

Sector View

Construction-Infrastructures

A new EUR1bn toll road stimulus plan announced by the government

	1 M	3 M	6 M	31/12/15
Cons & Mat	-1.5%	10.1%	6.3%	2.9%
DJ Stoxx 600	-1.6%	5.1%	-0.9%	-7.7%

*Stoxx Sector Indices

Companies covered

EIFFAGE	BUY	EUR77
VINCI	BUY	EUR72

A new toll road stimulus plan is on the way, according to the government. This would be a EUR1bn capex plan, financed by further tariff compensation (in the midterm) as well as contributions from local authorities (in negotiations). The government would like work to start at the end of 2017. Vinci and Eiffage's valuations should be positively impacted in our view (or neutral in the worst case).

In an interview in the French weekly "*Le Journal du Dimanche*", the State Secretary for Transport Alain Vidalies announced that a new toll road stimulus plan is under way. 50 projects (mostly interchanges apparently) have been selected, among the list sent by concessionaires. This would represent EUR1bn of additional investment and be compensated by new tariff increases (between 0.3% and 0.4% in the 2018-2020 period) and financial contributions (to be negotiated) from local authorities.

ANALYSIS

- The plan is smaller than the previous one (EUR3.2bn in 2015), which is not a surprise. However, the financial compensation chosen is a surprise. The cost of the previous plan was offset by various extensions to the duration of concession contract life-spans. An extension negotiation is a long process, as it has to be approved by Brussels but it is a way to keep tariffs unchanged.
- In this new plan, the government is taking some risks. Politically speaking, it is now easy to legitimate additional tariff hikes. In addition, asking local authorities to pay is something new to us and could prompt long and complicated negotiations. This looks surprising to us, especially as local authorities' budgets are under pressure. In any case, this lowers the visibility on the outcome.
- We cannot measure the impact on Vinci and Eiffage's SOTP, as we would need additional information for that. Note that the previous plan had a EUR3 positive impact on valuation.

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Distribution of stock ratings

BUY ratings 72%

NEUTRAL ratings 0%

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