

# Airports' Auction: triple-digit premiums; What about returns?

## As expected, triple-digit premiums in the auction for airports

The auction for the airports of Guarulhos, Viracopos and Brasilia was concluded this morning and the outcome came in line with what we wrote last week ["What really matters? Looking beyond IRR"](#), with high premiums to minimum bids. Invepar and ACSA (South Africa) were granted Guarulhos airport with a R\$16.2 billion bid or 373% premium; Engevix and Corporacion America (Argentina) won Brasilia with a R\$4.5 billion bid or 673% premium; and Triunfo and Egis (France) won Viracopos airport with a R\$3.8 billion bid or 158% premium. Please refer to the next page for winners' details and profile.

## What about the returns? Low, but not necessarily negative

We tested our valuation models for the three Brazilian airports in order to understand what level of returns were targeted by the winners of today's auction. Using very aggressive (but not unrealistic) operational assumptions, our main take is: returns will be small (high single digit IRR after leverage), but not necessarily negative. For Guarulhos and Viracopos, the most disputed assets, IRRs could reach 8% (real terms and leveraged) considering: (1) commercial revenues 2.000bps above government estimates; (2) opex ~10% below ANAC's figures; and (3) capex ~30% below ANAC forecasts. Regarding Viracopos, we estimate it could reach an IRR of ~10% (real and leveraged) based on today's bid and under government estimates. It seems reasonable that investors demand higher returns on this project, once it incorporates aggressive demand forecasts and high execution risks on heavy construction. In summary, today's bids don't seem to be completely unrealistic, but they leave no margin for errors.

## Our companies: different approaches but same outcome

CCR, ECOR, OHL and ASR were not granted any of the airports. Market reaction was positive as there was a concern on overpaying risks, value destruction and execution risks. CCR outperformed ECOR and OHL last week due to a more conservative speech about today's auction, while ECOR and OHL raised concerns on overpaying risks on the back of a more positive speech. Important to mention that either the value creation or destruction would be very limited for these projects given the equity exposure. The proposed capital structure calls for approximately 80% debt and 20% equity, within a consortium composed by Infraero (state company, 49% stake) and private companies (51% stake).

## What's next? Transolimpica highway in Rio de Janeiro

We expect to see on March 8, the auction for the Transolimpica concession. It is a 3-tolled lanes for autos and 1-free lane for BRT (bus rapid transit), 13-km length. It is a PPP project in Rio de Janeiro, total capex estimated at R\$1.6 billion with subsidies of R\$1.2 billion. The winner is the one offering the lowest subsidy from the government. It is a greenfield project.

>> Employed by a non-US affiliate of MLPF&S and is not registered/qualified as a research analyst under the FINRA rules.

Refer to "Other Important Disclosures" for information on certain BofA Merrill Lynch entities that take responsibility for this report in particular jurisdictions.

BofA Merrill Lynch does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

Refer to important disclosures on page 6 to 7. Link to Definitions on page 5.

## Bank of America Merrill Lynch

Sara Delfim >> +55 11 2188 4552  
Research Analyst  
Merrill Lynch (Brazil)  
sara.delfim@baml.com

Murilo Freiberger >> +55 11 2188 4255  
Research Analyst  
Merrill Lynch (Brazil)  
murilo.freiberger@baml.com

Roberto Otero >> +55 11 2188 4119  
Research Analyst  
Merrill Lynch (Brazil)  
roberto.otero@baml.com

Table 1: Airports' auction winners (R\$ billion)

Airport	Winner	Bid	% premium
Guarulhos	Invepar/ACSA Engevix/C.	16.2	374%
Brasilia	America	4.5	673%
Viracopos	Triunfo/UTC/Egis	3.8	158%

Source: BofAML Global Research

Table 2: Bids from the toll roads (R\$ billion)

Company	Airport	Bid	% premium
ASR	Guarulhos	8.5	149.1%
CCR	Guarulhos	8.8	159%
OHL*	Guarulhos	12.0	250%
OHL	Viracopos	1.7	16%
OHL	Brasilia	4.4	656%
Ecorodovias	Guarulhos	12.8	276%

Source: BofAML Global Research

Note: \* final bid

## Winners background

### Guarulhos Airport: Invepar and ACSA

The consortium composed by Invepar (90%) and ACSA (10%) was granted the Guarulhos airport concession.

