PPP Bulletin

United front

Colin Leopold, editor of PPP Bulletin

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Banking liquidity and government creditworthiness are fuelling divisions in European infrastructure markets. Michael Dedieu, partner at the Marguerite Fund, talks to Colin Leopold

The Marguerite Fund completed the purchase of France's largest solar park – the Toul-Rosières – at the end of last year, its second transaction to date and both in the renewables sector. Will 2012 see you move into different sectors?

We have quite a number of transactions in our pipeline, in transport, energy and renewables. Some onshore, some offshore wind, some solar. Some of these we expect to sign in the first half of 2012.

In transport, we're looking at road and airport and port opportunities in a variety of countries including Spain, Italy, Poland and Germany.

Do you feel there are good investment opportunities in European infrastructure at the moment?

There are opportunities – I think one has to distinguish between the renewables and the transport sectors. We have all noticed there is a sharp decline in the number of transactions. I think in 2011 the figures were quite misleading because in volume the projects in France skewed the picture – like the €8bn Tours-Bordeaux high-speed rail.

Apart from that the number of opportunities decreased significantly. The number of countries with active pipeline is diminishing – including the UK, which is more for policy reasons.

Peripheral markets due to the crisis have vanished. You can talk about Portugal, for roads, or Greece as examples.

How much of an issue has government creditworthiness been in these markets?

It's more dictated by events. We were part of a consortium bidding for the Kastelli airport in Crete, so we are prepared to have a pragmatic look at select opportunities even in difficult countries. This airport is driven by tourism so its traffic relates more to UK GDP or German GDP. But the procurement came to an end and they cancelled it.

We take a careful look at what's going on but we are open-minded.

How obliged are you to focus on certain markets within Europe, ones that are in greater need of financial support?

We have to meet the criteria of the fund but there are very few new projects in some of these countries. We are looking at a project in the Republic of Ireland – the N17/N18 road project, but first they have to close the N11 project then we may participate.

Spain and Italy are still among the largest economies in the EU. In terms of new projects you are still more likely to find them here rather than smaller economies, at least in terms of transport.

What's your view on German infrastructure opportunities?

There's the second wave of the A-series. Unfortunately in Germany the size of the projects tend to be small. On the A7 specifically they have decided not to use a tunnel, which halves the size of the project. We understand the next one will be even smaller.

France is the opposite, it is coming to the end of its transport plan launched in 2005. There are a few more to come in 2012 including Canal Seine Nord, the Grand Paris – and with the election there could be an equivalent of a spending review. There is some uncertainty but we definitely see France as one of the core markets.

What are the drivers in the renewables and energy sector in 2012? Do you feel the sector is less of a priority for governments as they deal with balance sheet issues?

The situation for energy and renewables tends to be slightly different because to a large extent the number of opportunities are privately developed and then you have to make a distinction between energy and renewables. Energy is more driven by utilities who would do balance sheet financing and only lately have we seen some opportunities with transmission assets and third party equity. With renewables you have quite a lot of different types of projects – the key is to pick the good ones.

What is important is political stability for investors.

How have your investment decisions been influenced by banking uncertainty in the last 12 months?

We all know the situation is difficult when it comes to bank funding and debt funding. Having improved maybe last year and the year before, with the introduction of Basel III, the banks are again facing difficult times which translates into shorter maturity, so its an important element to consider when looking at financial viability. Saying that, there are projects that we have structured ourselves – such as the solar park – with the entire financing over a very short period of time with two French banks.

What do you attribute to getting that project over the line under such difficult conditions?

In difficult times, people look for quality – quality sponsors, quality structuring.

Is there a stronger case to be made for governments taking a greater stake on the funding side? How comfortable are you with this?

There have been a number of initiatives. Governments are trying to help but it's only a part of the equation and the response has to come from the market.

The days of long-term funding coming from banks for durations over 20 years will not come back for a very long time, if at all.

What we will see are more soft mini-perms with cash sweeps – structures which bring the average life of the loan shorter and incentivise the board to refinance a couple of years after completion, which is more what is happening on the other side of the Atlantic.

The big difference is that in the US there has always been a very active capital market to fund the economy in general. In Europe, the banks played a much bigger role in financing the economy at large – this will be a challenge to change the culture here.

Do you expect to see a greater level of institutional investment in European infrastructure this year? What role do you see the EIB's Euro 2020 bonds playing, for example?

It is a mechanism we are happy to work with, we all worked with monolines before and this is just another route. We have a number of good opportunities in the pipeline which we hope to bring to close in the near future. We are also fundraising, from the current €710m to the target size of €1.5bn.

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