

Falling off a cliff – infra style

Angus Leslie Melville

01/05/2020

As you look out there – virtually, of course, as you shouldn't be going further than the end of your road unless it's to load up with a couple of hundred-weight of bog roll – it's a curiously vibrant market... for now.

Those who've been tediously banging on that The End is Nigh from the solitude of their living rooms are by now, likely, a tad hoarse and – if they were in a relationship at the start of the coronavirus pandemic... they probably aren't now.

Looking around the market, broadly speaking, infrastructure has remained impressively buoyant in the early weeks of the Covid-19 pandemic... though the vast majority of news stories seem to be that schedules are being pushed back to the summer.

That statement refers mostly to the world apart from APAC where we're seeing things move forward again as they come out the other end of this crisis.

Primarily in the Americas and Europe, expect a lot more “delay stories” in the coming weeks (and months) as ambitious summer deadlines slip to autumn, and we all start to get a bit more nervous about the future.

In this environment, the focus of this week's missive is infra and energy M&A and how it's impacted by these [unprecedented times](#) and what we can expect to see in the near term... until we're finally allowed to leave our homes.

Talking to sources around the market this week – mostly in New York and London – scepticism is rife and the smart money's on dark deeds in the offing.

While nobody's intoning the 2008 mantra “Mumbai, Dubai or goodbye”, there's a fair share of nervousness as deals that were teetering rush to close; those that had committed debt hold the bankers' feet to the fire until they sign; funds with dry power look to... well, ignite it; and a disturbing amount of Chinese cash is creeping out of the woodwork to snap up anything that doesn't move.

Perhaps most important – on a personal level – in the first week of the new year (2021) there will be a bloodbath the likes of which you have never seen before.

Investment banking

In recent years we have seen banks active in the infra/energy lending arena pivot their business models towards M&A advisory and teams up accordingly.

Word on the patio – in happier times that'd be word on the street – has it that these banks are already shifting focus to debt advisory... a forlorn hope if ever there was one, as this space is more crowded than the Lidl entrance at opening time.

The reality is, these people will end up being channelled into restructuring which will sign the death knell for many

careers as there's limited chance they'll work their way back into their current roles once they've spent a couple of years up this siding (nice infra pun there).

It feels almost as though the skills that quality investment banking brings to the table right now will not be valued the way it is in a healthy market.

As one living room luminary in leafy stockbroker belt says: "To my mind, there is less of a premium on good advisory as clients are saying 'we're going to do it anyway'. We don't need you to come up with some super-duper structure that gets that last million pounds of value which means we come out as preferred bidder."

As one spare-room source says, it's also going to impact finance underwriting of M&A deal, teams that had enjoyed considerable activity pre-coronavirus: "All these infra houses have been saying for a while that it's all about M&A, big financial advisory and underwriting... and that's gone."

Another armchair aficionado says: "The banks have become so big, they don't feel like they can run around like a boutique doing a big volume of smaller deals – making money that way. They want to do one deal every other year that is massive.

"That is their model and it was already tough to make that work with hardly anyone making a success of it, anyway."

This is supported by a patio pundit who adds: "A lot of people have been talking the talk and hardly any of them are doing anything... so now they're going to feel the squeeze even more as the number of mediator bankers will feel the pinch."

Meanwhile, a dining-room doyenne is of the same mind: "There will be no hiding behind speculative pipeline lists, which is what a lot of people do. It will become very apparent that the pipeline is more of a pipe dream. If you have five airport sell-sides in your pipeline... that is not going to fool anyone."

The distillation of these house-bound harbingers is that it will be difficult for them to charge meaningful fees unless they come with liquidity, but that will be challenging.

And – in spite of all the nice things that are being said right now – there will be blood on the carpet that will have you reaching for your galoshes once the new year is firmly in the rear-view mirror.

As one kitchen-table commentator says: "One or two banks started saying 'we are not going to let anyone go in 2020' as they thought that was 'the right thing to do' and it'll make them look like superstars. They are saying that 'the mark of a good company will be how we treated our staff during Covid'.

"Other banks – like the sheep they are – followed suit saying they wouldn't make anyone redundant in 2020... but if you speak to anyone and ask them about Week 1, 2021 they reply – 'carnage' or a 'blood-bath the like of which has never been seen before'."

Meanwhile a veranda veteran chips in: "If those people who are not running around chasing Chinese coin – which most of them are – they will have been repurposed to restructuring."

On that cheery note, Happy Friday...

For those of you who've made it to the end of this *IJGlobal* Friday Editorial, I wish you the very best of the weekend [staying safe](#) in your homes.

Me? I'm off for a night on the tiles... locking myself in the bathroom.

Thank you for printing this article from IJGlobal.

As the leading online publication serving the infrastructure investment market, IJGlobal is read daily by decision-makers within investment banks, international law firms, advisory firms, institutional investors and governments.

If you have been given this article by a subscriber, you can contact us through www.ijglobal.com/sign-in, or call our London office on +44 (0)20 7779 8870 to discuss our subscription options.