

5 Nov 2003 17:29 GMT

DJ Kazakh Airport Securitization Could Set A Precedent

By Tom Marshall

OF DOW JONES NEWSWIRE

LONDON (Dow Jones)--The first-ever securitization out of [Kazakhstan](#) will come to market by the end of the year, and more deals backed by Kazakh assets could be on the way as structured finance becomes popular in emerging markets.

[Kazakhstan](#) is expected to raise between \$55 million and \$60 million toward the reconstruction and improvement of its main airport, according to Sanjeev Kumar, head of the securitization team at Delamore & Owl Group, the project finance specialist that is arranging the deal

The bond offering will be backed by tax receivables and a guarantee from former capital city Almaty, whose mayor Victor Khrapunov has championed the deal.

Kumar said rebuilding the airport is an urgent priority for [Kazakhstan](#) after a blaze destroyed a terminal in 1999. "They really need to build a cargo terminal and another passenger terminal before the winter," he told Dow Jones.

"These new terminals will help increase revenues generated by the airport," he added. "The airport is already generating revenues but needs capital to expand, so the securitization structure is ideal."

The bonds will have a six to seven year maturity and a 6.5% coupon.

More On The Way

If the airport deal goes as planned, other deals from [Kazakhstan](#) could follow. Kumar said Delamore & Owl is working on similar offerings, though none have got as far as the airport issue yet.

"We are working on few other deals in [Kazakhstan](#), although some will probably have a much more complex structure," Kumar said, adding that his firm has done a lot of work to check that the country's legal and regulatory systems permit this kind of true sale securitization.

Now that work's done, he's confident investors will be more comfortable with Kazakh risk. "Wherever there are dollar cashflows, we'll be there trying to securitize them."

Seeking Triple-B Rating

[Kazakhstan](#) is working with Fitch Ratings to make sure the airport deal qualifies for an investment-grade triple-B rating. That will assure the bonds are liquid enough to attract investors.

Landing a high-grade rating, however, requires several protections for investors. The bulk of the deal's collateral is future airport cashflows in the form of terminal leasing fees and airport tax - expected to climb from about \$14 million to between \$25 million and \$30 million after the new terminal is built. If necessary an insurer will be brought in to guarantee these cashflows.

Giving investors more comfort, though, is a guarantee from the city of Almaty. Instead of treating it like a normal guarantee, Delamore & Owl, and banks including Mizuho and Tokyo Mitsubishi, have created a structure that views it as a liquid asset that can be cashed in any time funds are needed to keep payments to bondholders going.

A structured finance analyst not connected with the deal admitted he had little experience dealing with cashflows from Kazakh airports, but said the structure looks reasonably robust and its revenue estimates conservative.

"The decision to get a Fitch rating will obviously help reassure investors," he commented, though he added that many more mainstream structured finance buyers will take a lot of convincing to take on this kind of emerging market risk.

Delamore & Owl will itself be the main investor in the notes. But it will also be selling bonds to other investors.

"We would like to hold most of this deal in our own portfolio until maturity," said Kumar. "But we have had quite a lot of interest from investors and market-makers via reverse enquiries - it's a piece of cake to sell investment-grade paper with a coupon of 6.5%."

Now the deal just needs its documentation prepared; Kumar plans to register it with the SEC and may seek listing in Luxembourg.

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November 05, 2003 12:29 ET (17:29 GMT)

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