
# Infrastructure:
## The resilience of public transportation

DWS
Investors for a new now

Portfolio asset: Hansea

# Market backdrop

Public transportation is an essential and integrated part of a country's core infrastructure, vital to support economies and for promoting quality of life.

Investing in public transportation networks presents an attractive opportunity for infrastructure investors, as these networks typically have high barriers to entry, long-term contracts with local authorities, and stable, recurring revenue streams. In addition, public transportation networks often require significant capital investment for maintenance and upgrades, which can create opportunities for infrastructure investors to add value through operational improvements and asset enhancements. The sector can generate stable and reliable income, whilst contributing to the essential services that enable communities to thrive.

However, the transport sector has the highest reliance on fossil fuels of any sector and accounted for 37% of $CO_2$ emissions from end-use sectors in 2021[1]. Underpinning the 2020 European Green Deal's stated goal of achieving climate neutrality by 2050 is a plan to reduce greenhouse gas emissions to at least 50% by 2030 (compared with 1990 levels) and to increase the efficient use of resources through transitioning to a cleaner and more circular economy. The modernisation and decarbonisation of public transportation will be central to governments' ambitions to achieve net zero targets in efforts to solve the global climate challenge. Private capital is expected to provide the majority to the funding required to switch to zero emission buses, creating significant investment opportunities for infrastructure investors.

## Europe, a key infrastructure investment region

Europe is the key region for infrastructure investment strategies due to the volume and diversified nature of opportunities available, supported by relatively transparent and stable regulation when compared with other markets. Within Europe, the transportation sector is particularly attractive with abundant investment opportunities typically governed by mature and tested concession frameworks, which have historically provided long-term income return visibility as well as the potential for expansion[2]. The essentiality of public transportation was demonstrated by its resilient performance during the Covid-19 pandemic: government support programmes were established to allow public transportation continued to operate for key workers to enable the provision of essential services, recognising the role mobility plays in Europe's overarching economic, social, and climate priorities.

### The trends driving growth opportunities

Public transportation offers attractive growth opportunities driven chiefly by two secular trends: **urbanisation** and **decarbonisation**.Today, large cities generate the vast majority of European GDP and this urbanisation is expected to continue, underpinned by:

- population growth
- urban expansion
- increased population density[3]

[1] Source: https://www.iea.org/topics/transport
[2] Source: DWS Research, Infralogic, June 2023
[3] https://urban.jrc.ec.europa.eu/thefutureofcities/urbanisation#the-chapter, https://knowledge4policy.ec.europa.eu/foresight/topic/continuing-urbanisation/urbanisation-europe_en

Successful cities are highly reliant on public transportation facilities, creating a requirement for long-term investment in urban transportation. Public transportation services are vital components of governments' public mobility agendas, which anticipate a modal shift from private vehicle to public transportation across the country, reducing congestion and carbon emissions. Across Europe, policy measures have been put in place to achieve this, including the establishment of "no traffic" zones and dedicated bus lanes in city centres, but also proposals to increase connectivity in more rural areas through network expansion.

These initiatives and the increasing focus on net zero have created huge scope for fleet greening and electrification. While decarbonisation has been on the political agenda across the continent for the last decade, efforts have now reached an inflection point with increasingly ambitious targets to reduce carbon emissions..

## The need for sustainable, smart mobility models will increasingly present long-term policy challenges

While public budgets have been stretched to support the upgrading and futureproofing of transportation infrastructure, government funding is insufficient to cover the investments needed in areas such as:

- grid upgrades
- charging infrastructure roll out
- battery and other alternative energy storage solutions

As a result, governments increasingly seek strong private partners with the capital and innovation know-how to enable the transition towards a cleaner transport sector.

## DWS: A track record in transportation investment

DWS has been investing in transportation since 2006, with investments in the aviation, roads, and rail sectors. The team identified public transportation as an attractive sector in 2018 due to its strong asset base, high barriers to entry, mature market profile, and attractive contractual model, where businesses operate under long-term contracts with public sector counterparts. Public service operators need established relationships with public counterparties, which limit the number of available contracts and thereby making it difficult for new market entrants. Incumbent players typically benefit from and an existing asset base, such as local depots from which to manage their operations, fleet, and drivers.

To date, DWS has invested into two public bus transportation companies[1] :

**Hansea** / the leading Belgian private bus operator in 2019, and

**Stagecoach** / the leading bus operator in the UK in 2022



[1] Case studies are for illustrative purposes only and are provided to demonstrate the types of transactions entered into by the team previously. They do not represent all the transactions and are not representative of the team's investment experience as a whole nor are they representative of the transactions that may be available in the current market.

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## CASE STUDY: Hansea

DWS identified local and regional public transportation in Belgium as an attractive sector for investment in 2018. Belgium is a growing market supported by strong macro fundamentals, regulation, and a trend to further outsourcing of public transportation services by public transportation authorities. The market is particularly attractive as it is protected from new entrants with a maximum market share for private operators. Growth expectations are underpinned by forecasted demographic growth and GDP expansion, and local governments' stated commitment to local transport funding in efforts to reduce traffic congestion and emissions, with regulation encouraging zero-emission vehicle adoption to decarbonise the transportation sector[5].