Invepar is controlled by three pension funds (PREVI, PETROS and FUNCEF) together with OAS, a major Brazilian contractor. The company owns two assets in Rio de Janeiro: a subway concession and the Yellow Line lane. It also manages four highway concessions (BA-093, Highway Litoral Norte, Highway Rio-Teresópolis and Highway Raposo Tavares). As per the company's website, in 2010 Net Revenues amounted to R\$1.23 billion (US\$0.7 billion) with total assets of R\$3.8 billion (US\$2.1 billion).

ACSA (Airports Company South Africa) manages and owns nine airports in South Africa. In 2011, the company reported Revenues of US\$621 million, EBITDA of US\$346 million and Total Assets of US\$2.9 billion.

### Brasilia Airport: Engevix and Corporacion America

The consortium composed by Engevix (50%) and Corporacion America (50%) was granted the Brasilia airport concession.

Engevix is a major Brazilian engineering company, focused on the energy, oil & gas, transportation, subway and airport sectors.

Corporacion America is an Argentine holding company serving the infrastructure, airports, retail, energy, services, among other sectors. In the airport segment, the holding controls Aeropuertos Argentina 2000 (managing 33 airports in Argentina) and other 10 other airports in South America, Armenia and Italy. In 2011, the company was granted the concession to manage the São Gonçalo do Amarante airport, state of Rio Grande do Norte, in Brazil.

### Viracopos Airport: Triunfo/UTC and Egis

The consortium composed by Triunfo (45%), UTC (45%) and Egis (10%) was granted the Viracopos airport concession.

Triunfo is a listed (TPIS3) infrastructure company in Brazil that manages three highways, the Navegantes Port Terminal, the Salto Hydroplant, among others. In 2010, the company reported revenues of R\$545 million (US\$310 million), and EBITDA of R\$264 million (US\$150 million).

UTC is a non-listed engineering and construction company, founded in 1974 in Brazil, mostly focused on the oil & gas, petrochemical, energy, mining and industrial sectors. In 2010, the company reached R\$1.6 billion in Net Revenues (US\$0.9 billion).

Egis results from the merger of Egis (France), a leading infrastructure and engineering company and Iosis, also French, focused on construction and civil nuclear engineering. Through Egis Avia, the company has the concession of 11 international airports, totaling 12 million passengers. In 2010, the company reported turnover of Eur627 million (~US\$815 million), with 16% coming from the airport management business.

## Summary of the auction phases

### 1<sup>st</sup> phase: initial bids

Table 3: Summary of the bids offered on the 1<sup>st</sup> phase (in R\$ billions; premium to minimum concession fee)

Brazilian Company	Foreign Airport Operator	GRU		BSB		VCP	
		Bid	% premium	Bid	% premium	Bid	% premium
CCR	Flughafen Zurich (Switzerland)	8.9	159.1%	1.0	68.7%		-100.0%
Ecorodovias	Fraport (Germany)	12.9	275.7%		-100.0%		-100.0%
OHL	Aena (Spain)	12.0	250.5%	2.8	381.1%	1.7	15.6%
Triunfo/UTC Participações	Egis (France)	4.6	32.9%	1.8	212.9%	3.8	158.3%
Queiroz Galvão / BTG	BAA / Ferrovial (UK)	6.0	75.5%	2.5	329.6%		-100.0%
Odebrecht	Changi (Singapore)	8.3	143.0%	0.6	0.0%	2.5	70.0%
Advent	Asur (Mexico)	8.5	149.1%		-100.0%		-100.0%
Fidens	ADC & HAS (USA)		-100.0%	3.1	429.6%		-100.0%
Invepar	ACSA (South Africa)	16.2	373.5%	3.2	452.1%	2.1	43.6%
Engevix	Corporacion America (Argentina)	11.5	236.2%	3.5	503.6%		-100.0%
Carioca Engenharia / GP Investimentos	ADP / Schipol (France / Netherlands)	6.1	78.7%		-100.0%		-100.0%

