

Abertis – high prices, deep pockets

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It's the biggest infrastructure deal in the market, the one everyone's talking about – two giants of the European infra community slugging it out to acquire Spanish toll road operator Abertis... but it's a deal that has more than a few wondering what the hell's going on.

As it stands, we have German construction heavyweight Hochtief – with the full might of parent ACS behind it – taking the bidding to a new high with the offer of €17.1 billion for Abertis, going toe-to-toe with Italian roads and airport operator Atlantia.

So, what's the problem? S&P gives the deal a cheery thumbs up and JP Morgan's underwriting the debt for Hochtief, sounds about as cast iron and copper bottomed as you could get.

Yeah well, it's at times like these when the infra chattering classes are bumping their gums about what a good deal it is that you really need to start kicking wheels and peering a bit closer under the bonnet.

Abertis – it's clearly a fantastic company. Should Hochtief and Atlantia be bidding for it? Absolutely. Madness not to. Is it worth €17.1 billion? Well... that's a lot of money. That's an awful lot of money. So, what are you getting for that very large ticket? Time to take a look at the underlying assets and business activity.

The target describes itself as an “international market leader in the management of toll roads” and it manages some 8,600km of roads in 14 countries across Europe, the Americas and Asia (see below for a run-down of its international asset base).

However, it also owns a 34% stake in Cellnex Telecom (wireless telecoms infrastructure company) and following an incremental acquisition signed in May 2017 should own 90.74% of Hispasat (a satellite operator) once the deal is approved.

Now let's take a closer look at some of those road concessions...

Kicking the tyres...

How long are these concessions? Some, it would appear are worryingly close to termination, the Spanish ones being the most concerning.

The AP-6 toll road between Villalba and Adanero that was granted in 1968 expires on 29 January 2018. Yes, that's next year folks. Heck, that's a couple of months off.

That is followed by Brazil's SP-334, SP-255, SP-330, SP-318 and SP-345 toll roads that connect the municipalities of Franca, Batatais, Ribeirao Preto, Sao Carlos and Santa Rita do Passa Quatro. That signed in 1997 and was extended by six months in 2014. This concession expires in May 2019.

At the end of 2019 – 31 December – the concession agreement for Spain's AP-7 (Tarragona-Valencia and Valencia-Alicante) and the AP-4 (Seville-Cadiz) comes to an end.

Getting a little more distant – but really not that far off – we have two Spanish concessions that terminate on 31 August 2021:

- AP-7 and AP-2 toll roads between la Jonquera and Vilaseca/Salou that was granted in 1967
- C-32, C-31 and C-33 toll roads in the Maresme corridor of Catalonia that also was granted in 1967

Again further off, a further two concessions – one in Spain and the other in Italy – expire at the end of 2026:

- the Bilbao to Zaragoza stretch of the Ebro toll road (AP-68) expires 11 November 2026
- A4 between Brescia and Padova and the A31 (Vicenza-Piovene Rocchetta and Vicenza-Badia Polesine) in Italy that was extended in 2016 to run until 31 December 2026

And then there is Sanef in France that definitely warrants singling out as one of the jewels in the Abertis crown. Sanef – as you will recall – was

won by Abertis at the [end of 2005](#) and saw 1,743km of French motorways handed over to the Spanish toll road operator in March 2006. Since then, Abertis has grown its stake to 100%, becoming whole owner of equity in [April 2017](#).

Abertis negotiated a two-year extension for Sanef that involved an investment programme of around €330 million and it is now due to expire on 31 December 2031.

To be even-handed, it is only fair to point out that Abertis has a good number of long concessions on its books. A particularly good example of this is the Spanish concession for the Leon-Astorga toll road that was granted in 2000 and expires in March 2055.

Another good, long concession is for the Vallvidrera and Cadi real toll tunnels that runs until 31 December 2037. There's a good few more with lengthy concessions, but you can go to the Abertis website yourself and dig that all out.

Back to the story and what it's all about...

