



Asset Management

Infrastructure Debt Newsletter – H1 2019

Global Infrastructure H1 Overview

- Global project finance loan volumes fell 3.5% from USD 104.2bn in the first half of 2018 to USD 100.5bn in the first half of 2019
- Global bond volumes fell 2.8% from USD 21.2bn to USD 20.7bn
- Activity among the multilaterals in the developing markets was actually up 60% from USD 7.2bn to USD 11.5bn while in the developed markets it dropped USD 1bn to USD 0.7bn
- In the first half the project finance market was spread fairly evenly over the globe. In terms of loans, the Americas market was USD 30.4bn, Asia- Pacific USD 34.2bn, and EMEA USD 35.9bn, with the Americas and EMEA down and Asia up compared with last year
- By country, the top three once again were the USA, Australia and the UK. The fact that the UK remained at number three is a surprise given the quietness in the market this year.
- By sector, Power and Renewables made up USD 44.0bn of the total driven by the green revolution. But oil and gas still chipped in with USD 21.2bn.

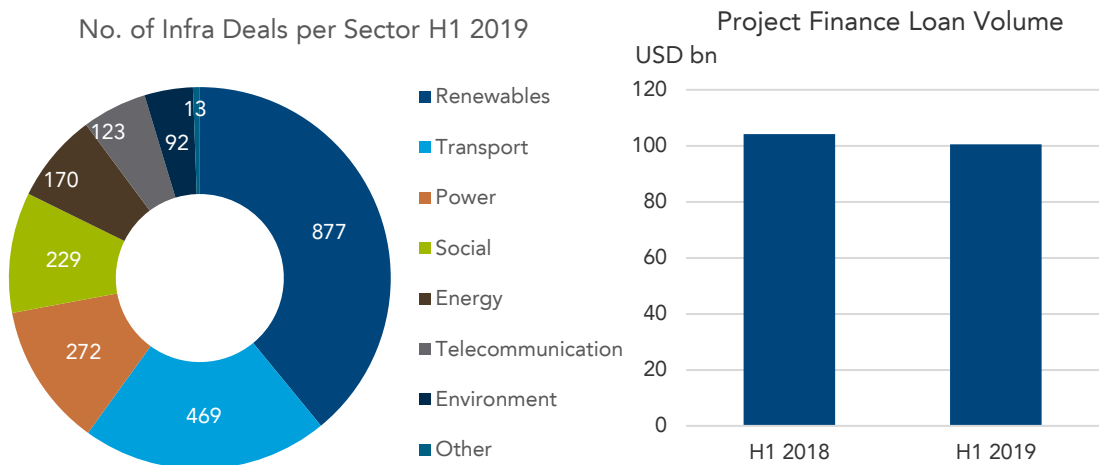


Figure 1: Number of Infra Deals per Sub-Sector and Classic Project Finance Loans; Source: Inframation/IFR

Infrastructure Debt – Activity in detail

With regard to global project finance debt volume of USD 100.5bn, 79.5% or USD 99.8bn came from classic infrastructure loans, whereas 20.5% or USD 20.7bn came from bond financing.

The Americas saw a volume of USD 30.4bn in H1 2019, which is a 9.3% drop compared to the USD 33.5bn in H1 2018. Sectorwise power was again leading with 50.7% or USD 15.4bn, which is on the same level as in 2018. Unchanged to 2018, Oil and Gas was the 2nd strongest sector with a volume of USD 5.6bn but with a significant drop of 60.6% compared to USD 14.2bn in H1 2018. Strongest country in the Americas as well as globally was the US with a total volume of USD 17bn.

The Asian-Pacific region saw an increased volume of USD 34.2bn, which is up 2.5% compared to USD 33.4bn in H1 2018. Although deal numbers decreased, bigger ticket sizes led to increase in volumes. Especially, the financing of the HPCL Rajasthan Refinery in India with a package of about USD 4.0bn has to be named here. Australia was once again the table leader in Asia-Pacific in terms of value and number of deals done considering the huge pipeline of infrastructure projects at various stages of completion. The 27 deals worth USD 11.9bn in Australia represented a third of all transactions done in the region and it was second only behind the US on a global scale.

The EMEA market with total USD 35.9bn of project financing also saw a drop in volumes compared to USD 37.2bn in H1 2018 (-3.7%). However, the Gulf region reached volumes of USD 11.6bn from USD 11.1bn in the previous year. Here, Bahrain was leading with USD 5.7bn, followed by the UAE with USD 4.9bn. This trend is likely set to continue for the foreseeable future. African deals and volume also decreased, but with two jumbo LNG deals in the pipeline, H2 is likely to be boosted directly. Power was the leading sector with USD 10.9bn, followed by Oil and Gas with USD 8.6bn.