Source: BofAML Global Research

### 2<sup>nd</sup> phase: selected bids for the live auction

Table 4: Selected consortiums for the live session of the auction (in R\$ billions; premium to minimum concession fee)

Brazilian Company	Foreign Airport Operator	GRU	
		Bid	% premium
Invepar	ACSA (South Africa)	16.2	373.5%
Ecorodovias	Fraport (Germany)	12.9	275.7%
OHL	Aena (Spain)	12.0	250.5%

Brazilian Company	Foreign Airport Operator	BSB	
		Bid	% premium
Fidens	ADC & HAS (USA)	3.1	429.6%
Invepar	ACSA (South Africa)	3.2	452.1%
Engevix	Corporacion America (Argentina)	3.5	503.6%
OHL	Aena (Spain)	1.8	212.9%

Brazilian Company	Foreign Airport Operator	VCP	
		Bid	% premium
Triunfo/UTC Participações	Egis (France)	3.8	158.3%
Invepar	ACSA (South Africa)	2.1	43.6%
Odebrecht	Changi (Singapore)	2.5	70.0%

Source: BofAML Global Research

## Final result: and the airport goes to...

Table 5: Summary of the results from the airport auction (in R\$ billions; premium to minimum concession fee)

Brazilian Company	Foreign Airport Operator	GRU	
		Bid	% premium
Invepar	ACSA (South Africa)	16.2	373.5%
Ecorodovias	Fraport (Germany)	12.9	275.7%
OHL	Aena (Spain)	12.0	250.5%

Brazilian Company	Foreign Airport Operator	BSB	
		Bid	% premium
Engevix	Corporacion America (Argentina)	4.5	673.4%
OHL	Aena (Spain)	4.4	656.0%

Brazilian Company	Foreign Airport Operator	VCP	
		Bid	% premium
Triunfo/UTC Participações	Egis (France)	3.8	158.3%
Invepar	ACSA (South Africa)	2.1	43.6%
Odebrecht	Changi (Singapore)	2.5	70.0%
OHL	Aena (Spain)	1.7	15.6%

Source: BofAML Global Research

## Link to Definitions

### Industrials

Click [here](#) for definitions of commonly used terms.

## Special Disclosures

The locally listed shares of Brazilian companies may only be purchased by investors outside of Brazil who are "eligible investors" within the meaning of applicable laws and regulations.

## Important Disclosures

BofA Merrill Lynch Research personnel (including the analyst(s) responsible for this report) receive compensation based upon, among other factors, the overall profitability of Bank of America Corporation, including profits derived from investment banking revenues.

## Other Important Disclosures

Officers of MLPF&S or one or more of its affiliates (other than research analysts) may have a financial interest in securities of the issuer(s) or in related investments.

**BofA Merrill Lynch Global Research policies relating to conflicts of interest are described at <http://www.ml.com/media/43347.pdf>.**

**"BofA Merrill Lynch" includes Merrill Lynch, Pierce, Fenner & Smith Incorporated ("MLPF&S") and its affiliates. Investors should contact their BofA Merrill Lynch representative or Merrill Lynch Global Wealth Management financial advisor if they have questions concerning this report.**

