



Stock story: Vinci
Strong foundations for future growth

Vinci is built around the pillars of its concessions and contracting operations. From our perspective, the most attractive part of its business is the large and diversified concessions holdings. These provide the lion's share of earnings and deliver a stable and reliable income stream for investors.

The concessions business is diverse, spanning a wide array of assets. These include everything from toll roads and airports to renewable power and even the Stade de France stadium. This business is without doubt the most important earnings contributor due to the strong profit margins on which it operates. However, the contracting business is also a large operation. Capabilities for this contracting business are significant with the business operating in over 120 countries, with an employee base of more than 270,000 and project types including road construction, buildings, and electrical networks and data centres.

Within the concession business, the most important economic engine comprises the toll roads concessions in France, known as Vinci Autoroutes. Autoroutes operates a collection of road networks covering 4,443 km that represent around half the toll road market in the country and one third of the total motorway network. These motorways are mature concessions and typically grow modestly but predictably as traffic increases and tolls are lifted by 70% of the recorded inflation rate each year. This leads to modest but steady inflation-linked growth in cash flow from these assets. Due to the mature nature of these concessions, they generate significant cash flow, with EBITDA (a cash flow proxy for motorways) of €4.4bn in 2022.

Airports have been an area of growth for the company. In 2019 (the last full year before COVID-19 affected air traffic), Vinci owned or operated airports that moved 255 million passengers, a figure it looks likely to have surpassed in 2023. In 2013, Vinci took relatively modest airport operations and grew them through the acquisition

of the airport operator in Portugal, ANA. This asset added key airports such as Lisbon and Porto to its portfolio. Since then, Vinci has taken stakes in airports in the UK, Mexico and Japan. These assets provide a link to the ongoing structural growth in global aviation.

Vinci has continued to look for areas of growth in which it can profitably deploy capital generated from its existing business. The company has stated its aspirations for significant growth into renewable power. This has arisen through the acquisition of the contractor Cobra IS and its renewable energy development platform. The company has stated a target of over 12 GW of capacity by 2030 as it continues to deploy increasing capital into this opportunity.

Finally, while a minority of Vinci's earnings, contracting is a large part of the overall business in terms of volume of work. The company is currently sitting on an order book of €63.3bn or around 13.6 months of activity for the group. We expect this operation will continue to generate a meaningful and growing profit contribution, particularly through its energy and electric engineering teams that are benefiting from ongoing expenditure in energy transition and digital transformation. Importantly from a risk point of view, the contracts are highly diversified, with any single 'difficult to complete' construction project likely to be a headwind to earnings rather than a significant financial problem for the company.

We consider that the outlook for the business should be steady and predictable with a well-diversified portfolio of infrastructure concession businesses. Meanwhile, management will be focused on continued capital deployment of the significant free cash flow the company generates for its shareholders.

By Ben McVicar, Portfolio Manager

Sources: Company filings.



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