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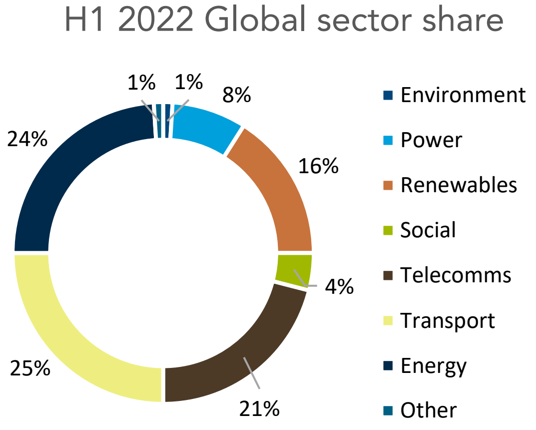
Infrastructure Debt

Newsletter Q3 2022

Infrastructure Q3 2022 Overview

- Total global deal value for H1 2022 amounted to USD 464.5bn with a deal count of 1,452. Although COVID-19 has taken a back seat, especially throughout the second quarter of 2022, macroeconomic uncertainties such as the high inflation rate, interest rate hikes, geopolitical instability, high energy prices and global supply chain issues are expected to dampen financing activity. Nevertheless, the first six months of 2022 saw a strong start to the year with total infrastructure deal value up by +19% YoY.
- Transport and Energy sectors accounted for almost half of total market share throughout H1 2022 (49%), as several large-scale transactions boosted the sectors' values, especially throughout the first quarter.
- The Transport sector has recorded a growth in transaction value of +109% YoY to USD 116.1bn, which was driven by the USD 23.6bn Sydney Airport sale that made up a fifth of global deal value within the sector and was closely followed by CDP-Blackstone-Macquarie's takeover of Autostrade per l'Italia (representing 16% in the sector).
- Leverage for the first half of 2022 stands at 53% with USD 245bn of the total deal value being financed by debt (Capital markets: 6%, Loans: 47%) which compares to a leverage of 59% and USD 231bn in debt during H1 2021.



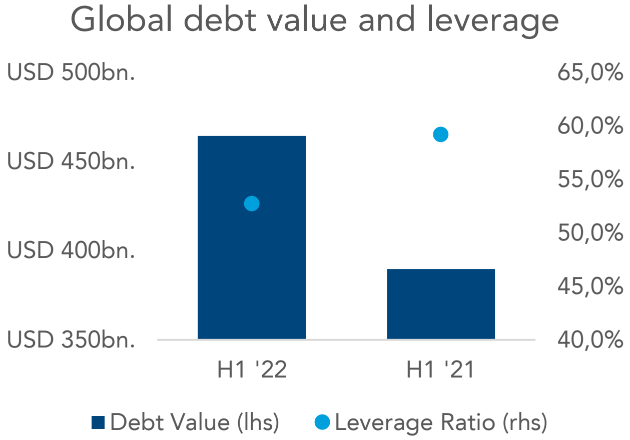


Figure 1: Sector Share and Global Debt Value[1]

[1] Source of data: Inframation August 2022: https://www.inframationnews.com/ranking-reports/11755371/infralogic-1h22-rankings-and-trend-report.thtml

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Infrastructure Debt – Activity in detail

According to Inframation, global private infrastructure and energy financing transactions advanced at a record pace in the first half of the year 2022. In total, a transaction volume of USD 464bn was recorded within 1,452 transactions in the first half of 2022. This compares to a transaction volume of USD 390bn and 1,447 transactions in the first half of 2021. Nevertheless, the second quarter of 2022 saw a slowdown in activity with a decrease of 11% in transaction volume and 8% in the number of transactions compared to the second quarter of 2021. The slowdown in financing activity is attributable to macroeconomic uncertainties such as the high inflation rate, interest rate hikes, geopolitical instability and global supply chain issues. In addition, it is possible that financing activity was very high last year, as an interest rate hike as well as a rise in inflation was anticipated for 2022. By sector, the Energy sector in particular benefited from the ongoing energy transition. The trend seems to be clearly upwards, and it is possible that the transaction figures will increase even further going forward, especially with commodity prices remaining high. In the relevant sectors, Transportation and Telecommunications saw a significant increase in volumes with USD 116bn (+109% YoY) and USD 96bn (+70% YOY) respectively, accounting for almost half of the entire market during the first half of 2022.

