In December 1999, the Walt Disney Company (WDC) and the Government of Hong Kong agreed to develop a theme park and resort complex, Hong Kong Disneyland, at a projected cost of HKD 28bn (USD 3.6bn) with a scheduled opening for 2005. The Government of Hong Kong, Disney’s joint-venture partner, assumes about half the project’s cost in terms of land reclamation and infrastructure development. The remaining HKD 14bn are to be funded in part with a HKD 2.3bn term loan and a HKD 1bn credit facility, both on a nonrecourse basis. Disney as one of the project’s sponsors (owners) and its manager has selected Chase Manhattan Bank (Chase) to underwrite and syndicate these credit facilities.

The following questions are meant to guide your analysis:

1. What is project finance? What does it mean that the debt is contracted on a nonrecourse basis?

   (a) How does the nonrecourse nature of the debt change the credit analysis and loan-approval process by the lender?
   (b) What are alternatives to nonrecourse loans form the perspective of the borrower? What are the advantages and disadvantages of nonrecourse debt for the project’s owners (sponsors)?
   (c) Why did WDC feel the need to borrow in the syndicated loan market?

2. How should Chase have bid in the final round competition to lead the HKD 3.3bn Disneyland financing?

   (a) What are the risk factors for lenders and borrowers in bidding on syndicated loans?
   (b) What are the characteristics of a successful bidding strategy? What are the dangers of bidding to aggressively? Not aggressively enough?

3. Analyze the various parties respective objectives in the transaction. What are they? How would you go about pursuing them?

   (a) Should Disney sign the standard commitment letter? Which parts should be of concern to you and why?
   (b) As Chase, why did you draft this commitment?

4. Research the syndicated loan market. How well has it been doing in the last 20 years? What is the competition? What particular problems do banks face in syndicating loans?

5. Why do banks syndicate loans? What are the advantages and disadvantages of syndications
(a) from the lenders’ perspective? Who are the competing with?
(b) from the borrowers’ perspective? What are the alternatives?
(c) What are the dangers of syndication for the (i) borrower, (ii) lead arranger, (iii) syndicate
    members?

6. Recommend a syndication strategy for the particular loan under consideration. How would
   you organize the syndicate? Analyze the number of tiers, commitments and fees for each tier,
   nationality and number of banks, final hold positions, sub-underwriting or general syndication,
   etc.

7. How do the six different syndication strategies affect the risks and returns Chase might face
   as the lead arranger? How does the syndication structure differ?

8. What happened? Research the eventual outcome and subsequent performance of Hong Kong
    Disneyland. Provide an assessment of the syndication strategy and the loan.

Even-Numbered Groups

Working as a senior underwriter in Chase’s Syndication Department, you have prepared a presentation or executive memo for senior management outlining your company’s bidding strategy and summarizing the credit analysis and possible pitfalls in the deal.

Odd-Numbered Groups

As one of the senior financial analyst in WDC Treasury Group, you have analyzed the Chase bid for the syndicated loan facilities and summarized the relevant issues in a presentation or executive memo to the board.

Please note the following ground rules for the case write-ups:

- the maximal group size is as announced in class; every group member receives the same grade;
- at most 2 pages of analysis and 6 pages of technical appendices;
- show your work, staple the pages together and be professional;
- late write-ups will not be accepted for any reason; they are due at the beginning of class for
  which the discussion is scheduled;
- graded write-ups or presentations will be available a week later.