**Information relating to Non-US affiliates of BofA Merrill Lynch and Distribution of Affiliate Research Reports:**

MLPF&S distributes, or may in the future distribute, research reports of the following non-US affiliates in the US (short name: legal name): Merrill Lynch (France): Merrill Lynch Capital Markets (France) SAS; Merrill Lynch (Frankfurt): Merrill Lynch International Bank Ltd., Frankfurt Branch; Merrill Lynch (South Africa): Merrill Lynch South Africa (Pty) Ltd.; Merrill Lynch (Milan): Merrill Lynch International Bank Limited; MLI (UK): Merrill Lynch International; Merrill Lynch (Australia): Merrill Lynch Equities (Australia) Limited; Merrill Lynch (Hong Kong): Merrill Lynch (Asia Pacific) Limited; Merrill Lynch (Singapore): Merrill Lynch (Singapore) Pte Ltd.; Merrill Lynch (Canada): Merrill Lynch Canada Inc; Merrill Lynch (Mexico): Merrill Lynch Mexico, SA de CV, Casa de Bolsa; Merrill Lynch (Argentina): Merrill Lynch Argentina SA; Merrill Lynch (Japan): Merrill Lynch Japan Securities Co., Ltd.; Merrill Lynch (Seoul): Merrill Lynch International Incorporated (Seoul Branch); Merrill Lynch (Taiwan): Merrill Lynch Securities (Taiwan) Ltd.; DSP Merrill Lynch (India): DSP Merrill Lynch Limited; PT Merrill Lynch (Indonesia): PT Merrill Lynch Indonesia; Merrill Lynch (Israel): Merrill Lynch Israel Limited; Merrill Lynch (Russia): Merrill Lynch CIS Limited, Moscow; Merrill Lynch (Turkey): Merrill Lynch Yatirim Bankasi A.S.; Merrill Lynch (Dubai): Merrill Lynch International, Dubai Branch; MLPF&S (Zürich rep. office): MLPF&S Incorporated Zürich representative office; Merrill Lynch (Spain): Merrill Lynch Capital Markets Espana, S.A.S.V.; Merrill Lynch (Brazil): Bank of America Merrill Lynch Banco Múltiplo S.A.

This research report has been approved for publication and is distributed in the United Kingdom to professional clients and eligible counterparties (as each is defined in the rules of the Financial Services Authority) by Merrill Lynch International and Banc of America Securities Limited (BASL), which are authorized and regulated by the Financial Services Authority and has been approved for publication and is distributed in the United Kingdom to retail clients (as defined in the rules of the Financial Services Authority) by Merrill Lynch International Bank Limited, London Branch, which is authorized by the Central Bank of Ireland and is subject to limited regulation by the Financial Services Authority – details about the extent of its regulation by the Financial Services Authority are available from it on request; has been considered and distributed in Japan by Merrill Lynch Japan Securities Co., Ltd., a registered securities dealer under the Financial Instruments and Exchange Act in Japan; is distributed in Hong Kong by Merrill Lynch (Asia Pacific) Limited, which is regulated by the Hong Kong SFC and the Hong Kong Monetary Authority; is issued and distributed in Taiwan by Merrill Lynch Securities (Taiwan) Ltd.; is issued and distributed in India by DSP Merrill Lynch Limited; and is issued and distributed in Singapore by Merrill Lynch International Bank Limited (Merchant Bank) and Merrill Lynch (Singapore) Pte Ltd. (Company Registration No.'s F 06872E and 198602883D respectively) and Bank of America Singapore Limited (Merchant Bank). Merrill Lynch International Bank Limited (Merchant Bank) and Merrill Lynch (Singapore) Pte Ltd. are regulated by the Monetary Authority of Singapore. Merrill Lynch Equities (Australia) Limited (ABN 65 006 276 795), AFS License 235132 provides this report in Australia in accordance with section 911B of the Corporations Act 2001 and neither it nor any of its affiliates involved in preparing this research report is an Authorised Deposit-Taking Institution under the Banking Act 1959 nor regulated by the Australian Prudential Regulation Authority. No approval is required for publication or distribution of this report in Brazil. Merrill Lynch (Dubai) is authorized and regulated by the Dubai Financial Services Authority (DFSA). Research reports prepared and issued by Merrill Lynch (Dubai) are prepared and issued in accordance with the requirements of the DFSA conduct of business rules.

Merrill Lynch (Frankfurt) distributes this report in Germany. Merrill Lynch (Frankfurt) is regulated by BaFin.

This research report has been prepared and issued by MLPF&S and/or one or more of its non-US affiliates. MLPF&S is the distributor of this research report in the US and accepts full responsibility for research reports of its non-US affiliates distributed to MLPF&S clients in the US. Any US person receiving this research report and wishing to effect any transaction in any security discussed in the report should do so through MLPF&S and not such foreign affiliates.

**General Investment Related Disclosures:**

This research report provides general information only. Neither the information nor any opinion expressed constitutes an offer or an invitation to make an offer, to buy or sell any securities or other financial instrument or any derivative related to such securities or instruments (e.g., options, futures, warrants, and contracts for differences). This report is not intended to provide personal investment advice and it does not take into account the specific investment objectives, financial situation and the particular needs of any specific person. Investors should seek financial advice regarding the appropriateness of investing in financial instruments and implementing investment strategies discussed or recommended in this report and should understand that statements regarding future prospects may not be realized. Any decision to purchase or subscribe for securities in any offering must be based solely on existing public information on such security or the information in the prospectus or other offering document issued in connection with such offering, and not on this report.

