
Banks To Drop \$1bn On RiverCity Loans

The future for the Clem Jones Tunnel?

We've seen the odd tollroad failure in this country. But nothing quite so spectacular as Brisbane's **RiverCity Motorway** (ASX Code RCY).

Once a road has been built, the tolling infrastructure is in place, and cars are driving on the road, toll roads produce cash. Typical EBITDA margins are between 60% and 85% - that is, up to 85% of the cash collected as tolls is available to service debt and, if there's enough to go around, provide equity with a return as well.

They don't fail because there is no cash. They fail because there is not *enough* cash to service the large amount of debt typically used to finance construction. At least that's what I thought.

Rivercity is in the truly extraordinary situation of not generating enough toll revenue to cover its operating expenses. Using current traffic numbers of about 30,000 per day and the current average toll of \$2.06 (ex GST), the annual revenue of \$22.5m will fall \$11m short of the \$34m of annual operating costs. Forget about the \$95m in annual interest it is supposed to be paying, RiverCity can't even meet its operating costs.

On the latest numbers, it has the ignominious distinction of being the first ever toll road to be worth more if they shut the gates than it is as an operating toll road (an aquarium under the Brisbane River perhaps?).

That is not going to happen. Traffic will grow enough to justify a value. But the banks are going to lose most of the \$1.3bn of credit they have provided.

Let's be really optimistic and assume the traffic can grow 50% from here *and* they can put the tolls back up to an average of \$3 during the next two years. Now assume that when the banks go to sell it, someone is prepared to pay 15 times EBITDA on the assumption of substantial future growth (yes, yes, I'm stretching the friendship but **Transurban** has paid stupider prices). That would equate to EBITDA of \$15m and a sale price of \$225m.

Even with optimistic assumptions like these, the banks are looking at a loss of \$1.1bn. They will already have provisioned for much of this, but it is going to be interesting to see which banks are left holding the can.

You can play around with the blue assumptions in the spreadsheet below and see if you can come up with something better. And I shouldn't laugh but some of the comments on [Why is Anyone Buying RCY](#) made me chuckle this morning. I do hope Richie Rich was having a lend of us.