FCC: Bids and brinkmanship

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A little over three years ago, Juan Bejar, then the chief executive officer of GlobalVia, outlined plans to bring outside equity into the road, rail and airport operator. That sale went through in October 2011, in the shape of a Eu400 million ($530 million convertible loan investment from PGGM and OPTrust

Today, Bejar is chief executive of GlobalVias part-owner, FCC, and overseeing a much larger programme of asset disposals. FCC plans to use the proceeds to pay down corporate debt and also plans to refinance that debt by the fourth quarter of this year. It is also rebranding itself as an urban services provider.

FCC, which has interests spanning construction services, water, transport and energy, is feeling the effects of the eurozone crisis, and economic weakness in its core European markets.

The weakness of FCCs home market Spain has affected FCCs toll and availability road concessions business, general construction activity, and its energy interests. Restructurings of GlobalVias interests in the radiales sections of road around Madrid, and FCCs Spanish power assets, are in the works.

But northern Europe has presented some opportunities. On 28 May 2013, the Belgian Buildings Agency named the Cafasso consortium, led by Denys, Macquarie and GlobalVia, and with FCC as one of its contractors, preferred bidder on the Eu350 million Haren prison PPP.

In late May, the Merseylink consortium, comprising Macquarie Capital, FCC and Bilfinger Project Investments, emerged as favourite on the Mersey Gateway bridge project. Halton Borough Council, the projects grantor, confirmed the £600 million award in June. FCC, together with Kier and Samsung, will be the construction contractor for the bridge, while the project company will be remunerated with availability payments.

There has been some speculation that Mersey Gateway will be partly financed with a bond issue that benefits from the UK Guarantees for infrastructure enhancement, though the projects total financing requirement will depend on how much upfront funding the local council can extract from central government. Government will levy tolls on the bridge, as well as an existing crossing, using the proceeds of tolls to pay availability payments.

What little has emerged about the financing of the Mersey bridge highlights two important features of the changed market in which it now operates: Concessions feature much less revenue risk, but their financing requires a greater amount of support from construction contractors. The first development probably cannot come a moment too soon for FCCs lenders, while the second will be a consideration, though a small one, during FCCs refinancing.

FCCs strategic plan involves reducing its net debt from Eu7.1 billion to Eu5.2 billion, mostly through Eu1.4 billion in asset sales, but also through diverting more cash from operations towards debt repayment. FCC plans to reduce operating expenses and focus on core markets, including services and water. Its disposal programme, according to Bejar, is 40% complete.

Emerging ex-filtration?

Several of FCCs divestments, however, have been in the water sector. In late June, FCC sold control of the Proactiva water business, which operates in Latin America, for Eu150 million, and in early July it sold 49% of the Severomoravské vodvody a kanalizace Ostrava (SmVaK) water concessions business in the Czech Republic, to Mitsui for Eu97 million.

FCC had proposed in May 2012 to sell a minority stake in the emerging markets water business of Aqualia, its water subsidiary, to the International Finance Corporation. The business would have included five facilities: the 200,000 cubic-metre-per-day (cmpd) Mostaganem and 100,000 cmpd Cap Djinet desalination projects in Algeria, the 250,000 cmpd New Cairo wastewater plant in Egypt, and the 129,000 cmpd Queretaro and 86,400 cmpd El Realito aqueducts in Mexico.

According to Bejar, any Aqualia sale is not under consideration. But the sale to the IFC would have netted $50 million, and would have reduced FCCs exposure to some volatile emerging markets. The IFC, thanks to its influential parent, the World Bank Group, would have been one of the few buyers with low sensitivity to the political risks inherent in Algeria, Egypt and Mexico.

But Egypt, once the most promising project finance markets in the region, now looks like a very long-term prospect. Since the countrys 2011 revolution, progress has been fitful, and international and local lender confidence in the market waned as Islamist political influence waxed. Military pressure was key to bringing the $3.7 billion Egyptian Refining Company financing to close in June 2012, and business sentiment has improved since the military ended the Muslim Brotherhood-led administration.

