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Transfield - Transfield Ferrovial's stepping stone to **China**

Ferrovial chief executive Inigo Meiras has revealed the Spanish **company's** \$1 **billion** takeover bid for Transfield Services is part of a bigger strategy to give the infrastructure group exposure to the **Chinese** economy as European growth stagnates.

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In an exclusive interview with Fairfax Media at Ferrovial's headquarters in Madrid before the takeover bid, Mr Meiras said he was targeting expansion in Australia because he believed the country would benefit from long-term growth in the **Chinese** economy.

"It's not just about Australia, it's the right platform to get some exposure to the **Chinese** boom," he said.

Ferrovial is following Spain's biggest construction **company**, Grupo ACS, into the Australian market as Spanish companies, which have highly sophisticated infrastructure businesses, shift their attention to Australia after expanding to other parts of the world.

Transfield said it was willing to give Ferrovial access to its books for "limited due diligence on a non-exclusive basis" after rejecting a bid priced at \$1.95 per share.

"Transfield Services will advise shareholders of the outcome of the discussions with Ferrovial as soon as practicable. The process may take some time and there can be no certainty that an acceptable proposal will eventuate," the **company** said on Monday.

Ferrovial, which has previously held stakes in Sydney Airport, has only recently established a formal presence in Australia after its subsidiary Cintra, which specialises in transport infrastructure including toll roads, teamed up with REST Industry Super to establish an office and target public-private partnerships.

Ferrovial is upgrading part of the Pacific Highway in partnership with another infrastructure group, Acciona, and undertakes road maintenance contracts in partnership with Leighton Holdings in Sydney and Brisbane.

But it has missed out on Australia's biggest projects, and was part of one of the unsuccessful consortiums that tendered for Melbourne's East West Link project.

Ferrovial's biggest markets to date have been Spain, Britain, the US, Canada and Poland, but the **company**, which was founded in 1952 and counts the Guggenheim Museum in Bilbao among its glory projects, is focusing its attention on Australia.

Acquiring Transfield Services, which was part of Ferrovial's consortium on the East West Link, would help the **company** compete for big infrastructure projects, and also give it valuable contacts and experience in the Australian market.

Citigroup analyst Richard Johnson said Ferrovial's bid reflected the **company's** need to build a local platform to "more fully exploit infrastructure opportunities" as governments become more open to foreign competition.

Construction companies from Spain, Korea, Italy, Austria and South Africa are represented in competing consortiums for the second stage of Sydney's \$11.5 **billion** WestConnex motorway project.

Spanish analysts say the Ferrovial offer for Transfield is reasonable and say the Spanish **company** has plenty of cash on hand should it need to increase its offer.

"With €1.6 **billion** [\$2.3 **billion**] in cash available to grow, a move of this sort was very likely," said Pablo Ortiz, an analyst at Spanish **equity** research group Interdin. "Ferrovial has been piling up cash for a long time and it was time to use it."

Ferrovial, like other foreign construction and infrastructure companies, has struggled with some of the complexities of Australia's tendering processes, which are more time-consuming and more expensive than similar processes in Europe.

"The procurement processes in infrastructure projects could be improved," Cintra chief executive Enrique Diaz-Rato said.

Ferrovial and Cintra prefer to tackle complex projects where they can design, build and operate infrastructure, believing this is also the most cost-effective option for governments.

The Ferrovial consortium spent about \$30 **million** putting together its bid for East West Link, although it will get about half of that back from the Victorian government.

In other countries, Ferrovial and Cintra typically only spend between \$5 **million** and \$10 **million** on bids.

European tender processes are also typically shorter at about 90 days, with companies asked first to pre-qualify and then put in a final bid, and give construction more leeway to develop their own project designs.

European companies also find arranging financing for infrastructure tenders difficult in Australia due to our small bond markets, which only offer short-term debt financing. "The other big challenge is financing for privately developed infrastructure - there is no long-term bond market, Mr Diaz-Rato said.

But while the Cintra boss acknowledged it had been "painful to lose" in the East West Link tender process, he said the **company** had built a good relationship with Australian authorities and the proposed motorway made "perfect sense". "This is the sort of project that needs to be done."

Ferrovial expects to get feedback on its East West Link bid from Victorian authorities late this month.

Acciona, which was part of the winning consortium for East West Link in a consortium with Lend Lease, also believes that while Australian governments are keen to attract foreign companies to build projects, they would attract more bidders for projects if they simplified the tendering processes.

"To bid is very expensive," said Luis Castilla, Acciona's president of infrastructure, water and services. "Clients want high quality in the bids."

Stipends from governments to contractors to assist them in bidding costs were "absolutely necessary," he said. "The message is that they need to continue supporting us financially to maintain the bids.

"When you make a decision to follow a [bidding] opportunity, you need to think twice, because the level of resources and the amount of money you spend is serious."

East West Link is Acciona's biggest project in Australia to date and Mr Castilla said the **company** would use its tunnelling experience to deliver "a fantastic project" for the community.

Acciona has built many of Spain's road tunnels, including a 10-kilometre tunnel under the centre of Madrid.

Acciona, which is targeting construction, water and renewable-**energy** projects in Australia, plans to use the country as a base to develop its business in New Zealand and south-east Asia.

CO traser : Transfield Services Limited | frvl : Ferrovial SA

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