The Spanish infra piñata

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For those of you with a good number of infrastructure years under the belt, today's announcement that Spain is launching a €5 billion roads investment plan will likely induce PTSD flash-backs.

The Spanish infrastructure market – from motorways to wind farms – has long been viewed as a proverbial curate's egg… good in parts, but everyone choked on the beak.

So here we stand, basking in the announcement of a €5bn programme of infrastructure investments – all of it on road projects – and it feels like the answer to everyone's prayers.

Now that the Dutch and Belgian markets have pretty much dried up, everyone has been casting around for the next big thing… and here we have one – from the extreme leftfield.

Casting a casual eye around the European infra theatre, there is lively interest in Norwegian, French and German roads, but beyond that there is just a smattering of piddling projects here, there and pretty much nowhere.

A dream come true?

This very day – Friday 14 July (oh so close) – Spanish prime minister Mariano Rajoy announced that he was embarking on a major roads programme, sparking immediate interest across the European infra community.

Rajoy today launched a macro investment plan for roads that will rely on project finance and no small amount of support from the ever-generous EIB.

Speaking a couple of hours ago, Rajoy revealed minimal detail on the programme, but said it would involve the construction of new roads as well as improvement works to existing routes to complete the network and ease bottlenecks, as well as improving and adapting routes to meet regulatory restrictions.

In total, this will involve the delivery of 2,000km of roads, starting an ambitious four-year programme this year (2017) that will run to 2021. It had been expected that the announcement would include rail projects, but that is not the case.

There is good news – a fillip to the lenders – Spain will be procuring these projects on an availability basis, and (no surprise here) relying on the EIB to cough up half the cash.

Further detail will emerge in coming weeks as Rajoy made a fairly brief announcement and declined to field any questions to a construction, lending and advisory sector that is hungry for opportunity.

Tempering enthusiasm

The immediate high achieved on this news is however tempered by past experience with the renewable energy subsidy crisis.

The last five years have seen monumental legal battles fought over retro-active changes to incentives for renewables projects enacted in 2012. These effectively killed off the market until earlier this year when it finally started to show signs of recovery.

While we don't need to trawl through this well-documented debate, this political volte-face left everyone from utilities to lenders with their fingers burnt, projects failing and others left unbankable.

In one fell swoop, slashing Spanish support mechanisms killed off regulatory confidence in the market and drove the national utilities abroad to seek opportunities. The road builders had long-since shifted their focus elsewhere.

However, in this project-starved world where there is more lending capacity than ever before and enough dry powder in the infra funds to make Guy Fawkes blanche… will the infrastructure community heed the government health warning that comes with all things Spanish?

Talking today to a few chums in the lending community, there was a guarded response that thinly veiled their desperation to get stuck in, no matter what.

With so few opportunities in the market, it comes as no surprise that the Goldilocks Effect is being entirely ignored. Frankly, they'll guzzle down that porridge whether it be scalding hot or set like concrete.

But there are some caveats.

Caveat emptor

As an opening gambit, a lot of banks will have to review their credit limits for Spain, but news that there will be no toll risk is welcome. As you would expect from any banker worth his/her salt, they will need to know about mitigants and tenors.

There was an instant desire to see insurance to cover exposure and – yes, you saw it coming – they should involve shorter tenors than your typical PPP would see. You could almost hear hands being rubbed together at the notion of 15 years on an availability-based motorway.

"If they want to go out to the international market, they will need to be willing to have less stretched structures," says one lender.

While that's all fair and good, the level of competition among lenders – bank, bond and institutional – will likely knock those hopes into a cocked hat. Tenors will be pushed out and pricing driven down.

"If the tenor gets stretched out a long way, it might just be left to the Spanish banks," says one project finance banker. "In the international banking market, there is still some concern about taking excessive tenor in the likes of Spain, Portugal and Greece. It's not fully back to pre-crisis… but then, perhaps Spain is going to test that."

And then – quietly ignoring the whole renewable energy debacle – you have the on-going issue of the nine toll roads that went bankrupt as a result of the financial crisis which the ministry of development hopes to re-tender next year (2018).

The lenders to these projects are still fighting with the state to stop it writing off the debt and return them to public ownership.

Spain's public audit office – Tribunal de Cuentas – estimates Spain will have to pay €3.7 million to the concession holders. As to the lenders, the government has offered the banks a deal that involves writing off 50% of the €3.8 billion in debt… which (funnily enough) was rejected.

"If they imposed a lot of losses on to the banks due to the earlier roads deals being defaulted, why then would banks go back and do more business there?" says another infra lender. "If they want to attract a lot of banks in – and it looks like they will need them – they would first have to pay out on these projects and not park these losses on them."

The best policy – as far as the banks are concerned… and indeed if Spain wants to field a good number of lenders on these transactions – would be to go for voluntary termination, full pay-out of the debt and swap break, and then start from scratch.

But we are getting ahead of ourselves. The programme was announced today and the first project has yet to appear on the EU's official journal… and we all know how long that takes.

While Rajoy bangs on about a four-year spree of road investments, the reality will give us all a few more grey hairs and… let's call them laughter lines.