

Green fingers

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Wiesbaden-based Bilfinger Berger BOT GmbH, part of the Mannheim-headquartered Bilfinger Berger AG international construction group, is playing an increasingly visible role bidding on concession projects around the world, and is currently involved in bids on projects all the way from the UK and Ireland to Greece and Australia.

As part of a well capitalised group, equity is in plentiful supply, and the BOT division has the capacity to bid along with strategic partners on the biggest projects, even the riskier ones such as toll roads where the equity contribution may be 30-35% of total project cost. Bilfinger is also active on smaller projects in the UK, where a £30 million project may only require a £3 million equity contribution, but where there are prospects for a steady flow of deals to make up for their relatively small size.

Bilfinger Berger BOT specialises in four main areas: transport infrastructure (which mainly means toll roads, bridges, and tunnels, as well as regional airports), public buildings (such as schools, hospitals, and facilities, like the new British Embassy building in Berlin), car parks (pursued via sister company Bilfinger+Berger Parking GmbH), and water and waste water treatment (pursued via one third-owned affiliate Aquamundo GmbH, a joint venture with ABB and the Mannheim utility MVV Energie).

Of course to a certain extent we follow into the geographical areas where the Bilfinger group already has a strong presence, Gerhard Becher, managing director of Bilfinger Berger BOT told Project Finance magazine in a recent interview in Wiesbaden. But these are all long term projects of 20 or 30 years, so you need countries where there is the economic and financial and political stability to enter into long term concession agreements.

This means that at present Bilfinger is concentrating on the industrialised countries, and is less likely to be found bidding on emerging markets projects. Not surprisingly the UK looms large, while Australia is also coming through as an important country for Private Finance Initiative-style projects. And there are also encouraging signs in Germany, though the PFI concept has been rather slow to take off in Bilfinger's home territory.

Bilfinger Berger BOT has been actively involved in the UK market for a couple of years now, and is building both schools and hospitals. On Friday 7 December the Duke of Edinburgh was in Chippenham to officially open the first of three schools built under a single PFI project for Wiltshire County Council. The Chippenham school actually opened its doors in September for the start of the new school year, while the two other schools, at Malmesbury and Wootton Bassett, will open in the coming spring.

Bilfinger has also been shortlisted for another school project in Bedford, consisting of two schools. Meanwhile construction is already underway on the Hull Maternity Hospital, while Bilfinger is the preferred bidder, and in final negotiations, for a National Health Service hospital in Gloucester, in a deal which the company hopes to close early in 2002. In both Hull and Gloucester Bilfinger's partner is MW Zander, the UK subsidiary of a German group whose main business is Facility Management (FM). One of their specialities is clean rooms in chip manufacturing, and their experience includes running a microchip factory in Newcastle. For the Wiltshire schools project Bilfinger's partner is Group 4 Falck,

the worldwide security services provider, which is listed on the Copenhagen Stock Exchange.

But as Becher explains, for the Bedford schools project Bilfinger has decided on a different approach. 'In Bedford we are going with Galliford Try plc, the UK construction and facility management group, and what is new here is that Bilfinger Berger BOT is the developer, and we are using Galliford Try both as FM partner and contractor,' he says. 'So on this project we are not using our own construction arm in the UK.'

'As a general principle we are free as a developer in the group to use or not to use our own sister companies in construction and facility management, though of course the expectation is that in most cases we will,' Becher explains. 'This is a disciplining system, so that our construction colleagues don't believe when we develop a project that they have got the construction contract clinched. This is why Bilfinger created Bilfinger Berger BOT as a separate profit centre - we are trying to create an arm's length market situation.'

'The group also has a rule that any construction unit, or other unit providing services, should do no more than 50% of its turnover with own developed projects, because management does not want them to lose market edge by creating their own workload,' he explains, and this 50% ceiling was an important aspect in taking the decision to join up with a different contractor in Bedford.

The school and hospital projects in the UK tend to be quite small, certainly compared to road and tunnel projects, but there is the promise of a steady dealflow. The Bedford schools project is costing around £30 million, and the hospital in Gloucester around £35 million.

Although not one of the pioneers of PFI in the UK, Bilfinger is rapidly gaining plenty of experience there, and has learned to set up good lines of communication with the relevant local authority or hospital trust in order to speed projects along.

'The local authorities and trusts are our dialogue partners, and sometimes it is their first project, so they have to go through a certain learning curve, but the organisations tend to be smaller and less bureaucratic than they might be in a very large city like London, so we can have a direct dialogue, and understand one another's requirements,' says Becher.

'With both the schools in Wiltshire and the hospital in Hull there is strong interest from the local authority to try to push the project forward, and they assist us. Everyone is aligned, and the projects are very visible, with the parents asking where are our new schools, and the nurses are asking where is our new hospital, so there is pressure from all sides to move forward productively.'

But as the PFI concept evolves, the developers are having to learn to live with tougher conditions. 'In PFI in the UK they are continuously trying to push the risk border, and cut into opportunities that used to exist, the most prominent being refinancing gains,' says Becher. 'Now it is pretty much standard that any gains must be shared with government, whereas in the past some developers were able to make some good refinancing gains - and in general in the contracts with the authorities they are trying to push more and more risk onto the private sector.'

The PFI concept is now taking off in Ireland as well, and Bilfinger has recently been short listed for a €101 million toll road project. The road runs from Dundalk, near the border with Northern Ireland, down to Dublin. A large section is already in existence, and will be taken over by the project operator, while the project will also involve the construction of a new Dundalk bypass.

Australia

Aside from the UK, one of the most promising markets worldwide for PFI today is Australia, where the Bilfinger construction group already has a very strong presence via its wholly owned subsidiary Boulderstone Hornibrook.

