FINANCIAL REVIEW

RBC Capital Markets: The landscape for infrastructure deals is changing

By Anthony Macdonald
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A dearth of big privatisations will have infrastructure investors scouring the renewable energy and telecommunications sectors for acquisitions this year, which is likely to mean smaller transaction sizes but more deals signed.

That's the view of RBC Capital Markets' Sean Miller, who runs one of the country's busiest team of infrastructure sector financiers and advisers in his role as RBC's head of investment banking for Australia.

Mr Miller says the investment banking landscape for infrastructure deals is slightly different this year. There is no big tollroad, port or electricity network government asset sale in the pipeline, which makes it hard to see where the next $5 billion-plus privatisation will come from.

Sean Miller spent close to a decade structuring and investing in debt deals at Macquarie before joining RBC Capital Markets. He is now the Canadian bank's local head of investment banking. ***Louise Kennerley***

But infrastructure funds are still cashed up and are keen to expand their investment portfolios. It means they are looking in sub-sectors not traditionally thought of as "core infrastructure", Mr Miller said.

"What we are seeing now is an increase in the volume of things we are looking at, right across the sub-sectors of infrastructure.

"The wealth of capital is continuing to come into [the infrastructure] space, and you are seeing non-traditional infrastructure assets being purchased by infrastructure sponsors. They are looking for infrastructure characteristics — but are not necessarily what you would've called core infrastructure in the recent past.

"Not to pick on one, but renewables is certainly a focus and we are seeing increased volume there. The ticket size may be less when you compare it to to a privatisation, but certainly the volume of deals we can spread our resources across has increased and will increase further."

Infrastructure has been the shining light for RBC's Australian investment banking team in recent years, and a key reason the bank has grown its team to about 45 bankers in Australia. The Canadian bank has had M&A advisory roles on most of the major port, tollroad, electricity network and land titles privatisations in the past seven years, and arranged debt for clients who have been successful at the big auctions.

Industrials gaining attention

But infrastructure deals are not RBC's only target in Australia. The bank is also focused on the energy and metals and mining sectors, working for the likes of Origin Energy and Evolution Mining, and has recently expanded into industrials, including seeking to advise on and help fund private equity deals and focusing on growing technology companies.

Mr Miller says the industrials roll-out is gaining traction, although it is early days. The bank also did its first Australian initial public offering last year, helping raise $30 million for the now-listed gas junior Vintage Energy.

He says RBC has started the New Year with some momentum, although market conditions have seen a few deals delayed. (Its new year started on November 1, in line with the Canadian bank's financial year).

"We are encouraged by the pipeline at the moment," Mr Miller, a former Macquarie debt banker and principal investor in Macquarie's Corporate and Asset Finance team, said. "We are active across all of our industry sectors.

"There has been increased volatility in the markets and that's impacting on some deals — deals that are relying on public markets funding or sentiment driven markets."

He's hopeful that the delayed deals will be in the market once volatility settles.

"Some clients are wanting to ensure that they're accessing the market at an optimum time — that means the preparation is still ongoing and we are working very hard with them. When a little bit of normality returns to the market, we expect they'll proceed," he said.

The Canadian bank's local team also naturally keeps a close eye on Canadian funds and strategic investors taking stakes in Australian assets.

Mr Miller says the big Canadian pension funds are at the stage where they have committed to Australia and the wider Asia Pacific region, which bodes well for deal activity.

"There's still a healthy focus from our perspective on Canadians inbound into Australia – and you are seeing this across a number of sectors including real estate and infrastructure," he said.

"And you are seeing a number of the Canadian funds set up offices here now – and gradually start to build out there presence here in Australia and regionally."

Those Canadian investments include Oxford Properties Group, which is owned by pension fund OMERS, buying the ASX-listed Investa Office Fund for more than $4 billion, and the Canada Pension Plan Investment Board take a stake in NSW's WestConnex.

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