The **European market** recorded 666 deals with a total value of USD 149.14bn throughout the first half of 2022. This compares to 583 transactions with a total value of USD 140.57bn in H1 21, constituting an increase of +14% and +6% in deal count and transaction value, respectively. Even though this represents an increase in activity compared to H1 2021, activity was markedly below the record levels of Q4 2021 and the second quarter was down YoY to USD 67bn in deal volume. Deal financing was mainly sourced through classic lending, amounting to USD 71.8bn (48% of total transaction value; +2% YoY), while debt capital market ("DCM") activity continued to remain calm and slowed down, amounting to a total of USD 7.7bn (5% of total transaction value; -14% YoY) in the first half of 2022. On average, the leverage ratio for European infrastructure deals stood at 53%.

The Transportation and Telecommunication sectors continue to produce landmark deals in the European market during the first half of 2022 and are a reflection of the global trend. With a deal value of USD 18.9bn, Atlantia's 88.06% stake sale of Italian toll road operator Autostrade per l'Italia ("ASPI") to a consortium of Cassa Depositi e Prestiti ("CDP"), Macquarie Asset Management and Blackstone Infrastructure Partners has been the largest infrastructure deal by value during H1 2022 and accounted for 16% of global transaction value within the Transportation sector. Two further deals in Italy represent the second and third largest deals by value in Europe. Namely, the USD 11bn sale of CK Hutchison's European telecoms tower portfolio to Cellnex as well as the USD 8.1bn refinancing of Open Fiber's debt and its raise of an additional capex loan have been significant transactions within the European infrastructure market and together make up 20% of global transaction value within the Telecommunication sector.

Given these landmark deals, particularly within the Telecommunication sector, Telecoms captured a market share of 32% during the first half of 2022 (YoY: +3%). This was followed by the Transport sector with a market share of 28% (+13% YoY) while the sector's main driver has been the sale of ASPI. Third is the Renewables sector with a market share of 19% (-7% YoY) that is, despite a small dip in activity, expected to see further growth and remains a key focus for investments in the European region.

In the **North-American market,** the first half of 2022 recorded 356 deals with a total transaction value of USD 142.16bn (+44% YoY). The transactions have been financed with USD 82.9bn in debt, resulting in an average leverage ratio of 58% (55% in H1 2021). The majority of debt financing has been provided via bank loans (92% of total debt; +87% YoY), while DCM accounted for a mere 8% of total debt only (-48% YoY), representing an anticipated breather amid persistent inflation, geopolitical instability and rising interest rates.

In terms of high value deals, the Telecommunication, Energy and Transportation sectors took a predominant role in the North-American market. The largest transaction during the first six months has been the USD 15.3bn take private of data centre operator CyrusOne by Global Infrastructure Partners and KKR, demonstrating private equity's continuously strong interest in the data centre market. The second and third largest transactions by deal value were greenfield financings during H1 2022, namely the Plaquemines Parish LNG's USD 13.2bn funding package for Venture Global LNG and the financial close of the Ferrovial-backed redevelopment of JFK Airport Terminal One in New York City with a deal value of USD 8.4bn.

The market distribution in North-America has been influenced by further transactions in the Energy sector in the second quarter of 2022. Thus, the Energy sector accounted for 38% of total market value (same as last year) during H1 2022, while the Telecoms sector was boosted to 22% (+13% YoY) lead by the CyrusOne deal. This was followed by Renewables with a market share of 16% (-11% YoY) and the Transport sector with a share of 13% (+4% YoY). Both sectors continue to attract large amounts of capital, however, the Renewables sector considerably less than in the previous year (especially in the wind subsector).

In H1 2022, the **Australasian market** recorded 205 transactions with a total value of USD 107.59bn (YoY: +53%). The average leverage ratio stood at 40% during the first six months of 2022, while the debt continued to be almost exclusively raised via bank loans (94% of total debt). DCM activity remained low in the region, with only USD 2.5bn raised via capital markets (YoY: -63%).

