The MIG one

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For Anthony Kahn, managing director of Macquarie Infrastructure Group (MIG),"the real skill in investing in toll roads is working out how to structure the SPV and the investment you make in such a way that you maximise cashflow returns to shareholders." It is a strategy that has paid off. Since being listed on the Australian Stock Exchange in December 1996 MIG has snatched up some very desirable toll roads worldwide through strategic investments and acquisitions. It is now the third largest private owner and developer of toll roads in the world, with a funding base of A$5.5 billion ($3.01 billion), just behind rivals Autostrade (Italy) and ASF (France).

MIG is managed and wholly owned by Macquarie Bank and has its headquarters in Sydney. MIG is classed as a stapled security – two investments that are quoted as one and traded as a single share. A stapled security consists of a unit in Macquarie Infrastructure Trust I (MIT I) and also Macquarie Infrastructure Trust II (MIT II) – both managed by Macquarie Infrastructure Investment Management (MIIM) – and a share in Macquarie European Infrastructure (MEI), managed by MIIM (UK). MEI owns the European assets of MIG, and is based in the UK. MIT I exists to invest in so-called passive assets, while MIT II invests in assets whereby a controlling interest could fall to MIG. It has gained a sold investor following as the best-performing stock on the ASX100 in 2001, with returns of nearly 25% annually since its inception in 1996.

The MIG story began in 1996 when it acquired a 50% stake in Sydney's M5 toll road project operator, Interlink, for A$61.6 billion. In August 1997 MIG followed up with a A$143.1 million investment (68.4%) in the Airport Motorway Group, giving it a controlling interest in the construction, operation and maintenance of the Eastern Distributor Road, also in Australia. Since those first Australian deals MIG has been on a six-year shopping spree, at home and abroad, which shows no sign of slowing down. Most recently, Westlink, in which MIG has a 40% position, was named preferred bidder for the A$1.25 billion Western Sydney Orbital toll road. The consortium comprises MIG (40%), Transurban (40%) and Leighton and Abigroup (10% each). The road will run for 40km and connect all of Sydney's Western suburbs. The orbital will be the largest toll road in Australia and probably the second largest in the world. It is due to open in 2007.

MIG has diversified its risk through a global portfolio with toll roads in Australia, the UK, Spain, Portugal, Germany and the USA, where the market in private toll roads is notoriously hard to enter. Another landmark deal for MIG is Canada's Highway 407 in Toronto. It acquired a substantial portion of 407 – the world's largest privately owned toll road – via its recent acquisition in January this year of a $1.4 billion, 40%, stake in toll road operator Cintra (a subsidiary of Spain's Grupo Ferrovial).

Cintra's main attraction to MIG was its 61% controlling stake in Highway 407 and 14 other toll roads worldwide; eight in Spain, four in Chile and two in Portugal. SNC Lavalin had 22.5% and CDP held 16% in 407 alongside Cintra. Later, in March this year, MIG bought out CDP's interest, giving it a direct 16% stake, and an indirect share in Cintra's stake. Cintra also acquired 5.8% of SNC Lavalin's stake. "This gave a convenient and well-priced entry into the biggest, and, in our view, the best privately owned toll road in the world," says Kahn. It now has, indirectly, a 43% share in 407.

MIG's attraction to 407 was through its toll structure, which can be upped at any point to cover costs, and undoubtedly, the prestige of being involved in the world's largest toll road of this kind. Debt on 407, which has a 99-year concession, amounts to C$2.7 billion ($1.71 billion) with tenors varying from 10 to 40 years, as well as a subordinated bond facility of

C$300 million with a tenor averaging at just under five years. A junior bond issue brought in C$165 million.

MIG was also part of the Midlands Expressway Ltd (MEL) consortium, for Birmingham's Northern Relief Road (BNRR) project in the UK, with fully-underwritten debt of £585 million ($926 million provided by Bank of America, Abbey National Treasury Services) as bullet and assumed refinancing. MIG put in 75% of the £147 million equity, with Autostrade (UK) putting in 25%. MIG has retained the option to acquire the remaining 25% in 2004.

BNRR is the first privately owned toll road in the UK, and therefore was subject to substantial traffic risk. It relied on projected revenues, which could only be qualified with due diligence and a certain amount of guesswork. These issues were solved with a long concession of 53 years, and more significantly, MEL's total control over toll rates. It closed in November 2000.

Revenues should be robust, in that it is more than simply a diversion around the hugely congested M6. It is also a more direct route, ensuring that traffic flow will be consistent. A diversion of only 10% to the BNRR would ensure project revenues are met. Chosen consortium CAMBBA Construction Group, which comprises Carillion, Alfred McAlpine, Balfour Beatty and AMEC, has the project on line to open in the first quarter of next year. The deal attracted a raft of lenders, possibly due to well-publicised mutual co-operation with the DETR/government. This was only MIG's second overseas project.