Case Study: Irish Electricity market I-SEM and effect on investment decisions

Since 2007 the Irish Market has been an All-Island market called Single Electricity Market (“SEM”), which the Republic of Ireland (“RoI”) and Northern Ireland (“NI”) have been part of. Electricity Generators have been paid for energy and capacity separately in that market and additionally received payments for constraints and ancillary services to secure operation and restoration of the whole electricity system. A new market design has been launched in October 2018, which aligns the Irish electricity spot market with the markets of Great Britain and Europe. The so called Integrated Single Electricity Market (“I-SEM”) introduces a new set of electricity trading arrangements as well as a new auction-based capacity market.

Since 2006, renewable energy production has been supported by the government in Ireland, which set up a feed in tariff system known as REFIT. Under REFIT a minimum price for generation as well as additional balancing payments plus CPI adjustments are ensured for a defined contract duration of 15 years, of which possible investments can highly benefit from. The REFIT’s current remuneration compared to other European countries is provided in the right-hand table.

Feed-In-Tariff	EUR/MWh
REFIT I Ireland	80.9
REFIT II Ireland	80.2
Germany	46.0-83.0
France	82.0
United Kingdom	5.9-65.2

Prime Capital Infrastructure Debt Expertise

- Advice and support for infrastructure direct investments, portfolio strategy and sector allocation
- Management of mandates and funds with investment expertise in various jurisdictions and markets
- Access to leading European and global infrastructure finance banks for sourcing as well as direct lending activities
- Investments in Senior and Mezzanine debt

As mentioned above, a new trading arrangement has been launched alongside the new I-SEM design. Under I-SEM, every market participant is now balancing responsible, adding imbalance risks for suppliers and offtakers. In case of REFIT contracts, these imbalance costs are mostly compensated, if suppliers trade in the day-ahead market. This is because of the calculated REFIT reference price, which is the lower of the day-ahead or a blended 80% day-ahead 20% spot price. Recent research underlines, that most of the time, the blended price is lower, which means, that the imbalance cost, resulting out of lower spot prices are compensated under REFIT.

For the time after REFIT-support and full merchant pricing, PCAG expects the costs of imbalance between 2EUR - 2.80 EUR/MWh.

In conclusion, investments in Irish Renewables and especially onshore wind can benefit from stable cash flows and a strong regulatory support due to the REFIT schemes. Nevertheless, with the I-SEM, balancing risks and the importance of accurate day-ahead trading has become more important, since suppliers are now exposed to balancing risk. Although, the REFIT payments do not specify remuneration of balancing costs, the calculation of the reference price induces a compensation to some extent. After REFIT-support, suppliers are fully exposed to that risk. Still, the Irish Renewable Market remains a very attractive one. However, the debt investor has to assess the TradingCos expertise and performance in the day-ahead market to come to a profound investment decision.

With Prime Capital's access to experienced Sponsors, this risk has been and can be handled for Renewable Energy debt investments in Ireland.

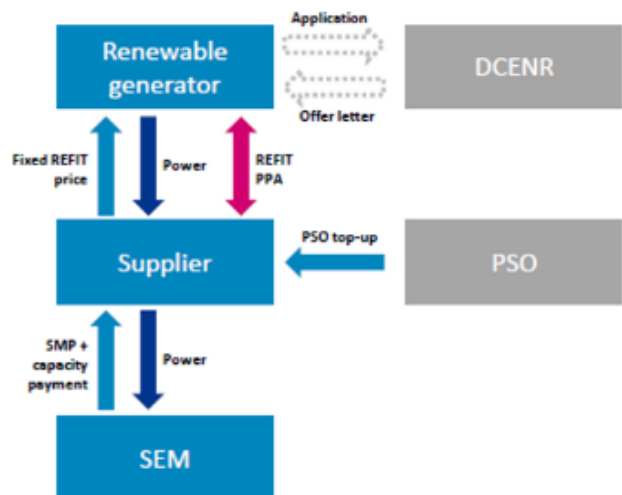


Figure 2: Contractual Structure under REFIT



Figure 3: Day-ahead vs blended price; Source: SEMOpx and Cornwall Insight Ireland

Further information about Prime Capital AG can be found on the web site www.primecapital-ag.com

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