Following a comprehensive market mapping exercise, DWS decided to target Hansea, one of the leading private bus operators in Belgium providing essential transportation and mobility services to the public and on a concession basis. In 2022 DWS expanded Hansea's business internationally with the acquisition of Munckhof, a leading bus operator in the Netherlands.

The combined business services a diverse range of different mobility end-markets (e.g. public transport, special target groups) in two wealthy EU countries, and achieves further diversification through its commercial activities; the company has won a number of new contracts under DWS stewardship. With government-secured cash flows, Hansea has highly resilient margins, with potential risk mitigated by the gross cost contract structure (which eliminated volume and price risk, protecting the business from cost inflation), medium to long term contracts, and a fuel hedging programme that insulates the company from price volatility.

The electrification of Hansea's bus fleet is a key focus. Currently, Hansea operates c.30 electric buses which will increase to c.100 buses by the end of 2024; it is expected that 50% of the company's fleet will be electric in the next few years. Hansea is upgrading its depots with the installation of charging infrastructure and is planning to install photovoltaic equipment on the roofs of its depots to generate green electricity. Hansea's existing debt facilities were refinanced in 2022, including a new capex facility that will secure the continuous growth of Hansea and provide future funding for ongoing fleet electrification.


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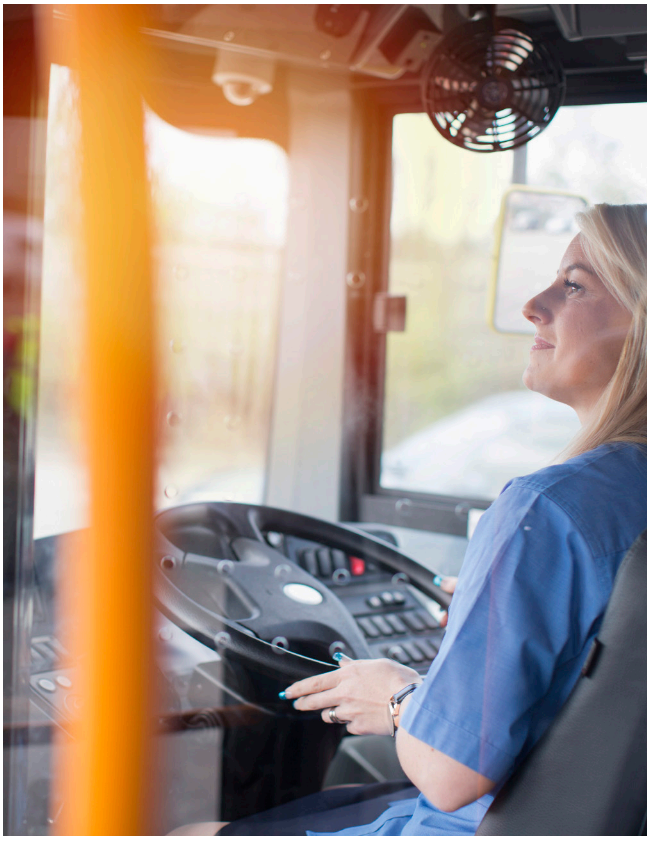
## CASE STUDY: Stagecoach

Following the strong performance of Hansea, particularly during the Covid-19 pandemic, DWS identified the UK as an interesting region for an additional public transportation investment. The UK has stated objectives to decarbonise and transition to low or zero emission vehicles in order to reach net zero in the transport sector over the next decade. As part of this, a National Bus Strategy has been developed to improve the bus service nationally and attract people away from private cars towards more sustainable bus travel. The transition to a low carbon operation and the announced improvement of services will require substantial capital investments in the medium to long-term to meet the expectations of both bus passengers and the UK Government.

Stagecoach is one of the UK's leading bus and coach operators, providing bus, coach, and tram services in regulated and deregulated markets across England, Scotland, and Wales and was listed on the London Stock Exchange. In 2021, the company was subject to a takeover offer from a large UK transport player; DWS approached Stagecoach to propose an alternative, private structure. The DWS investment thesis highlighted the attractive market dynamics, but also characteristics specific to the company: stable medium to long-term gross cost contracts with Transport for London resulting in stable and predictable cash flows, a well-invested asset base including buses and depots, high barriers to entry (resulting from both the contractual profile and the depot footprint) and the potential for a capex-led electrification of the bus fleet, similar to the programme at Hansea.

In 2022, DWS successfully acquired 100% of the share capital in Stagecoach. The investment thesis is supported by growth initiatives under DWS ownership, with two successful acquisitions in the London region and new contracts won across the country. Stagecoach has already advanced its ambitious ESG programme, including the launch of the UK's first autonomous bus service. The fleet electrification is already underway with government grants expected to support this initiative until cost parity with internal combustion engine vehicles has been achieved.

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