THE BOND BUYER

'Wowed' investors snap up bonds for Florida's Virgin Trains USA

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The Virgin Trains USA name made a hit with qualified investors who eagerly scooped up its high-yield bonds to finance Florida's privately owned passenger train project.

In the largest municipal bond deal of the week, the $1.75 billion of unrated private activity bonds priced Monday with the Florida Development Finance Corp. as the conduit issuer on behalf Virgin Trains USA, formerly known as Brightline.

The deal, upsized from $1.5 billion initially proposed in bond documents, priced a day ahead of schedule because of strong demand.

Morgan Stanley, the sole underwriter, said 67 participants sought orders after "very successful" roadshows in Boston and New York. In-person site visits also allowed prospective investors to ride the train service on its current route between Miami and West Palm Beach, which offers passengers wireless internet service, electrical power and USB outlets at all seats, and food and drink service.

"The feedback that we received was, 'Wow — this is a whole new level of train transportation,'" said Brian Wynne, head of public finance at Morgan Stanley.

The tax-exempt bonds, subject to the alternative minimum tax, were sold to qualified institutional buyers under Rule 144A of the Securities Act of 1933 as a private activity placement in three series, each with mandatory puts.

Some $250 million priced with a 6.25% coupon and a put in 2024; $500 million priced with a 6.375% coupon and a put in 2026; and $1 billion priced with a 6.50% coupon and a put in 2029.

“The yields were right where we expected,” Wynne said.

Morgan Stanley declined to disclose the amount of total orders that were received, though a banker not associated with Morgan Stanley said he heard the deal received about $4 billion in orders, which he said allowed it to be upsized by $250 million and for yields to be lowered by 17 basis points.

There were “lots of fund flow monies looking for yield,” said the banker, who asked not to be named.

Closing is set for April 18.

Bond proceeds will be used to extend rail service from West Palm Beach to Orlando, reimburse costs, refund $600 million of bonds issued in 2017, fund reserves, and pay capitalized interest and issuance costs.

The bonds are secured by a first priority lien on assets that include revenues, passenger rail easements, stations, rolling stock, leasehold interests, reserve funds and a pledge of the equity interest of the borrower.

“We received an overwhelming positive response from qualified investors who recognize our early success and the long-term potential for our business,” said company spokesman Ben Porritt.

At a meeting scheduled Friday in Orlando, the owners of Virgin Trains USA will request that the Florida Development Finance Corp. approve issuing an additional $950 million of private activity bonds to continue financing the project.

The $950 million is the third allocation of PABs awarded to the private owners of the train project by the U.S. Department of Transportation’s Build America

Bureau. The debt must be issued by June 30, according to a deadline set by the USDOT.

The project sold its first allocation of bonds in 2017. The $600 million of PABs saw interest from 61 qualified institutional buyers. Proceeds refinanced existing debt to build Phase 1 from Miami to West Palm Beach, paid for capitalized interest and reserves, and issuance costs.

That deal sold at an interest rate of 5.625%. While the yield on the 2017 issuance was lower than the bonds that priced Monday, bankers said the initial bond sale was structured without an additional bonds test to entice investors to help finance the first segment of the project.

Investors in the first deal were also told that the $600 million would be taken out in a subsequent issuance when work was ready to commence on the second phase. The bonds will be redeemed April 18 at price that includes a 5% early-call premium, plus accrued and unpaid interest.

Zachary Solomon, executive director at Morgan Stanley, said Tuesday that he covers public-private partnership deals across the country and he views the Virgin Trains project and this week's financing as "a real landmark transaction in private investment in infrastructure.

"I think it was very well received by investors because it's a really unique opportunity to invest in a core infrastructure asset," he said.

Virgin Trains is owned by Florida East Coast Industries. FECI is owned by Fortress Investment Group LLC, which was sold to Japan's SoftBank Group Corp. in December 2017.

The new project is still in a ramp-up period. Service between West Palm Beach and Fort Lauderdale began in January 2018, and service to Miami was added four months later.

On March 29, Virgin Trains USA released its first audit in a supplement to the preliminary limited offering memorandum for this week's deal showing operational costs and cash flow for the year ended Dec. 31, 2018.

Total revenues were $9.9 million last year; operational, corporate and administrative expenses were $112.7 million; and a net loss of $117.4 million was reported. Accounts payable and accrued expenses as of Dec. 31 totaled $133.3 million.

FECI contributed $1.05 billion in equity in 2018 and $1.08 billion in 2017. Auditors gave the company a clean opinion.

Under subsequent events, the audit disclosed that the company in March acquired the rights to develop a high-speed rail project between Victorville, California, and Las Vegas. The $53 million to pay for the acquisition came from common equity interest in Virgin Trains USA.

Company officials say permits and contracts are in hand to start work on the second phase of the project between West Palm Beach and Orlando, which should take three years to build out. Negotiations are underway to add a stop at Walt Disney World or another theme park, and to extend service to Tampa.

According to bond documents for this week's issuance, Virgin Trains may issue parity bonds for additional projects in the future without the consent of the 2019 bondholders.

Senior and subordinated debt may be issued in the following amounts: up to $3 billion to finance projects or refinance bonds; up to $100 million to fund the purchase of rolling stock; up to $200 million to extend service to a theme park in the Orlando area; up to $50 million for each new station for stops that include, but aren't limited to, Port Miami and Fort Lauderdale-Hollywood International Airport; and up to $175 million for any corporate purpose.

The company doesn’t indicate how it might seek approval to issue additional municipal bonds, or if it plans to request new allocations of PABs from the USDOT.