Its first project abroad was the Rostock crossing in north eastern Germany, which closed in March 2000 and is due to open in 2003. MIG has a 70% joint venture interest in the form of a holding in the controlling general partner Warnowquerung GmbH & Co. MIG shares control of the project company with Bouygues. The project is for the development of a 4.2km stretch of road called the Warnow River Crossing. It has a concession, post-construction, of 30 years. Debt takes the form of a single Eu158.4 million Nord LB/Deutsche Bank facility with a maturity of 25 years.

Again, with this project, there were considerations such as the political uncertainty in the former East Germany. Alternative designs such as bore tunnels, bridges and immersed tunnels in the early stages did not help speed up the process in general. However, planning permission was given to potential bidders about a year after designs were submitted. For Germany, this was remarkably fast since other projects in the country have taken up to ten years to gain planning permission.

MIG is particularly well-placed in the market to deal with issues associated with real toll roads, such as uncertain revenue stream, planning risk and wary lenders. Its advantage is its parent, Macquarie Bank. Although MIG has been careful not to appoint the bank as an arranger on any one of its projects – MIG cites UK's Abbey National Treasury Services and Bank of America as its relationship bankers.

"There is significant Macquarie expertise to tap into in arranging debt," says Kahn. "And because we have in-house resources with long experience we have a chance to negotiate a better price," he adds.

As well as being able to take advice from Macquarie Bank, MIG can also pool staffing resources. This highly adaptable arrangement ensures that, in Kahn's words, "there are always people on the ground, available when opportunities arrive."

A typical example of the ability to identify deals, and Macquarie Bank helping MIG get the best from transactions, is MIG's most recent project, San Diego's SR125. The deal was fingered for investment and acquisition agreements drawn up last month. MIG put $54.8 million into the State Route 125 (SR125) as an initial 81.6% acquisition of San Diego Expressway Limited Partnership (SDELP). The total equity required from MIG to complete the project, inclusive of the acquisition cost, is expected to be approximately $155 million. The SR125 will run 18km and cover four lanes. There is room to expand and later cover six lanes. It has been held up for more than a decade on numerous issues, the main one being environmental regulatory framework.

Debt was provided with federal loan funding through the Transportation Infrastructure Finance and Innovation Act (TIFIA) – a US-specific form of federal assistance which in effect, is quasi-equity. The San Diego association of governments also fronted $138 million of the financing. Macquarie Bank was on hand to offer advice and encourage MIG to pull out all the stops for the SR125. MIG was able to negotiate, using the advice of its parent, a TIFIA grant. This will provide considerable comfort and confidence to lenders as it can be subordinated, thereby adding a whole new dimension of leverage.

MIG has also closed several other high profile projects such as the Yorkshire Link and Lusoponte. Its acquisition of Kvaerner's portfolio in June 1999, which holds interests in MEL and Transurban, was another key move to improve market position. Deal flow is fairly evenly spread between North America, Europe and Australia, with no market dominant.

Kahn is bullish about US market potential. "The private toll road market in the US is small and in the early stages. There are lots of toll roads but very few are privately owned. This a matter of history to some degree, but potentially there could be a shift from the public sector model of ownership to private ownership. Opportunities are starting to happen already." Elsewhere, MIG sees the market expanding in Western Europe and Canada. Highway 407 in Toronto could be considered a showcase for further high-profile work in the country.

• Warnow River Crossing, Rostock, Germany

Syndicated bank debt of Eu158.4 million: Deutsche Bank and Nord LB with a maturity of 25 years. This is Germany's first toll road and is due to open in late 2003. MIG has a 70% stake alongside Bouygues.

• Midlands Expressway, Birmingham Northern Relief Road, UK

Syndicated bank debt of £685 million: Bank of America and Abbey National Treasury Services. This has a maturity of ten years and MIG holds a 75% stake alongside Autostrade. A showcase project for MIG. Due to open in 2004.

• Yorkshire Link, a shadow toll road in the UK linking the M1 and A1 in Leeds

Bank loan of £235 million with a maturity of 23 years. MIG holds a 50% stake alongside Balfour Beatty.

• Tagus River Crossings, Portugal

Debt, Tranche A: EIB loan of Eu324 million over 21 years

Debt, Tranche B: BCPA-Banco Investimento, BNP Paribas,

SG and Caixa

MIG holds a 24.8% stake in Lusoponte

• Highway 407, Canada

Senior debt: C$2,700 million

Subordinated bond facility: C$300 million

Junior bond facility: C$165 million

MIG through Cintra (61%), SNC-Lavalin (22.5%), Caisse de Depot (CDP) (16%)

• Spanish toll roads

– Radial 4 in Madrid

– M-45 in Madrid

– Ausol I toll road from Malaga-Estepona

– Autema from Terrassa to Manresa

• All of Sydney's privately owned toll roads