Lifting the bonnet...

Now to lift the bonnet – or the hood if you prefer – and take a look at that engine.

Looking at the finances of Abertis, it's in pretty good shape and a bid of €17.1 billion is not a crazy multiple:

- EBITDA for the first three quarters of 2017 – €2.75 billion
- revenue for first three quarters – €4.19 billion
- net profit for first three quarters – €735 million
- net debt was €15.43 billion at end of Q3

Finances for full-year 2016:

- EBITDA – €3.24 billion
- Revenue – €4.94 billion
- Net profit – €796 million

First thing to reiterate, Abertis is an excellent company and it's entirely reasonable that two organisations aggressively compete for a stellar infrastructure player with a global footprint, but...

Let's face it, Abertis is a concessions business and the value of the company is centred on the duration of these agreements, but with most of them gone within the next 15 years – some of the largest disappearing in the next two – you have to question the amount that is being bid.

Coming back to Sanef for a moment – expiring (mostly) end 2031 – an awful lot of assumptions seem to be being made on this concession. It has already been extended and, under EU law, it has to be retendered. If Abertis (whoever ends up owning it) wins the concession it will have to buy that. It feels, reading through the Abertis documents, like this nugget of information seems to be quietly forgotten.

As one senior banking source says: "We are doing a detailed exercise on Abertis and we find that about 20% of their EBITDA is gone within four years, about 30% within seven years and about 90% within about 15-16 years.

"Theoretically, some of those may pick up extensions. Some of them are in places like Brazil and Chile, but you will have to pay for that. All they say is that the net present value of synergies – from putting Hochtief and Abertis together – is estimated in the range of €6-8 billion.

"How do they generate that? According to their documents, they generate that by obtaining a significantly larger share of the expanding PPP investment opportunities in the high-growth North American and Australian markets, as well as Europe."

This document points to a pipeline of €200 billion worth of identified projects from 2018 to 2021. Unless we are reading it wrong, the entire business case is built on that statement.

Now the first thing we need to take into account is that these projects never move at the pace we hope they will achieve. Secondly, you've got to win them... and there's stiff competition out there. And third, even if you win them, you've got to pay for them.

But then there's brownfield, but that's going to be tough. In developed markets like North America you are up against the likes of IFM and pension funds with lower cost of capital which wipe the floor with such contenders.

In greenfield, to replace – say – €1 billion of EBITDA should you lose 20% in the next four years, you need to win a whole bunch of projects and

you need them to come on pretty damn fast. Two things we don't often see.

And that's not all, as another senior lender with a strong Americas flavour says: "I was asking the team – who are the guys you most frequently see bidding when these big projects come up in Latin America and North America? Their reply was immediate: Ferrovial and ACS.

"ACS is Hochtief's parent and if Hochtief / Abertis are going to compete with ACS, they're just going to be cannibalising the parent. I assume that ACS has a highly-optimistic forecast going forward, telling people they will win all these deals... but they can't both be doing it."

A good target

I cannot repeat this often enough (especially for the lawyers) Abertis is an excellent organisation and would fit very nicely alongside Hochtief, especially given the German company's greenfield focus, allowing it to act as a feeder and passing on operations roles to the Spanish target. It would equally be a good buy for Atlantia.

As they say in their documents: "The combined company will be able to generate value throughout the entire infrastructure project life cycle. This will draw on Hochtief's global standing as a top-tier global infrastructure group and leading greenfield PPP concessions developer, as well as Abertis' position as the leading infrastructure manager operating a diversified brownfield concessions portfolio with strong O&M credentials."

It goes on: "Building on Hochtief's strong geographic footprint and significant expertise in high-growth infrastructure projects in developed markets, the combined group's strong existing cash generation – FY 2016 combined EBITDA €4.3 billion – will enable substantially increased investments in greenfield PPP projects."

Ach well, that'll be fine then...

