposal to the Government of Philippines regarding LRT1
  - Advising on negotiations with the government on concessions agreement terms
  - Arranging financing from banks to fund the development of LRT1
- Through MIRA (Macquarie Infrastructure and Real Assets division) we took an equity interest in LRMC
- Through Macquarie’s MacPro services, we advised LRMC on the operational readiness aspects upon being awarded the concession



# LRT1 Contractual Structure



# Risk Allocation Matrix



	Risk Allocation	
	Grantor	Concessionaire
Traffic volume		✓
Fares increase	✓	✓
Procuring Right of Way ("ROW")	✓	
Operations and operating costs		✓
KPI charges		✓



**Risk**



**Mitigant**

No Grantor commitment regarding competing route or integration with other public transport modalities

Sponsors are entitled to compensation of lost revenue if fare increases are not approved, which may be delayed for up to several years and may come in non-cash forms

Grantor will provide ROW in specified terms and timeline, and will be in default if delay exceeds agreed threshold

Sponsors are responsible for operations

Sponsors are responsible for any potential KPI charges

— Due diligence

— Monetary and time delay compensation in event of Grantor's non-performance  
— Termination payment for Grantors Event of Default

— TSA arrangement to transfer expertise

— Due diligence and advice from rail operators

# Risk Allocation Matrix



	Risk Allocation	
	Grantor	Concessionaire
<b>Force Majeure</b>	✓	✓
<b>Change in law</b>	✓	✓
<b>Existing asset condition at handover date</b>		✓
<b>Existing system upgrades</b>		✓



**Risk**



**Mitigant**

<p>Uninsurable risks Only partial protection under the Concession Agreement</p>
<p>Protection mechanism needs to be in place against risks that private sector cannot readily anticipate and absorb</p>
<p>Grantors' non-performance may have negative implications on the Concessionaire's ability to operate the system</p>
<p>Sponsors to procure and implement rehabilitation, while operating existing rail systems</p>

<ul style="list-style-type: none"> <li>— Insurance coverage</li> <li>— Termination payment for Force Majeure</li> </ul>
<ul style="list-style-type: none"> <li>— Concessionaire has right to terminate project without penalty if losses reaches pre-agreed threshold level</li> </ul>
<ul style="list-style-type: none"> <li>— Monetary and time delay compensation provided under CA for Grantors' non-performance</li> </ul>

# Risk Allocation Matrix



	Risk Allocation	
	Grantor	Concessionaire
<b>Relocation of informal settlers</b>	✓	
<b>Delay in Construction</b>		✓
<b>Financing risk</b>		✓
<b>Inflation</b>		✓



**Risk**



**Mitigant**

Grantor to relocate informal settlers pursuant to national laws

- Monetary and time delay compensation in event of Grantors' non-performance

Sponsors to pay liquidated damages at c. US\$ 20k per day

- The payment obligation is passed on to EPC contractor under EPC contract

Sponsors to assume risk from movements in the base rate during the construction period and after the first interest rate reset, while lenders will require floor on base rates set prior to financial close

- Contingency built into interest rate assumptions
- Fixed rate structure for first 7-8 years

Inflation may exceed scheduled fare increases rate

# LRT 1 Today



Despite delay in fare increase and extension project, the private sector was able to improve operational efficiencies and customer experience in LRT1



## Delayed fare increase

- Despite scheduled fare increase and compensation for delay in fare increase, there has been no fare increase or compensation
- Sponsors have filed several petitions to increase fares. However, there are strong resistance from public groups and government units



## Delayed track extension due to lack of Right of Way (“ROW”)

- The LRT1 Cavite Extension was initially planned to take place from 2013 to 2017. However, lack of ROW has caused significant delays
- ROW has been 93% acquired as of Aug 2018



## Improved operation for LRT1 users

- Since assuming operations of LRT1, Concessionaire has invested P7.5 billion towards the improving of operational efficiencies and customer experience
- Number of operational vehicles have increased from 77 to 112 and daily trips from 470 to 550+

# LRT 1 Today



Despite delay in fare increase and extension project, the private sector was able to improve operational efficiencies and customer experience in LRT1

Doroteo Jose Station (before)



Doroteo Jose Station (after rehabilitation)





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# 03

Question?