

Infrastructure



Clara Cutaja
Asia Pacific
Infrastructure Deals
Leader

The global financial crisis has continued to impact the infrastructure deal flow across the Asia Pacific region in the first and second quarters of 2009 as infrastructure funds grapple with how to close the gap between net asset values and market capitalisation. The level of gearing for a number of funds is high in the current market environment which has led to significant refinancing risks. This has forced a number of funds to put assets up for sale, especially in Australia. Deals actually completed in the period have been limited as it is a buyer's market and in certain cases seller value expectations have not yet been reset.

Since the last quarter of 2008, many countries have announced various fiscal stimulus plans with a substantial focus on infrastructure projects in order to boost their local economic growth to offset the decline in export trading. China is leading this initiative in the region with its US\$585 billion (RMB4 trillion) stimulus package which is heavily weighted towards infrastructure construction projects (railways, highways, airports, power grids) and projects elevating the living standards of rural and poor urban areas. In most cases, this spending will be biased towards domestic players in the market, although there are likely to be partnering opportunities for overseas players who can demonstrate more advanced knowledge, particularly in power, water and sanitation projects.

Major greenfield infrastructure projects in the region include:

- China/Hong Kong: US\$5.5 billion Hong Kong-Zhuhai-Macau Bridge connecting Hong Kong and mainland China to Macau (construction is expected to commence in late 2009); Sino-Singapore Tianjin Eco City Project; Pearl River Basin Development Project and light rail projects in a number of larger Chinese cities.
- Singapore: Jurong Rock Caverns is to increase underground oil storage capacity on Jurong Island and Sports Hub.
- Malaysia: The development of the Iskandar Free Economic Development Zone.
- Vietnam, Indonesia and the Phillipines: Various infrastructure development projects focusing on power, ports and roads.
- Australia: In April 2009, the Rudd government announced a US\$30.6 billion project to create a nationwide high speed broadband network. There are also a number of road and rail projects, and to a lesser extent water, schools and hospital investments.

Major infrastructure deals announced in the period include:

- China/Hong Kong: Tianjin Port Development Holdings Ltd agreeing to buy a US\$1.4 billion controlling stake in Tianjin Port Holdings Co, a Shanghai-listed affiliate, as the Tianjin city government restructures its harbour assets to help raise funds overseas.
- Malaysia: SAJ Holdings Sdn Bhd, a water utility company operating in the state of Johor and wholly-owned by Ranhill Berhad, has agreed to sell its water assets to the federal government-owned Pengurusan Asset Air Bhd for US\$0.8 billion. Malaysia's water sector is undergoing a restructuring process to improve the service of the country's heavily indebted water utility companies.

- Australia: The majority of transactions are being driven by the leverage issues facing infrastructure funds. The only significant transaction announced during the period is the sale of Macquarie Communications Infrastructure Group to the Canadian Pension Plan Investment Board for US\$1.6 billion. There are a number of sale processes in progress but in two cases now the vendor has decided to take advantage of an opening up of equity markets by raising equity rather than divesting assets at depressed prices (e.g. Asciano and Hastings Diversified Utilities Fund).

The outlook for the infrastructure sector in the coming months appears mixed. Deal flow is expected to remain slow and some of the infrastructure funds or companies with high gearing positions, especially in Australia, will continue to restructure their businesses, i.e. negotiate with the banks for the renewal of facilities, sell assets, consider alternative capital raising exercises and potentially 'take private' strategies. On the other hand, we expect to see increasing greenfield investment opportunities in the region, especially in developing countries, mainly driven by the governments' stimulus packages which are heavily weighted towards infrastructure projects. ■

Stimulus packages > US\$20 billion

Country	Stimulus package	Description	Date Announced
China	US\$585 billion	Fiscal expenditure	Nov 08
	US\$88 billion	Expedited spending of planned projects	Jan 09
	US\$124 billion	Healthcare reform	Jan 09
Japan	US\$220 billion	Fiscal expenditure & tax cuts	Aug 08 - Apr 09
Australia	US\$29 billion	"Nation Building and Jobs Plan"	Feb 09
Thailand	US\$44 billion *	Infrastructure investment over 3 years (2010 - 2012)	Mar 09
Korea	US\$26 billion	Fiscal expenditure	Dec 08
	US\$27 billion	Fiscal expenditure	Jan 09
	US\$22 billion	Fiscal expenditure	Mar 09

Source: United Nations ESCAP