Infra funds – rolling in… it

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What a week it's been in the world of European infrastructure funds. For some it's been jolly japes all round… for others, it's been a bit of a head scratcher.

Word reaches IJGlobal that the 3 top dogs at DIF Capital Partners have trousered €250 million apiece from the sale to CVC Capital Partners earlier this month, and that individual partners walked away with a more humble (but quite enough, frankly) €8 million each.

Stiff earn outs aside, that should keep the wolf from the door.

However, it does rather make you think… imagine if you'd walked away from partnership just before the sale went through? There'll be a pall of smoke above that household, possibly even gnashing of teeth. Ahem… moves swiftly on.

And then you have this week's news that John Laing has acquired 5 assets from InfraRed's HICL – and that's where you get into head-scratching territory.

Now, acquiring the 37.5% stake in the Hornsea II OFTO makes a lot of sense, but I can't for the life of me think why anyone would want to buy into UK PPP assets – with the IPA staffing up to the gunwales to claw back every penny it can from PPP projects.

I'm hearing that InfraRed staffers are still prancing around Barts Square high-5ing everyone they see and doing celebratory laps of St Pauls. And quite right too.

They pocketed £204 million at a challenging time for listed infra funds and they say it made "a small premium to the company's last audited valuation for the relevant assets at 31 March 2023". Who'da thunk it?

At first perusal, one was left with the distinct impression that the PPP assets were John Laing's way of sweetening the deal for InfraRed to get their paws on the OFTO stake. I know it's looking to book build to keep KKR happy, but… really?

InfraRed has to say on the matter: "This accretive transaction evidences the robustness of the company's net asset value, improves portfolio construction, and enhances the key metrics of yield, inflation correlation and asset life."

Surely InfraRed's just over the moon to be shot of them and anything that props up NAV right now is a tidy piece of news.

So – any other fund out there – listen up.

HICL has a bunch more PPP assets that it'd be only too happy to part company with for a "small premium".

Kindly form an orderly queue.

The PPP assets

Let's take a look at what John Laing is taking off InfraRed's hands – apart from the OFTO. We have 2 hospitals and 2 schools projects. Shudder.

When you take a look at InfraRed's press release (accessible at the time of publication here), it goes to some pains to point out that Oxford John Radcliffe Hospital PFI – which made it to financial close in March 2004 (still has 10 years left to run) – is a legacy Carillion deal… but that it's been tidied up a lot since those murky days.

Identifying it as the "largest of the 5 assets", InfraRed points out that HICL acquired its interests in 2010 and 2012. Following liquidation of Carillion in 2018, InfraRed's asset management team restructured to resolve outstanding contractual obligations, replaced FM providers and remediated "outstanding defects". It adds: "As a result of HICL's ownership, the project has been stabilised and de-risked, and maintains strong relationships with key stakeholders."

Curiously, the press release fails to go into detail on the other 3 PPP assets. So let's help out on that front.

Queens Hospital PFI in Romford – we call it New Romford Hospital PPP in our database – reached financial close in January 2004 and the original equity team of Bovis Lend Lease (50%), Sodexo and Lloyds (25% each).

According to the IJ case study from the that year, it has a 33-year operating period for the 860-bed hospital, so it's got a while to run. HICL bought into equity and loan notes in Romford in the summer of 2012 taking its ownership up to 66.7%. Since then, it would appear that has increased to 100%.

The South Ayrshire Schools PFI is another Carillion deal and it reached financial close in December 2006. The equity at FC was an equal divide of 47.5% to Carillion and Bank of Scotland, with Sweet Group holding the remaining 5%. HICL bought them out in the summer of 2011. This project has a 30-year concession, so – again – it has a while to run.

The most recent of the 4 PPP assets to have reached financial close is North East England PSBP Batch 1 which made it over the line in March 2015. This is the only one where HICL was on the equity team at FC, holding 45% – the same as Galliford Try – while Infrastructure UK had the remaining 10%.

This PSBP was the first of the regional batches to draw down its project debt from the Aggregator vehicle, using the pooled funding instrument for the government's (then) newly launched PF2 model.

For those of you too young to remember the aggregator – or old enough to have a foggy memory – this is run by INPP with Aviva Annuity UK (45%) on senior fixed-rate bonds; the European Investment Bank (45%) with a senior fixed-rate loan; and the Amber Infrastructure managed fund INPP (10%) on mezz debt.

The aggregator was set up to on-lend the debt as a single source of senior debt to batches, drawn over construction. For this batch, the project company was GT NEPS and the debt participations were: Aviva Annuity UK with £47.2 million, the EIB on £46.3 million, and INPP with £8.8 million.

With 25 years of concessions at financial close in 2015, this project also has a while to run.

You know, maybe I'm being a bit unkind.

Yes, it is an excellent result for InfraRed – and they have every right to prance like unicorns around The City.

From the John Laing perspective, it **has** taken the market by surprise and left a lot of people wondering as to its strategy… but there are a lot worse PPP assets you could have bought.

At least they all have 7-10 years to run, before Vickerstaff’s Vanguard comes a-knocking as handback beckons…