Abertis road assets

As its home country, Spain is obviously the jewel in Abertis' crown and through its subsidiary – Autopistas – it manages 1,559km of toll roads, more than 60% of the nation's tolled network. It also holds a minority stake in other toll road concessions which account for 200km.

Spain

- Acesa: 479km of roads on the AP-7 and AP-2 in the Barcelona area
- Invicat: 66km on the C-31 / C-32 and C-33 near Barcelona
- Aumar: 468km AP-7 from Tarragona to Alicante and the AP-4 Seville-Cádiz
- Avasa: 294km AP-68 Bilbao-Saragossa
- Iberpistas: 70km AP-6 Villalba-Adanero
- Aucat: 47km C-32 Castelldefels-Sitges-El Vendrell
- Castellana: 51km AP-51 Villacastín-Ávila
- Aulesa: 38km AP-71 León-Astorga
- Trados 45: 14km M-45 Stake II
- Accesos de Madrid: 61km R-5 Madrid-Navalcarnero and R-3 Madrid Arganda
- Túneles: 41km – Vallvidrera and Cadi tunnels
- Henarsa: 62km R-2 Madrid-Guadalajara
- Ciralsa: 33km Alicante by-pass
- Autema: 48km C-16 Sant Cugat-Terrasa-Manresa

France

Perhaps the best asset that Abertis has on its books is SANEF – Societe des Autoroutes du Nord et de l'Est de la France – which amounts to 1,743km of roads. The privatisation closed in March 2006 and Abertis has grown its stake in recent times and in April had built up to 100%.

<https://ijglobal.com/articles/106045/abertis-signs-deal-for-100-ownership-of-sanef>

- Sanef: the 1,388km privatised road package
- Sapn: 372km in the Paris area

- Alis: 125km A-28 Rouen-Alençon
- A'liénor: 150km
- A-65: Langon-Pau

Italy

Abertis in Q3 2016 acquired 51.4% in the Italian motorways investment vehicle [A4 Holding](#) from Intesa Sanpaolo, Astaldi and Tabbachi family. Among a host of other assets, A4 owns 100% of the Autostrada Brescia Verona Vicenza Padua concession company that operates the A4 from Brescia to Padua and the A31 Valdestico through a concession with ANAS.

- A4 Holding: 235km A4: Brescia-Padova and A31: Piovene Rocchette-Badia Polesine

Ireland

Since 2008, Abertis' toll technology subsidiary Emovis has been managing the free-flow toll system on the M-50 Ring-Road to the west of Dublin which has an average daily intensity of 120,000 vehicles. The M-50 is integrated within the Interoperability Management Services Provider, a network of interoperable electronic toll payment systems on several toll roads in Ireland, which is also managed by Emovis.

The UK

Abertis has a 33.3% stake in RMG, the holder of the concessions for the A1-M and A419/417 toll roads (74km). It opened an office in Leeds in 2014 to HQ Emovis. It manage toll systems on the Dartford Crossing which deals with traffic flows of more than 135,000 vehicles per day. The system, went operational in December 2014.

Croatia

Again, this is a market where Abertis has relied on Emovis to serve as its flag bearer. It has been based in Split since the early 2000s where it has a "centre for R&D" and it works on manual and automatic toll systems. It is currently working for Croatia Highway on database renewal, replacement of 72 servers and creation of a new computer system for automatic vehicles detection.

Americas

In the Americas, Abertis has clearly focused its efforts on toll roads across LatAm and has relied on the US and Canada to drive the adoption of its tolling tech solution through subsidiary Emovis.

