

Economics

Salini Prepares to Make \$1.7 Billion Bet to Save Italy's Construction Sector

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- Italy's top builder to unveil rescue plan for troubled Astaldi
- Salini's Project Italy would put several firms under one roof

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Italy's construction industry is crumbling after years of recession and bad investments, but now the sector's biggest player is betting it can be rebuilt.

Salini Impregilo SpA, whose projects have included expansion of the Panama Canal to a new subway line in Riyadh, plans to create a 1.5 billion-euro (\$1.7 billion) construction hub dubbed "Progetto Italia," or Project Italy, that would combine its assets with those of several ailing Italian builders such as [Astaldi SpA](#).

Italy's construction industry, the fourth largest in Europe, is reeling from years of sluggish economic growth, government spending cuts on infrastructure and foreign ventures gone sour. In the last decade, about 600,000 jobs have been wiped out as 120,000 builders collapsed, according to [data](#) compiled by the Italian industry association Ance.



Pietro Salini
 Photographer: Jason Alden/Bloomberg

"With Project Italy, we want to create a larger industry player by bringing together the forces of the country's two biggest companies," Salini Chief Executive Officer Pietro Salini told analysts on an earnings conference call in May. "The entire market would benefit from economies of scale, ensure execution continuity and delivery of critical infrastructure for our country."

Salini published full-page ads in several Italian newspapers to present the project, saying it will support employment and boost economic growth.

That won't be easy. Acquiring Astaldi, the failed construction company under administration, will be the first building block in Salini's hub. Under Salini's rescue plan, the Milan-based company will invest more than 1.2 billion euros through a combination of a capital increase and financing by banks.



But the initial plan to solely focus on absorbing Astaldi's orders portfolio and debt wasn't backed by Cassa Depositi e Prestiti, which asked Salini to go back to the drawing board and include other struggling builders such as Condotte SpA, which filed for insolvency last year, as well as Trevi Finanziaria Industriale SpA.

After months of talks, Italy's state lender is said to be ready to commit as much as 250 million euros to finance part of the deal, according to two people close to the deal that asked not to be named. Representatives for CDP and Salini declined to comment.

Cassa Depositi's commitment comes with conditions: on top of asking Salini to include in the deal many of Italy's largest ailing builders, CDP also wants to appoint five out of 15 members of the new entity's board. In addition, an independent committee would be created to try and attract new investors.

Salini has until July 15 to present its formal bid for Astaldi and detail its plans.

Even if the combination gets off the ground, one of the biggest challenges in reviving Italy's slumping construction industry is generating sufficient liquidity. During the sector's decade of financial woes, public spending on construction plunged by more than half to 21 billion euros. That in turn has left lenders exposed for about 100 billion euros of loans to troubled companies such as Astaldi.

Important Step

Barbara Cerutti, an Italian labor leader in the construction segment, said Salini's Project Italy proposal will be "an important step forward for the sector that's able to guarantee greater competitiveness of Italian companies abroad."

But she adds that "while it's a good start, it's not the final solution." Italy also must reduce delays in completing large infrastructure projects, which requires political backing on investments.

The squabbling allies of Italy's populist government, the pro-business League and anti-establishment Five Star, don't see eye to eye on big infrastructure plans such as the TAV high-speed railway linking Piedmont in northern Italy with Lyon in France.

Salini's goal of creating a stronger Italian building industry that can compete internationally makes sense, says Filippo Monge, adjunct professor of construction economics at the University of Turin. Italy's 10 largest contractors already generate 70% of their revenue outside their home market, he said.

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