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## ANA and Aena Aeropuertos: destination downturn

“To look at necessary processes in future and not to sell assets at the worst moment”. Thus did Spain’s Minister of Development, Ana Pastor, outline her intentions on 12 January as she prepared to cancel the concession of Madrid and Barcelona airports and part-privatisation of operator Aena Aeropuertos.

The problem with sitting out a bad market, as any would-be Spanish home seller will know, is that you don’t know when it will hit the bottom. Aena’s president indicated recently that he expected a deal to be done by the end of next year, but with every passing day, ‘riesgo español’ (Spanish risk) looks more startling to foreign investors.

The other headache for Pastor is that Portugal has chosen precisely this moment to [privatise](http://www.ijonline.com/Articles/78104) its own airport operator, ANA, as part of its obligations under the bailout agreed with the IMF, ECB and European Commission. Credit Suisse and Espirito Santo Investment Bank, alongside legal adviser PLMJ, are currently working to launch the process sometime from summer onwards.

So what is the climate for these deals and can their respective grantors avoid a fire sale?

Aena is by far the largest operator, with 47 Spanish airports and two heliports to its name, as well as minority stakes in 27 foreign airports including 10 per cent of London Luton Airport. Of its domestic sites, 27 run a deficit, including the largest two, Madrid-Barajas and Barcelona-El Prat. Aena Aeropuertos reported EBITDA of €856.75 million (US\$1.07bn) for 2011 and debt of €12.31 billion, a debt to EBITDA ratio of just under 14.4x. It reported pre-tax losses of €314.4 million.

The operator has an [ambitious plan](http://www.ijonline.com/Articles/77878) to nearly double EBITDA to €1.4 billion by 2014, reduce capital expenditure and bring 12 of its 27 loss-making airports into the black. But airports in both Spain and Portugal are on a downward trend, as a report by Moody’s confirmed this week. Passenger traffic at Barajas fell by 7.6 per cent last quarter and while traffic at Lisbon grew, the rate of growth is slowing and domestic traffic has fallen.

Nevertheless, some remain upbeat. Abertis this week expressed an interest in Spain’s airports, having formed a consortium with Borealis and AXA Private Equity to bid for Barcelona last year. Daniel Ripley, a partner at law firm Uria Menendez, says: “There is a great deal of interest in Spanish infrastructure companies. These companies represent a major opportunity for leading Spanish and international companies specialised in infrastructure management, and for international infrastructure funds.” Even so, the terms of the airport concessions last year were widely agreed by investors to be too harsh and will have to be revisited for any future deal.

ANA by contrast saw profits of €9.8 million in the first quarter of 2012, a rise of 8.1 per cent on the same quarter last year. EBITDA rose by 13.1 per cent year-on-year to €13.5 million, buoyed by a rise in revenues and decrease in operating costs.

But one other major transaction could impact both deals: the privatisation of Portuguese national airline TAP, expected to launch before ANA this year. Everyone looking at the ANA process agrees it would be impossible to put a value on the airports without knowing who the buyer of TAP. IAG, the owner of British Airways and Iberia, is a publicly declared candidate, and if successful it is expected to reduce demand for slots at ANA’s airports through rationalising its use of capacity on the Iberian peninsula.

Paulo de Barros Baptista, a partner at law firm Vieira de Almeida & Associados who are expected to advise Brisa on its bid for ANA, comments: “It all depends on who will be the next one owning TAP, as it

will be important that Lisbon airport stands as a hub, to keep ANA's value intact." An IAG bid would threaten this; but it might favour Aena as the airline looks to its home ground.

Both governments face calls to improve the regulatory environment to give bidders a better assurance of the returns they will get. Aena's €12.31 billion of debt is a major issue, since it is not subsidised by the state and is expected to finance itself.

Besides this, some investors looking at the concession of Barajas and El Prat complained that the deals barely amounted to real concessions. The concessionaire would not be granted the tangible assets, only operating rights, and would lose tax benefits owing to depreciation of assets as a result. The method of calculating tariffs based on previous revenues was also attacked for not doing enough to mitigate demand risk. Above all, the initial fees demanded were widely said to be too high.

Daniel Ripley says: "There can be no uncertainty as to the return that will be made on the investment, as would be the case if it is left to a public body to determine returns annually on the basis of some general criteria. It would be advisable to exclude the obligation to assume the costs of past expropriations that are currently being challenged before the Spanish courts. These costs are very significant and make it difficult for bidders to make an accurate economic proposal. Finally, the circumstances in which the economic and financial conditions of the contract will be modified because of extenuating circumstances must be made very clear." Aena's tariffs will still need to be approved by the government.

But the framework for ANA's privatisation may also need major revision. "Things have to change," Paulo de Barros Baptista says. "We have a concession agreement [between ANA and the government] still connected to the prior project of the new Lisbon Airport [abandoned in 2010]. It says the new airport has to be in operation by 2017. We don't know if the option of the new Lisbon Airport will be included as an option or a right of first refusal. Something has to be included, otherwise it would be risky to bid for ANA".

He adds: "There are still some tariff issues. It's a very complex system and the regulator is still trying to work out how it works. ANA is charging tariffs that are not approved by the regulator". Clearly, no bidder would want to present a bid before the regulatory regime has settled.

Of the two operators, ANA is by far the most promising as a business proposition as a profit-making entity with relatively low debt, and the process is further advanced. It is not clear when Aena will become an attractive asset, or even if the Spanish government will be forced to resurrect its predecessor's plan to concession Barajas and El Prat first, as Abertis' president suggested this week. Bidders for both will be banking on traffic downturns in stressed Eurozone economies being short-lived and followed by a significant upturn.

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