Tolling new markets

René Lavanchy

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Compared to a new car, a road trip is not a conspicuous form of consumption. But the toll road sector has still suffered a blow over the course of the financial crisis, as consumers have reacted to real or perceived threats to their own personal wealth.

In their New Year outlook for 2011, Fitch Ratings insisted that toll road operators could look forward to a recovery in traffic figures – while remaining fairly downbeat about the relative vigour of the market in Western Europe compared with Latin America and Asia Pacific.

As 2011 progresses, an increasing number of toll road opportunities – both greenfield and brownfield – are expected to come up this year in emerging markets from Turkey to India. Puerto Rico is also rolling out several toll roads as P3 deals, and other emerging markets could follow suit. Just how profitable are toll roads in the current climate, and how easy are they to build?

"Right now, we are quite below the base case," admits Paulo de Barros Baptista of Vieiria de Almeida & Associados, legal advisers to Brisa, the Portuguese toll road giant. Traffic in Portugal took a hit in 2008 from which it has yet to fully recover. He regards traffic risk toll road projects as in a different league to availability-based projects with their guaranteed revenue.

"That can lead to some issue, particularly with the lender," says VdA's Teresa Empis Falcão. "We would rather not identify the project, but there are one or two projects facing serious difficulties."

The situation was serious enough for Brisa to repackage all its Portuguese concessions into a separate subsidiary at the end of last year, to insulate itself from impact on its credit rating and preserve the firm's stability.
Toll roads in Spain face similar problems, with traffic figures for Abertis' toll roads well below expectations for this time of year.

Portugal is not expected to build any toll roads any time soon, but operators may yet seek refinancing, in which case they may struggle to get any interest from the banking sector. Spain meanwhile has encountered a mixed response in getting a suite of road PPPs off the ground.

Across the Atlantic lies a different story. Last year Brisa sold its stake in the Brazilian infrastructure services firm CCR for some €1.3 billion. But it was not throwing out a loss-making asset - far from it; CCR saw a 25 per cent increase in traffic in Q3 2010. The issue was one of governance, with Brisa's stake a minority one but accounting for 40 per cent of its value; faced with a choice of increasing or selling the stake, it chose to sell and free up investment capital.

One area it seeks to expand into is India, where Brisa opened an office in January. In a joint venture with Feedback Ventures, the firm is hoping to snap up a number of O&M contracts for existing toll roads, and eventually to join with local contractors to bid for BOT contracts. In India the obstacles seem not to be a lack of interest from lenders but the ability of the authorities and their infrastructure advisers to bring projects to market in quick enough time to meet their ambitious targets. Meanwhile, CCR expects further opportunities for PPP concessions to arise in Brazil as roads come up for auction.

North of Brazil, Puerto Rico is confident that its fledgling PPP toll road programme will generate strong interest from lenders. One project – PR-22 and PR-5 – is in the bidding stage, while four more are expected to reach the market this year.

“We have structured concessions for toll roads at a time when markets seem to have normalised coming out of 2008-09. The capital markets have been normalised,” says David Álvarez, executive director of Puerto Rico’s Public-Private Partnerships Authority. “Our economic activity has been stabilised. The assets we are presenting to market are assets with a strong, proven record of traffic.”

It helps that Puerto Rico has relatively high ownership of cars – about 61 vehicles per hundred people. “We should be able to reach a transaction that’s positive for Puerto Rico and for the market”. While keen to avoid pre-empting those transactions, Álvarez seems to put particular faith in the capital markets’ appetite for the projects.

Still, Puerto Rico is being careful to introduce the projects at a gradual rate, apparently wary of dumping too many toll roads on the market at once – a criticism that could be levelled at the Mexican authorities who concessioned out large-scale toll road projects in the 1980s and 1990s, some of which had to be rescued after failing to generate enough toll revenue. “Mexico made us aware that we have to be careful,” he explains diplomatically. Mexico has since recast its procurement model.

Toll roads are more difficult in some ways than before. Post-crisis, there is a demand for lower leveraging, with 80:20 debt-equity ratios a more likely prospect than 90:10 – if the debt can be raised. The differential between any kind of traffic risk road project and an availability project seems starker than three years ago. But for infra firms with a diverse portfolio and a global reach, the opportunities are still many and profitable.