The Orascom and Aqualia joint venture that closed on the E£786 million ($112 million) New Cairo in 2010 established a viable financing structure for the water sector, though the debts 15-year tenor will be hard to match in todays climate.

The two sponsors, again in a joint venture, are among the four groups bidding for the much larger E£5.5 billion Abu Rawash waste water plant, alongside Kharafi National, Degremont and Metito/PWT/Hochtief. The 20-year upgrade, maintain and operate concession in theory has committed financing in place from National Bank of Egypt, Commercial International Bank and Banque Misr, and the Egyptian government has reaffirmed its commitment to the project. If the project size proves too large for local lenders to digest, Abu Rawash will struggle to attract foreign lenders.

Muddling in mature markets

FCCs timing of its other disposals has been a little more fortunate. Demand from infrastructure funds for mature operational infrastructure concessions in stable markets with minimal demand risk is strong. In May, FCC sold a 39% equity and loan note interest in the Enniskillen hospital PFI to HICL Infrastructure Company.

The most important remaining component in the sale is the complete divestment of GlobalVia, which FCC and GlobalVias other large shareholder, Bankia, are pursuing jointly. FCC and Bankia have already carved out the struggling or non-core assets from the main GlobalVia portfolio in advance of the convertible investment, effectively creating a Good GlobalVia and Bad GlobalVia.

The Good GlobalVia assets, held in GlobalVia Inversiones, include its road concessions in Chile, Ireland, Costa Rica and Portugal, one of its two Mexican assets, and its performing Spanish road and rail concessions. These assets will be offered as a portfolio, and should attract solid interest from financial investors, despite the predominance of assets in Latin America and the eurozone periphery.

The Bad GlobalVia includes the poorly-performing Spanish road concessions, its Spanish tram concessions, one Mexican road project, and GlobalVias airport, port and hospital assets. The healthier assets, chief among them the hospitals, are already for sale.

The radiales are the subject of a restructuring proposal from the Spanish government, in which the government takes an 80% stake in the concessions through a newly-formed national toll agency in return for stabilising them. The lenders to the radiales, which have lived with uncertainty for several years, are broadly in favour. We believe that 20% is

The GlobalVia portfolio good and bad

Good GlobalVia	*Bad GlobalVia*
Road	Road
Concesiones de Madrid (Spain)	Autopista Cartagena Vera (Spain)
Ruta de los Pantanos (Spain)	Accesos de Madrid R3 y R5 (Spain)
Madrid 407 (Spain)	R-2, Autopista del Henares (Spain)
Sóller Tunnel(Spain)	Circunvalación de Alicante (Spain)
Envalira Tunnel (Andorra)	Autovía del Camino (Spain)
Scutvias Beira Interior (Portugal)	Autovía Ibiza San Antonio

too low, says Bejar.

Walk away option

Bejar and FCC have already demonstrated a willingness to hold their ground in negotiations. A case in point is FCCs ALPINE subsidiary, which is headquartered in Austria and the vehicle for FCCs concessions business in central and eastern Europe. But ALPINEs financial condition collapsed because of a slowdown in government and private construction spending.

FCC and ALPINE had agreed a restructuring proposal with ALPINEs lenders and the Austrian government, which guaranteed some of ALPINEs debt. Under the proposal FCC would have contributed Eu150 million in equity, and lenders would have accepted haircuts on their debt holdings of about the same amount.

But, says Bejar, FCC then received a request for another Eu200 million in equity, because its judgement about the quality of its receivables was not correct. The additional equity injection was more than FCC could stomach, and since ALPINEs debt was non-recourse to FCC, it placed ALPINE into insolvency proceedings. It was not our preferred solution, says Bejar, but it was a solution.

Walking away from ALPINE removes about Eu625 million of debt from FCCs consolidated balance sheet, though it also loses Eu100 million of Ebitda and severely limits its ability to compete in a region that is healthier than much of the eurozone periphery. It may help FCC in its negotiations with ratings agencies, whose first instinct is usually to consolidate debt when assessing non-recourse exposures, a source of angst at Iberian concession operators.

