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KordaMentha News Article

No light at end of Tunnel

SYDNEY'S struggling Cross City Tunnel finally collapsed yesterday, owing \$560 million to its banks and becoming the country's first fully-privatised infrastructure project to go into receivership.

In a dramatic day, creditors led by Westpac and Deutsche Bank, acting on behalf of a syndicate of 16 domestic and foreign banks, appointed receivers KordaMentha after learning that tunnel owner/operator Cross City Motorway had appointed an administrator, McGrath Nichol yesterday morning.

The banks began consulting KordaMentha about options for refinancing their loans in November, including a possible sale with Macquarie Bank touted as a likely buyer. The NSW Government has ruled out buying back the tunnel or bailing out CCM.

A source close to the receivers said the tunnel would be sold, but it was early days yet.

"Eventually, there will be a change in ownership. It is a question of what the strategy of the banks is. Nobody has approached us yet," the source said.

KordaMentha partner Martin Madden will assume the role of the board, while the management team of about 20 people will continue in their current roles.

A source told The Australian yesterday: "Practically, nothing is going to change."

Mr Madden said in a statement: "Our job is to ensure its continued smooth operation, including its ongoing maintenance, to ensure continuity of employment and ensure the business is adequately funded in the long term.

"We see this as the chance for a fresh start for the tunnel. We believe, with some changes, it can and will succeed.

"We intend to work closely with the current management, the RTA and the State Government to secure a long-term sustainable business."

A spokeswoman for Kordamentha said it was unlikely the receivers would pursue the tunnel operator's legal action against the NSW Government over road changes which, it was claimed, reduced traffic through the tunnel.

The tunnel is owned by the CrossCity Motorway Consortium comprising Baulderstone Hornibrook, the parent company Bilfinger Berger, and equity finance partners Deutsche Bank and Cheung Kong Infrastructure Holdings,

The tunnel cost \$680 million to build. Equity investors are believed to be likely to lose about \$400 million.

The Hong Kong based company, Cheung Kong Infrastructure, owned by Hong Kong billionaire Li Ka-Shing, was the largest shareholders with a 50 per cent stake.

Cheung Kong had already written off \$HK578 million (\$102 million) against its \$110 million equity stake in the tunnel.

Bilfinger Berger owned 20 per cent and DB Capital Partners, representing commonwealth and state public sector superannuation funds, had 30 per cent.

The commonwealth government super fund Aria said in November that it had written off its entire \$34 million investment in the project.

CCM was believed to have capitalised interest on the loan for a year, with the first payment falling due this month.

However, the source said yesterday that the receivership was not triggered by a default, adding that payment was not "due for a couple of days".

The 2.1km tunnel has attracted 30,000 cars a day -- a third of its projected 90,000 vehicles a day -- since it opened last year.

Parallels have been drawn between the tunnel and the partially-privatised Sydney Airport Rail Link, which also went into receivership months after it opened in 2000. In July, Westpac signed a conditional contract to buy the struggling business, but the process would take months.

The project cost a total of \$900 million, of which \$704 million was the state government share.

Sources in the private public partnership sector said yesterday that the tunnel's collapse would not affect the billions of dollars worth of PPP projects planned or under way.

A source said: "Each project will be judged on a case by case basis.

"The Cross City Tunnel is quite a separate case. In this instance, the (state) government has a role to play in its collapse."