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HD **Spanish hunt for conquests**
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Takeovers - 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 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 ahead of 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 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 knocking back a bid priced at \$1.95 a 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 open an office and target public-private partnerships.

Ferrovial is upgrading part of the east coast's 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 now focusing its attention on Australia.

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

Transfield Services has rejected Ferrovial's bid of \$1.95 a share but Spanish analysts argue the offer is reasonable and point out 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 the complexities of Australia's tendering processes, which are more time-consuming and expensive than similar processes in Europe.

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

"Specify what you need and ask for efficient solutions," he said. "The more you define, the less room you leave for improvement."

Ferrovial and Cintra prefer big, complex infrastructure projects they can design, build and operate, 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 that back from the Victorian government.

In other countries, Ferrovial and Cintra typically spend only 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. They also give companies more leeway to develop their own project designs. European companies also find it difficult to arrange financing for infrastructure tenders 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 in late October.

Acciona, which was part of the winning consortium with Lend Lease for East West Link, 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", Mr Castilla said. "The message is 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.

"Our intention is to have the high-level, senior financial, legal, human resources people based in Australia delivering support to other countries in region," Mr Castilla said.

CO frvl : Ferrovial SA

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