Infra M&A – virus that proves the vaccine?

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Oft times idle conversation among infra and energy professionals turns to M&A and prices paid for assets, with teeth inevitably sucked at the final bill. You'd be living under a rock – or reading a rival title – if that's not a frequent occurrence.

Over-blown prices achieved on assets sit at the forefront of most people's minds with some pointing to lessons learned from the market pre-global financial crisis as a presage of doom.

The first time over-payment for assets really became "a thing" for this infra hack was back in 2006 when London City Airport was acquired for an all-in price of £746.3 million… £253.4 equity and £492.9 million debt.

At that time, the buyers – GIP (newly formed by Credit Suisse and GE) and AIG – were lambasted for having paid too much to Dermot Desmond for an airport with limited capacity to expand. And they did pretty well on that one.

Now here's the thesis for today's editorial: it's widely agreed that an economic downturn is on its way – though some folk spend careers foretelling doom in the full knowledge they will, eventually, be right – and it is in this environment that we shall learn whether the prices are warranted.

The 2006 London City Airport acquisition is significant for this piece given that it closed mid-December 2006, one year before the subprime crisis kicked in and a little more than a year-and-a-half before the collapse of Lehman Brothers.

Now, we're not claiming that a crash is coming in the next 12 months (though it's not inconceivable) but it's an interesting reference point given the fearful mood of the market… all the more fretful given prices rising to breath-taking levels, applauded by tooth sucking fit to rip your canines out.

Just looking at recent times, we hear significant rumblings about a good few deals in the market where malcontents (curiously often those who were priced out of the acquisition) point with shaking finger at high prices and enthusiastic multiples.

As a caveat, it's important to point out that *IJ* is not saying the buyer over-paid for these assets (heaven forfend we say anything so rude) but the below is the result of a straw poll of infra professionals who gave their gut feelings on what had ended up – shall we say – a tad toppy on the price.

The instant response was that rail and wind tends to change hands for realistic prices, but airports, ferries and data centres are fit to make you blush.

The two recent deals that have the largest percentage of eyebrows raised are:

- the Cory Riverside sale in 2018 which went at around 21x the previous year's EBITDA
- Vinci's £2.9 billion acquisition of 50.01% of Gatwick Airport at 20x EBITDA in late 2018

Other ones from recent news stories that warranted dishonourable mention are:

- Brookfield buying into telecoms towers in India for $3.7 billion
- BlackRock and KKR paying $4 billion for a minority stake in ADNOC pipelines in the Middle East

As one straw pollster asks: “Have you seen it where a fair price *has* been paid for an asset? Because I haven’t.”

Much as you try to keep it up-to-date, it’s impossible to keep a good straw pollster away from historic deals, wincing at memories of assets selling for considerably more than their book value.

Chief among these was Land Securities Trillium's acquisition of SMIF – the Secondary Market Infrastructure Fund – from Bill Doughty and his team. This deal closed in February 2007 at £927 million (£527 million in equity, £400 million debt) and was the talk of the town.

Rumour has it that Bill and his team each went out and bought super cars the day the deal closed. And they had reason to celebrate, having built the original portfolio from assets they acquired from Abbey National (where he had worked) for tuppence ha’penny as the lender didn’t know what to do with the equity stakes it had amassed.

Fortunately for Abbey, Bill was on hand to save the bank from this burden of ownership.

And then there was the late 2006 acquisition of John Laing by Henderson Global Investors at a sniff more than £1 billion.

This deal resulted in a protracted legal battle with 23 Henderson investors – including Railpen, the BBC, British Steel and BAE, Kent County Council and South Tyneside, and the endowment funds of Oxford Investment Partners and Trinity College Cambridge – kicking off that they had been led up the garden path.

They were seeking compensation for an alleged breach of mandate and misrepresentation in the management of Henderson PFI Secondary II. At one stage, the fund fell in value by 60%, following Henderson’s use of the bulk of the £574 million fund raised in 2005 (plus leverage) to buy John Laing.

However, for all that – these acquisitions were never at the multiples we see nowadays.

It’s a tangled web…

Talking to people around the market this week and the same concerns are voiced by all… with varying degrees of worry tinged with realism.

As one particularly well-placed source says: “There’s been a lot of capital raised and there’s a lot of capital looking for investment opportunity. It’s been the same story as for the last few years with people feeling there might be a lot of full pricing – but you’ve raised money and people want you to deploy it.

“The ultimate investors might think it is over-valued, but if you think there’s going to be a stock market crash, would you not rather have that money in a 10% over-priced infrastructure investment… than a potentially failed listed business, or a 30% over-priced listed business.”

It’s starting to sound like the best advice for buyers in the market – as they cut each others’ throats for a chance to own an asset that may, or may not, fit within the definition of infrastructure – is “brace, brace”.

The coming market correction will doubtless have an impact on many of these targets, but given that GIP is still flicking the vees at the entire market over London City Airport… maybe it'll all be OK.

Maybe…