

Take a spin on Challenger's big wheels

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If you're a fan of the London Eye, you now have the opportunity to invest in the iconic big wheel industry. Challenger Acquisitions (LON: CHAL) has just been readmitted to trading after completion of its deal to acquire Starneth, the leading designer of giant observation wheels.



Starneth's founders have a background in the design and engineering of offshore oil platforms. This was just the sort of expertise needed when the original London Eye project was put together at the end of the last century. As a result the team acted as project manager for the design and construction of the wheel and drive system on London's South Bank. Since then there have been five further giant wheel projects, of which three have been worked on by the Challenger team.

The latest is New York where construction got underway this summer. This is a \$500 million project in Staten Island offering views across the water to Manhattan and the Statue of Liberty. It promises to be a "must do" activity for many of the 56 million annual visitors to the city when it opens in 2017. The wheel itself accounts for about a third of the cost, the remainder going on all the related infrastructure, car parking, visitor centres and such. Challenger is taking design fees for this high-profile project and also has a 2.5 percent equity stake.

There will be some revenue from New York next year; but the story depends on further wheel projects being won. Given the long planning timescales there is a visible pipeline of 25 opportunities and Challenger aims to do one project a year; though it believes it could handle two or three simultaneously. Jakarta is the most advanced and it's hoped that the go-ahead will be given soon in 2016. Future wheels are likely to be in the \$100 million bracket and the aim is for Challenger to project manage the wheel construction going forward as well receive design fees.

A core part of the strategy is to take an equity stake in the projects. This will lead to an income stream over the longer term and build up the balance sheet. It will also require some fundraising but at least this will be backed by firm investment propositions. The business is clearly very lumpy in nature and the timing of these large contracts can't be controlled. Nevertheless it looks like an interesting prospect.