Brazil

Working through its subsidiary Arteris, it is Brazil's largest toll road operator with nine concessions amounting to 3,250km, which equates to 17% market share of the nation's tolled network:

- Autovias: 317km Ribeirão Preto a Araraquara; São Carlos, Brodowski, Batatais; Franca e Santa Rita do Passa Quatro
- Centrovias: 218km SP 310: São Carlos-Cordeirópolis and SP 225: Itirapina-Jaú-Bauru
- Intervias: 373km Autopista Monsenhor Clodoaldo de Paiva/ Engenheiro João/ Deputado Laércio Corte, Anel Viário Prefeito Jamil Bacar, Autopista Gilberto Sila Telles, Autopista Wilson Finardi, Autopista Vicente Botta, Autopista Doutor Paulo, Via Anhanguera, Autopista Comendador Virgolino de Oliveira
- Vianorte: 237km Via Anhanguera, Autopista Attilio Balbo, Autopista Armando de Salles Oliveira, Anel Viário Norte-Sul de Ribeirão Preto, Avenida Bandeirantes
- Fernão Dias: 562km São Paulo-Belo Horizonte
- Fluminense: 320km Rio de Janeiro-Espírito Santo
- Régis Bittencourt: 402km Curitiba-São Paulo
- Litoral Sul: 382km Palhoça/Florianópolis-Curitiba/Quatro Barras
- Planalto Sul: 413km Capao Alto-Curitiba

Chile

Through its subsidiary VíasChile, Abertis is the largest toll road operator by volume, managing more than 770km. VíasChile has been operating in Chile since the middle of the last decade and it manages five interurban roads, three of which connect Santiago with the Fifth Region and the main ports.

- Elqui: 219km Los Vilos-La Serena
- Rutas del pacífico: 141km Santiago de Chile- Valparaíso- Viña del Mar
- Autopistas del sol: 133km Santiago de Chile- San Antonio
- Autopista de los andes: 92km Los Andes-Ruta 5 Norte
- Autopista de los libertadores: 116km Santiago-Colina-Los Andes
- Autopista Central: 60km Eje Norte-Sur and Eje General Velásquez

Puerto Rico

A key player in the toll road sector in the country through local subsidiary Metropistas, it operates the island's busiest toll road (the 88km PR-22 San Juan-Hatillo) and the PR-5 which crosses San Juan metropolitan area to the business centre of Bayamón.

It also owns 100% of Autopistas de Puerto Rico (APR) which manages the 2km Teodoro Moscoso Bridge upon the San José Lagoon that connects San Juan to Isla Verde.

Argentina

In Argentina Abertis manages two of the main arterials leading into Buenos Aires. It operates through two companies Grupo Concesionario del Oeste (GCO) and Ausol and has a total of 177km.

- GCO: 56km Buenos Aires-Luján
- Ausol: 119km Autopista Panamericana and Autopista General Paz

Colombia

In Colombia, Abertis holds a 40% stake in Coviandes – concessionaire on the 86km road linking Santa Fe de Bogotá with Villavicencio. This is a strategic road axis connecting the plains of the Amazon rainforest with the capital and the north of the country.

The US

Having had offices in the US since 2006, Abertis has not been so active in this market. However, its toll tech subsidiary Emovis installed and maintains the Newport Pell Bridge toll system in Rhode Island. This is a mixed system of traditional toll and no-barrier, free-flow toll charges to improve traffic flow of more than 35,000 vehicles per day.

Canada

Again – much like the US – not an active market for Abertis. It has been on the ground since 2014 with toll tech subsidiary Emovis and won the contract for the Blue Water Bridge Canada (BWBC) tolling system. This bridge spans the border between Ontario and Michigan and sees traffic flows of 10,000 per day.

Emovis also holds the concessions for managing electronic toll collection on other two bridges in Vancouver, British Columbia:

- Golden Ears Bridge
- Port Mann Bridge, the largest North American toll bridge, which handles more than 110,000 vehicles per day

Rest of world

India

Abertis owns assets in Tamil Nadu and Telangana:

- 100% of the concessionaire Trichy Tollway Private Limited (TTPL) which manages the 94km NH-45 in Tamil Nadu, south India
- 74% of Jadcherla Expressways Private Limited (JEPL), which holds the concession for the 58km NH-44, the main north-south corridor connecting India's two main technology hubs, Hyderabad and Bangalore. The road also runs through a industrialised and commercial area where India's mining sector has a large footprint

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