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# Boats, planes and trains return to fashion

By Robert Wright, Transport Correspondent
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When shareholders in Eurotunnel lost nearly half the company to creditors in a restructuring eight years ago, it would have taken a bold person to predict that investors would one daybe fighting over transport infrastructure.



The project to build the Channel tunnel was one of the world's first privately funded large transport infrastructure projects. It threw up most of the problems associated with owning structures for people to drive on, run trains on, dock ships in or land planes on.

Its revenues were unpredictable and fixed costs were high. Building costs had overrun. The project was vulnerable to the vagaries of government decision-making and, after an initial bedding-in, growth was slow.

Yet, the past few months have highlighted a transformation in that gloomy view of transport infrastructure investment.

Last week saw the endof an acrimonious battle between Spain's Ferrovial and Goldman Sachs, the US investment bank, for BAA, the British airports operator.

In Australia, the year has seen a prolonged bidding campaign by Toll Holdings, the logistics company, for Patrick, one of the country's container port operators.

In February, it emerged that a Goldman-led consortium had tried to buy London & Continental Railways, builder of the high-speed Channel tunnel rail link.

This week, the latest bidding battle in the sector was joined when consortia led by Goldman and Australia's Macquarie announced competing bids for Associated British Ports, now the third British port operator in a year to face a contested bid.

Yesterday, Montauban of Belgium bid £95.3m for Simon Group, owner of the Humber Sea Terminal and Port Sutton bridge on the Wash.

Perhaps most emblematically, investors have grown interested again in Eurotunnel, with both Goldman and Macquarie intending to finance part of the Franco-British company's latest restructuring in a deal that could leave them with a large stake.

Analysts question whether the new vogue is justified by real changes in the investment climate or the opportunities available. There are questions about whether the level of interest is driving investors to overpay.

Goldman's ABP offer represents a 55 per cent premium to the average share price over the 12 months before ABP went into play and an enterprise value equivalent to 14 times prospective earnings before interest, tax, depreciation and amortisation. (ebitda).

DP World bought P&O for a 70 per cent premium, or a enterprise value equivalent to 13 times prospective ebitda.

Arthur Rakowski, Macquarie's executive director in charge of raising its European infrastructure funds, says both the supply and demand sides of investment in the sector have seen changes in recent years.

The supply side - the number of projects available to private investors - has been boosted by the constraints on many countries' public budgets.

"There is a clear requirement for governments atall levels to provide an improved level of services, whereas the ability to finance those new servicesis increasingly limited by various fiscal and other budgetary constraints," Mr Rakowski says.

Investment demand from investors for infrastructure investments has been driven by institutional and sometimes retail investors' desire to diversify from equities and bonds into an area providing decent but stable returns. For bidders, such predictable, asset-backed returns help deals to be funded with large amounts of debt.

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"Infrastructure does have a very positive profile in terms of its risk-return profile," Mr Rakowski says. "It has a long duration. It makes a lot of sense for a pension fund that has a 60-year liability profile to have an asset that has a long duration as well."

The predictability of investments in not only transport but other forms of infrastructure, such as electricity and gas distribution systems, may have improved, according to Jonathan Sellar, chief financial officer for Babcock & Brown Infrastructure, an Australian fund.

BBI won the bidding battle last year for Britain's PD Ports, owner of the ports of Teesport and Hartlepool.

Mr Sellar says regulatory regimes have grown more sophisticated and more reliable in recent years. The UK's strong legal and regulatory protection have made itparticularly attractive.

Meanwhile, Bent Flyvberg, professor of planning atDenmark's Aalborg University, says private investors' involvement has meant traffic forecasts and construction cost estimates have improved. In the past, governments were often misled by planners who overstated benefits and understated costs in the hope of getting pet projects built.

"Investors and banks do not trust the [public sector] promoters' projections on costs and revenues," he says. "They hire their own independent consultants."

Investors' attitudes also depend on whether the infrastructure is being built - and consequently carries large construction cost and revenue risks - or has an established record and is being refinanced or privatised.

The attractions of buying built transport infrastructure, together with the financial terms they are proposing, explain Goldman and Macquarie's interest in Eurotunnel, despite its disappointing record with its existing owners.

Yet, history suggests some caution is advisable.

"Where there is increasing competition, I have no doubt that there will be cases where people will overpay," says Mr Rakowski. "All I can say is hopefully everyone is disciplined about it."

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