The most notable deals, as already mentioned in our Q2 Newsletter, remains to be the USD 23.5bn Sydney Airport sale to a consortium of investors including Australian Retirement Trust, Global Infrastructure Partners, and Australian Super. The transaction has not only pushed up total transaction value for the region but also constitutes a fifth of global Transportation deal value. Other notable transactions have been the USD 13bn sale of Australian high voltage transmission network operator AusNet Services to a consortium led by Alberta Investment Management Corporation and the USD 5.7bn acquisition of Singapore's ARA Asset Management by platform ESR creating APAC's largest real asset manager powered by New Economy.

Sector wise, Transport overtook Renewables as the largest sector by value in Asia due to a few larger transactions in

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India with a total market share of 32% in H1 2022 (+9% YoY). Together with the Renewables sector with a share of 28% (-3% YoY), those two sectors account for a combined market share of 60% as the main targets for investments, closely followed by the Telecoms sector with 24%. In Australia and New Zealand, the Sydney Airport sale drove up the market share of the Transport sector, which accounted for a majority of the total market value (41%; +16% YoY), followed by the Power sector with a market share of 24% (+14% YoY), mainly driven by a few large-scale transactions including the AusNet Services sale.

"Spotlight": Energy Crisis – A boost for Europe's energy transition and independence?

Throughout the last quarters, we presented several ways to support the energy sectors decarbonization and transition incl. hydrogen, battery storage systems, combined heat and power. With this year's ongoing energy shock, which is the most serious since the Middle Eastern oil crises in 1973 and 1979, there is an expectation that the pace of the transition from fossils to more sustainable, renewable sources is going to be accelerated.

In the short-term however, it seems that latest government responses triggered a relapse towards fossil fuels which could stall the energy transition. With nuclear-power capacity down due to shut-downs in Germany and maintenance in France as well as a continent-wide drought causing a reduction in hydropower, gas prices tend to drive Europe's power prices. As the costs of the marginal producer, often gas-fired, set Europe's power price, the surge in gas prices lead to the prevailing electricity shock. Therefore, among others, coal-fired power plants have been reactivated to substitute gas-fired power plants, new liquified natural gas contracts are secured to replace gas from Russia as well as windfall levies and subsidies have been introduced to allow governments to finance the spending to keep prices in check. While the current responses are understandable to insulate the industrial sector and households, Europe must not lose sight of its decarbonization plan and should align their actions with its goal of dramatically cutting emissions by 2050.

The current energy crisis has clearly increased awareness of Europe's vulnerability and dependence on the oil and gas markets. Therefore, every additional kilowatt-hour from the sun or wind fed into Europe's electricity grids is one fewer coming down a gas pipeline, leading to further independence of Europe's energy market. Thus, the energy transition must remain a key priority. The International Energy Agency estimates that annual investment needs to double to EUR 5trn a year in order to reach net-zero emissions by 2050. High energy prices should encourage further progress and investments here. Overall, the significant and prevailing political, economic, and environmental pressure is going to continue to accelerate the global push toward sustainable energy over the medium and long term.

Prime Capital is continuously investing in renewable energy assets and transformative technology across Europe, building up a distinctive track record in renewable energy production as well as supplementary infrastructure assets and technologies. With its established relationships, Prime Capital is well positioned to further contribute to the energy transition across Europe and enabling investments in this asset class on behalf of its investors.

Prime Capital Infrastructure Debt Expertise

> Advice and support for infrastructure direct investments, portfolio strategy and sector allocation

> Managed accounts and funds with investment expertise in various jurisdictions and markets

> Unique "multi-channel sourcing" with access to transactions via direct lending, bank and advisor sourcing on the basis of longstanding relationships to market leading sponsors, equity funds and project finance banks

> Investments in Senior and Junior Debt

About Prime Capital's Private Debt Team

Our infrastructure debt team, which has been active in the infrastructure debt market for many years, has executed transactions of more than EUR 1.1bn. The Private Debt Team also invests in Commercial Real Estate, Transport Debt and Corporate Lending. We expect significant further asset growth in these areas, while providing satisfactory risk adjusted returns to our largely institutional investors. Prime Capital's Private Debt Team manages in excess of EUR 2bn across asset classes for institutional investors.

Further information about Prime Capital AG can be found at www.primecapital-ag.com

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