

Autopista Central, S.A.

The Valuation of a Toll Road Project in Chile

The Case: Manuel Flores, senior vice-president of Business Development for the Spanish construction and services company ACS, has been approached by approached by Juan Albán from the toll-road and airport operator Abertis and Sergio Sandoval from the private equity arm of Santander Bank. Albán and Sandoval have expressed considerable interest in jointly buying ACS' stake in a 61 kilometer toll-road that the firm had constructed and was now co-operating in the Chilean capital of Santiago. ACS had a 48% equity stake in this venture known in Chile as *Autopista Central* or “Central Highway” which had received investment of more than USD 800 million by 2007.

Perspective: This case has been written from the perspective of the seller but with the goal of providing a fair valuation of the asset.

Key Issues: There are several main issues that this case will deal with and that the instructors may focus on with their students.

1. Valuation: Completed a full valuation using discounted cash flows. The valuation has been conducted on Autopista Central as of the end of 2007 based on projections that have been built in agreement with the top management of ACS.
2. Emerging Market Country Risk: Focus on the risks inherent in project finance within emerging market. Such risks include financial assessments and metrics, the political environment, the monetary policy, the economic situation, the capital structure as well as operating risk inherent with the current infrastructure system.
3. Cost of Capital: The utilization of the Damodaran Modified World CAPM and Erb-Harvey-Viskanta models to calculate the cost of equity with Chilean risk premium. Using the different costs of equity capital obtained to appropriate WACCs.
4. Sale: Comparing the student's valuation with the actual sale price.

The main goal of this case is to open a debate about how to value and sell a large infrastructure asset located in an emerging market. This includes the particular current situation in Chile, the large availability of debt capital and high real estate prices in 2007, and the specific interests of the players involved. We believe this case offers several compelling issues that would foster a dynamic discussion and stimulate the analysis of the intrinsic extra value (beyond DCF) of the asset based on the specific goals of the buyers.