Securities and other financial instruments discussed in this report, or recommended, offered or sold by Merrill Lynch, are not insured by the Federal Deposit Insurance Corporation and are not deposits or other obligations of any insured depository institution (including, Bank of America, N.A.). Investments in general and, derivatives, in particular, involve numerous risks, including, among others, market risk, counterparty default risk and liquidity risk. No security, financial instrument or derivative is suitable for all investors. In some cases, securities and other financial instruments may be difficult to value or sell and reliable information about the value or risks related to the security or financial instrument may be difficult to obtain. Investors should note that income from such securities and other financial instruments, if any, may fluctuate and that price or value of such securities and instruments may rise or fall and, in some cases, investors may lose their entire principal investment. Past performance is not necessarily a guide to future performance. Levels and basis for taxation may change.

This report may contain a short-term trading idea or recommendation, which highlights a specific near-term catalyst or event impacting the company or the market that is anticipated to have a short-term price impact on the equity securities of the company. Short-term trading ideas and recommendations are different from and do not affect a stock's fundamental equity rating, which reflects both a longer term total return expectation and attractiveness for investment relative to other stocks within its Coverage Cluster. Short-term trading ideas and recommendations may be more or less positive than a stock's fundamental equity rating.

BofA Merrill Lynch is aware that the implementation of the ideas expressed in this report may depend upon an investor's ability to "short" securities or other financial instruments and that such action may be limited by regulations prohibiting or restricting "shortselling" in many jurisdictions. Investors are urged to seek advice regarding the applicability of such regulations prior to executing any short idea contained in this report.

Foreign currency rates of exchange may adversely affect the value, price or income of any security or financial instrument mentioned in this report. Investors in such securities and instruments, including ADRs, effectively assume currency risk.

UK Readers: The protections provided by the U.K. regulatory regime, including the Financial Services Scheme, do not apply in general to business coordinated by BofA Merrill Lynch entities located outside of the United Kingdom. BofA Merrill Lynch Global Research policies relating to conflicts of interest are described at <http://www.ml.com/media/43347.pdf>.

Officers of MLPF&S or one or more of its affiliates (other than research analysts) may have a financial interest in securities of the issuer(s) or in related investments.

MLPF&S or one of its affiliates is a regular issuer of traded financial instruments linked to securities that may have been recommended in this report. MLPF&S or one of its affiliates may, at any time, hold a trading position (long or short) in the securities and financial instruments discussed in this report.

BofA Merrill Lynch, through business units other than BofA Merrill Lynch Global Research, may have issued and may in the future issue trading ideas or recommendations that are inconsistent with, and reach different conclusions from, the information presented in this report. Such ideas or recommendations reflect the different time frames, assumptions, views and analytical methods of the persons who prepared them, and BofA Merrill Lynch is under no obligation to ensure that such other trading ideas or recommendations are brought to the attention of any recipient of this report.

In the event that the recipient received this report pursuant to a contract between the recipient and MLPF&S for the provision of research services for a separate fee, and in connection therewith MLPF&S may be deemed to be acting as an investment adviser, such status relates, if at all, solely to the person with whom MLPF&S has contracted directly and does not extend beyond the delivery of this report (unless otherwise agreed specifically in writing by MLPF&S). MLPF&S is and continues to act solely as a broker-dealer in connection with the execution of any transactions, including trading transactions in any securities mentioned in this report.

**Copyright and General Information regarding Research Reports:**

Copyright 2012 Merrill Lynch, Pierce, Fenner & Smith Incorporated. All rights reserved. iQmethod, iQmethod 2.0, iQprofile, iQtoolkit, iQworks are service marks of Merrill Lynch & Co., Inc. iQanalytics®, iQcustom®, iQdatabase® are registered service marks of Merrill Lynch & Co., Inc. This research report is prepared for the use of BofA Merrill Lynch clients and may not be redistributed, retransmitted or disclosed, in whole or in part, or in any form or manner, without the express written consent of BofA Merrill Lynch. BofA Merrill Lynch Global Research reports are distributed simultaneously to internal and client websites and other portals by BofA Merrill Lynch and are not publicly-available materials. Any unauthorized use or disclosure is prohibited. Receipt and review of this research report constitutes your agreement not to redistribute, retransmit, or disclose to others the contents, opinions, conclusion, or information contained in this report (including any investment recommendations, estimates or price targets) without first obtaining expressed permission from an authorized officer of BofA Merrill Lynch.