FCCs other looming restructuring covers its Spanish energy interests, which include 14 wind farms with a total of 421.8MW of capacity, two solar thermal plants of 50MW each, and two solar photovoltaic plants of 10MW each. All of the plants are located in Spain, and all are suffering from the Spanish governments efforts to minimise the burden on electricity consumers from renewables incentives.

The cuts that Spain announced to tariffs affected PV generators disproportionately, and have led to extremely weak debt service coverage ratios for most generators. Until recently, the general consensus among market observers was that few generators or their lenders face a complete loss, though stress on the debt service coverage ratios of solar financings, in particular, would be severe.

Sponsors and lenders have worked from the assumption that extending debt tenors and granting waivers should give generators sufficient breathing space in the medium term. Spain has more recently moved to aggressively share the burden of the gap between what generators receive for power and what consumers pay. Consumers, utilities, the Spanish treasury and generators could all take a hit

FCC needs to persuade lenders to accept short-term damage to their holdings while minimising the need to write down its equity commitments. So far, FCC has taken a hard line. Lenders have no doubt that we will walk away, says Bejar. If FCC can treat Spanish renewables, Latin American water and Central European construction as non-core, lenders will take notice.

Big-ticket bounce

Spain is core, whatever its health, and Bejar says recent actions from central government to take over late payments due from municipalities should improve FCCs cash position. An electronic billing system will allow for automatic payments to contractors with bills over 60 days delayed, with amounts paid deducted from central government subsidies.

	(Spain)
Auto-Estradas XXI	M-404 (Spain)
Transmontana (Portugal)	
M-50 Concession Limited (Ireland)	Túnel de Coatzacoalcos (Mexico)
N-6 Concession Limited (Ireland)	
Autopista del Aconcagua (Chile)	Rail
Autopista del Itata (Chile)	Metro ligero de Sanchinarro (Spain)
Autopistas del Sol (Costa Rica)	Tramvia Metropolità (Spain)
Autovia Necaxa Tihuatlán (Mexico)	Tramvia Metropolità del Besòs (Spain)
	Tranvía de Parla (Spain)
Rail	
Barajas Metro (Spain)	Airports
Metros Ligeros de Madrid (Spain)	Aeropuerto de Castellón (Spain)
Transportes Ferroviarios de Madrid (Spain)	Aeropuerto de Santiago de Chile (Chile)
Metro de Málaga (Spain)	
	Ports
	Port Torredembarra (Spain)
	Marina de Laredo (Spain)
	Operador Logístico Integral de Graneles (Spain)
	Terminal Polivalente de Castellón (Spain)
	Hospitals
	Hospital de Arganda (Spain)
	Hospital Son Dureta (Spain)

Despite saying goodbye to so many units, Bejar is confident that FCC retains the resources to competitively chase new concessions business, even though cheap project debt requires sponsors to mitigate construction risk with limited recourse to their balance sheets. For a recent bid in the Middle East we had to post a bid bond of Eu600 million, and we were able to do that without any problem, says Bejar.

Bejar did not specify the project, though in late July, after he spoke with Project Finance, a consortium comprising FCC, Samsung, Alstom, Strukton, Freyssinet, Typsa and Setec won the Eu6.07 billion contract for lines 4,5 and 6 of the Riyadh Metro. The contract, part of a larger Eu16.3 billion programme, covers 64.6km of rail track. FCC was one of 37 respondents to the Arriyadh Development Authoritys request for expressions of interest, and beat out competition from Siemens/Vinci, Bombardier/OHL and Ansaldo/Strabag.

The rest of the year will feature more disposals Bejar says FCC received six offer for Cemusa, an advertising business, and eight for its logistics assets. FCC hopes that the restructuring could be complete by early 2014, which would mark a fast turnaround for Bejars leadership. Lenders can be assured that FCCs ruthless streak is still intact.