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HD **China** exposure key to \$1b bid

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Madrid Ferrovial chief executive Iñigo Meirás 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.

In an exclusive interview with The Australian Financial Review at Ferrovial's headquarters in Madrid ahead of the Spanish **company's** takeover bid, Mr Meirás said he was targeting expansion in Australia because he believed the country would benefit from long-term growth in the **Chinese** economy.

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

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 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, to date, 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, the UK, 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. Infrastructure opportunities

Richard Johnson, analyst at Citigroup, 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, South Korea, Italy, Austria and South Africa are represented in competing consortiums for the second stage of Sydney's \$11.5 **billion** WestConnex motorway project. Ferrovial believes offer is 'reasonable'

Transfield Services has rejected Ferrovial's bid of \$1.95 per share but Spanish analysts argue that the offer is reasonable and point out the Spanish **company** has plenty of cash on hand to negotiate with 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, 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," said Enrique Diaz-Rato, the CEO of Cintra.

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

Ferrovial and Cintra prefer to tackle big, complex projects where they can design, build and operate infrastructure, believing that this is also the most cost effective option for governments. The Ferrovial consortium spent around \$30 **million** putting together its bid for East West Link.

Although the consortium will get around half of the \$30 **million** back from the Victorian government, it has lost around \$15 **million**.

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

European tender processes are also typically shorter at around 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 the country's 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. Tender loss 'painful'

But while the Cintra CEO acknowledged that it had been "painful to lose" in the East West Link tender process, he said that the **company** had built a good relationship with Australian authorities and that 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. 'To bid is very expensive'

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 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 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.

The construction **company**, 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 the region," Mr Castilla said.

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