Materials prepared by BofA Merrill Lynch Global Research personnel are based on public information. Facts and views presented in this material have not been reviewed by, and may not reflect information known to, professionals in other business areas of BofA Merrill Lynch, including investment banking personnel. BofA Merrill Lynch has established information barriers between BofA Merrill Lynch Global Research and certain business groups. As a result, BofA Merrill Lynch does not disclose certain client relationships with, or compensation received from, such companies in research reports. To the extent this report discusses any legal proceeding or issues, it has not been prepared as nor is it intended to express any legal conclusion, opinion or advice. Investors should consult their own legal advisers as to issues of law relating to the subject matter of this report. BofA Merrill Lynch Global Research personnel's knowledge of legal proceedings in which any BofA Merrill Lynch entity and/or its directors, officers and employees may be plaintiffs, defendants, co-defendants or co-plaintiffs with or involving companies mentioned in this report is based on public information. Facts and views presented in this material that relate to any such proceedings have not been reviewed by, discussed with, and may not reflect information known to, professionals in other business areas of BofA Merrill Lynch in connection with the legal proceedings or matters relevant to such proceedings.

This report has been prepared independently of any issuer of securities mentioned herein and not in connection with any proposed offering of securities or as agent of any issuer of any securities. None of MLPF&S, any of its affiliates or their research analysts has any authority whatsoever to make any representation or warranty on behalf of the issuer(s). BofA Merrill Lynch Global Research policy prohibits research personnel from disclosing a recommendation, investment rating, or investment thesis for review by an issuer prior to the publication of a research report containing such rating, recommendation or investment thesis.

Any information relating to the tax status of financial instruments discussed herein is not intended to provide tax advice or to be used by anyone to provide tax advice. Investors are urged to seek tax advice based on their particular circumstances from an independent tax professional.

The information herein (other than disclosure information relating to BofA Merrill Lynch and its affiliates) was obtained from various sources and we do not guarantee its accuracy. This report may contain links to third-party websites. BofA Merrill Lynch is not responsible for the content of any third-party website or any linked content contained in a third-party website. Content contained on such third-party websites is not part of this report and is not incorporated by reference into this report. The inclusion of a link in this report does not imply any endorsement by or any affiliation with BofA Merrill Lynch. Access to any third-party website is at your own risk, and you should always review the terms and privacy policies at third-party websites before submitting any personal information to them. BofA Merrill Lynch is not responsible for such terms and privacy policies and expressly disclaims any liability for them.

Subject to the quiet period applicable under laws of the various jurisdictions in which we distribute research reports and other legal and BofA Merrill Lynch policy-related restrictions on the publication of research reports, fundamental equity reports are produced on a regular basis as necessary to keep the investment recommendation current.

Certain outstanding reports may contain discussions and/or investment opinions relating to securities, financial instruments and/or issuers that are no longer current. Always refer to the most recent research report relating to a company or issuer prior to making an investment decision.

In some cases, a company or issuer may be classified as Restricted or may be Under Review or Extended Review. In each case, investors should consider any investment opinion relating to such company or issuer (or its security and/or financial instruments) to be suspended or withdrawn and should not rely on the analyses and investment opinion(s) pertaining to such issuer (or its securities and/or financial instruments) nor should the analyses or opinion(s) be considered a solicitation of any kind. Sales persons and financial advisors affiliated with MLPF&S or any of its affiliates may not solicit purchases of securities or financial instruments that are Restricted or Under Review and may only solicit securities under Extended Review in accordance with firm policies.

Neither BofA Merrill Lynch nor any officer or employee of BofA Merrill Lynch accepts any liability whatsoever for any direct, indirect or consequential damages or losses arising from any use of this report or its contents.