

All aboard the privatisation gravy train

PUBLISHED: 01 Nov 2011 PRINT EDITION: 01 Nov 2011

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Strapped government budgets and demand for stable, high-yield investments could bring a \$50 billion wave of publicly owned assets in Australia and New Zealand to market within the next few years.

It is welcome news for investment bankers, who are jostling for deals that range from power in NSW to forests in South Australia.

The total value of Australian institutional public offerings (IPOs) was \$US7.4 billion in 2010 according to Dealogic. And last year was dominated by the \$6 billion-plus float of the Queensland Government-owned rail business, QR National. For the year to date, the total value of IPOs is just \$US936 million (\$874 million). The prospect state-owned asset sales is a rare bright spot on the horizon.

The recommendations of the Tamberlin report published yesterday was not the only big privatisation news story. *The Australian Financial Review's* Street Talk column reports today that the NSW Treasury has distributed a Request for Proposal (RFP) document calling on banks to pitch for the \$2 billion privatisation of Port Botany. Meanwhile, across the Tasman, Lazard has been appointed to advise the New Zealand government on what could be a \$NZ7 billion (\$5.4 billion) asset-sale program.

Investment bankers, who would ordinarily avoid government jobs, are describing the work as a godsend as the corporate deal flow dries up. Bankers earn about two thirds their usual fee on a government deal. The jobs are notorious for paper work and the challenges of dealing with bureaucrats. Unlike corporate deals, where building relationships is key, a successful deal with government is no guarantee of a preferential treatment on a future deal.

But passing the stringent tests to snag a billion-dollar government project carries a prestige factor that can help push banks up the league tables. Many bankers are simply happy to look busy as global heads call for job cuts.

"The privatisations are a Godsend," said the head of equity capital markets at one large investment bank. The timing may be good for bankers, but it has raised questions why states are pushing ahead with asset sales in such weak markets.

Spain is desperate to reduce its huge national debt, but in September pulled the €7 billion (\$9.2 billion) sell-off of the state-owned lotteries company, Loterías, blaming adverse market conditions.

On the block

Privatisation pipeline in Australia and New Zealand

Announced	Estimated value	Potential	Estimated value
NSW Port Botany	\$4bn	Port of Melbourne	\$2.5bn
NSW Desalination Plant	\$2bn	NSW electricity assets*	\$58bn
SA State Lotteries	\$600m	NSW land titles	\$1bn
SA Forest harvesting rights	\$400m	Vic land titles	\$1bn
NZ Mighty River Power	} Total NZ \$5bn- \$7bn		
NZ Meridian			
NZ Solid Energy			
NZ partial sell-down Air NZ			

*Equity component likely to be \$12bn

SOURCE: FINANCIAL REVIEW

In the same month, South Australia announced it was selling the harvesting rights to Forestry SA and was creating a sub-licence for its lotteries business.

South Australian treasurer Jack Snelling said the assets would be sold within a year.

"We've got \$9.1 billion of upcoming new infrastructure spending, and it makes sense for us to realise some of the value of assets we hold," he said. "There's money around looking for assets with a long lifespan and we're getting a lot of interest in the harvesting rights and Lotto."

The two assets have been estimated to add up to \$1 billion to South Australia's state coffers. While South Australia's situation may not be as dire as Spain's, the ratings agency S&P has put the state's AAA credit rating on negative outlook.

Governments are naturally eager to secure a decent price for their assets, but unlike their corporate counterparts, can also be motivated by political windows of opportunity. After taking power with a thumping majority in March, now is arguably the best time for the NSW Coalition to privatise assets.

Goldman Sachs and KPMG, thought to be close to finalising the structure for the auction of the state's \$1.9 billion Kurnell peninsula desalination plant.

"There's probably a greater awareness across the community that the states are hard up for cash. There was always a sense there was this unending bucket of money, but as they've seen State governments struggle to fund and deliver . . . there's now some currency that [privatising assets] is what you've got to do," says NSW Treasurer Mike Baird.

Government's have another incentive to ensure deals are priced attractively for investors. While trying to get the best price it can on behalf of the tax payer, retail shareholders taking up the offer are also voters.

Wilson Asset management's Geoff Wilson a government float is usually a good investment when it's the first in a series, and it's big enough to be widely invested in by the electorate.

"When it's the first in a number of privatisations, governments will price it to succeed from an investor's perspective, because the investor is also the voter," he said.

Like many investors, Tribeca Investment Partners portfolio manager Sean Fenton passed on the opportunity to take up QR National last year. Mr Fenton said the success of QR National was likely to pave the way for more successful government floats.

"There's always interest in these sorts of assets. Privatisations have performed well historically simply because the businesses are typically not run well under government ownership," he said. "The markets are obviously volatile and it's not a great environment for equity raisings, but utilities and defensive stocks have held up very well. There's certainly a strong demand for stable protected cash-flow streams."

with Chris Lacy

The Australian Financial Review

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