On October 24 Bilfinger Berger BOT submitted a bid for the Cross City Tunnel project in Sydney, where it is one of three bidders. Bilfinger BOT is also working on another bid in Sydney, for the A\$1.5 billion Western Sydney Orbital, which is the western segment of the motorway ringroad around the city. Bids are to be submitted on 5 March. And Bilfinger BOT is also submitting an application for pre-qualification on another tunnel project in north eastern Sydney, the Lane Cove Tunnel. Further toll roads and tunnel projects are on the way in Melbourne as well. And in December Bilfinger was waiting for pre-qualification news on a nine school project in New South Wales.

‘Generally Australia is developing quite strongly,’ says Becher. ‘Most of the Australian states have already announced policies to be more active in bringing Privately Finance Projects (PFPs) – they are all becoming very active in this BOT field, and since we have a strong position as the Bilfinger group, obviously Australia is an important market for us.’

Closer to home Bilfinger is also pursuing opportunities within the EU, and is interested in participating in the extensive network of toll roads being planned in Greece.

Clearly the focus is very much on the more industrialised countries. Bilfinger does have projects in both Thailand and China, the Elevated Expressways in Bangkok, and the Beijing Lufthansa Centre. But these were undertaken a few years ago, before Asia went through its big economic crisis, and though Asia is still viewed as having great potential the focus is currently elsewhere.

‘In order to go into BOT projects you need to have very reliable economic, political and financial stability, because you are going into 20 to 30 year contracts, and the world has become quite small in terms of the countries where you can pursue these opportunities,’ says Becher. ‘Our concept is always to set up project companies and procure a large part of the financing from lenders on a non recourse basis, so you have to get the financial community to go with you, but they have become shy of some of these countries.’

‘We are mainly looking at European Union and Australia, while in Canada and the United States we have so far not found the right way of entering the market. And for example in Latin America there is always a question of currency stability, and if you look at what is happening in Argentina, that is casting a negative light on some of the neighbouring countries. In any case, the Bilfinger group does not have a particularly strong position in Latin America.’

‘These projects are very labour intensive in terms of bringing them to financial close, building them, and putting them into operation, so how many projects can you tackle?’ he says. ‘So you have to focus, and unless you are reasonably sure they will go forward, you have to say this is not the time for this or that country.’

‘For the same reasons that we go to the highly industrialised countries, the banks at the moment are looking to find appropriate lending opportunities and want to reduce their exposure in riskier countries so it is no problem finding bank financing in the UK, Germany and Australia,’ he says. ‘But of course one of the downsides of going into these countries is that is where everyone else is, for the same reasons, so there is very strong competition. Everything counts, good design, low construction costs and the best financing structure.’

Bilfinger Berger BOT is increasingly using financial advisers who are not part of the bank lending group, and goes with them out into the bank market to seek competitive bids. For example, ABN Amro is acting as financial advisor on the Gloucester hospital project.

Bilfinger is generally looking for a controlling shareholding in projects. ‘We always want a stake where we have an active say in running the company – obviously we are not a passive investor, but consider ourselves as managing investors, so we want to hold either alone with or partners a majority stake, or at least a stake that makes us the one with the prime responsibility of managing the project,’ Becher explains.

‘What equity is required depends of course on the risk profile. If you take a British schools project, where once it is built

the risk is relatively small, the standard equity stake today is around 10%, whereas something like the Cross City Tunnel in Australia, where the sponsor will take full traffic risk, the equity stake may be something like 30 to 35%.?

?We can be interested in talking about selling once a project is completed and is well into operation,? he adds. ?But ideally we would still like to maintain a share that is enough to give us substantial influence, because Bilfinger looks at these projects not only as long term investments but also as long term opportunities to provide services, whether we do the facility management ourselves, or where we may do additional planning services that are bound to arise in a project over a thirty year period.?

?A certain relationship develops over that period with the trust or the council or the authority, or whoever your ultimate client is, and they are bound to come and say we would like to expand or modify the facility, so we see the chance for new opportunities arising out of this. We would like to retain these opportunities long term, so may be interested in selling part of the investment stake, if we can sell it with a financial upside, and without losing control.?

Germany

In its home market Bilfinger Berger BOT has started construction on only one project to date, the Herrentunnel in Luebeck, where Bilfinger and Hochtief each have a 50% stake. Bilfinger BOT also built and runs the British Embassy in Berlin, but that counts as a British PFI project.

The slow progress of PFI in Germany has come as a disappointment to many BOT players and project lenders, but there are some signs that all the talk is at last about to translate into dealflow, mainly in the toll road sector. This is because the budgetary situation is fairly strained in Germany nowadays, a position which is set to worsen as the economy slows down.

From 2003 there are plans for electronic motorway tolls for trucks weighing more than 12 tonnes, and part of this income is going to be earmarked for private motorway expansion and widening projects. And there are also more roads and tunnels planned where a physical toll is envisaged, following on from the two pilot projects in Germany, the Herrentunnel in Luebeck and the Warnow Crossing in Rostock.

But that is being done at the Federal level, and with regard to schools and hospitals, the system is very decentralised, with each land government running its own system, and the PFI argument does not seem to be making much headway.

?Germany is obviously an area of focus because our head office is in Germany, but it is still a relatively limited market,? says Becher. ?We have spent a lot of time and effort to try and convince politicians to create something like the British Task Force to establish some guidelines on the federal level.?

This has met with limited success, though there are some hopeful signs, such as in the land government of North Rhine Westphalia, which is currently looking at some pilot schemes.

So for the moment Bilfinger BOT executives are more likely to have to travel to the UK to work on projects, or go from Wiesbaden to nearby Frankfurt Airport for the nineteen hour flight down to Sydney.

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