Infrastructure Debt

Newsletter Q4 2022

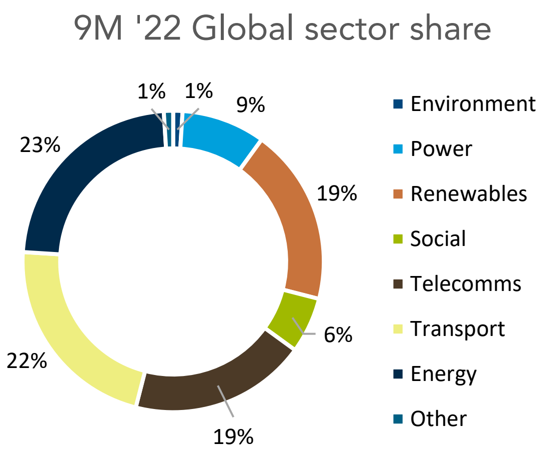
Infrastructure Q4 2022 Overview

> Total global deal value for the first three quarters of 2022 amounted to USD 678.7bn with a deal count of 2,288. Geopolitical and macroeconomic stress factors, such as rising interest rates and inflation, supply chain issues as well as global conflicts and rising costs negatively affected the global infrastructure market. In the first nine months of 2022, a new record level was reached with a +4% YoY increase in the total value of infrastructure deals. However, this year will most likely not end with another record result.

> As in the previous quarter, the Transport and Energy sectors accounted for almost half of the total market share in the first three quarters of 2022 (45%), with Q3 2022 also seeing some notable deals.

> The most notable deals of the third quarter in 2022 were Blackstone’s acquisition of US college campus P3 developer American Campus Communities (“ACC”) with a deal value of USD 13.12bn and Macquarie’s privatisation of Victoria Motor Vehicle Registry with a deal value of USD 5.44bn. Both deals were in the Social Infrastructure sector.

> The leverage ratio for the first nine months of 2022 stands at 54% with USD 365bn of the total deal value financed by debt (Capital markets: 6%, Loans: 48%), compares to a leverage ratio of 57% and USD 369bn in debt in the first nine months of 2021.



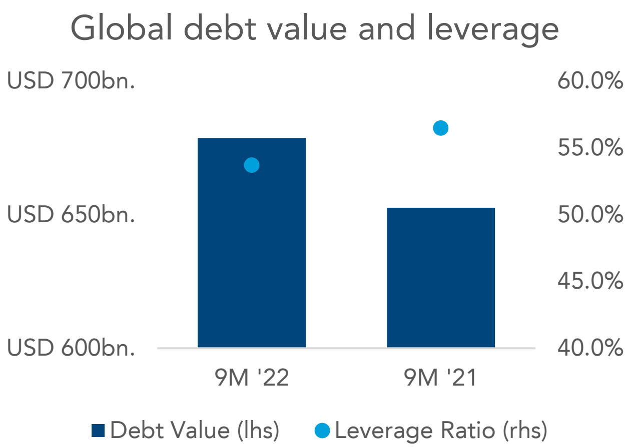


Figure 1: Sector Share and Global Debt Value[1]

[1] Source of data: Inframation December 2022: [Global | Inframation Deals - Infrastructure Data & Research (inframationnews.com)]

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Infrastructure Debt – Activity in detail

Inframation reported that global private infrastructure and energy financing transactions reached another record level after Q3 2022, with 2,288 deals and a total transaction volume of USD 679bn. Deal volume in the first nine months of 2022 was +4% higher and the number of deals was 3% higher than in the first nine months in 2021. However, this was mainly due to the first quarter of 2022, as transaction volume declined in the second and third quarters. Compared to the same period last year, transaction volume in Q3 2022 decreased by -27% and the number of transactions by -12%. Several geopolitical and macroeconomic stress factors negatively impacted project financing, particularly projects financed through the capital markets, which declined by -42% YoY. By sector, energy had the largest market share at 23%, closely followed by the transport sector, which contributed 22% of the value. Telecommunications benefited from the global demand for connectivity, showing significant growth (+22% YoY) and reaching a market share of 19%. Another growing sector (+62% YoY) was social infrastructure, which increased its market share to 6%.

The **European market** recorded 1,074 deals with a total value of USD 216.53bn in the first three quarters of 2022. For the same period in 2021, a transaction volume of USD 214bn over 944 transactions was reported, representing an increase of +1% and +14% in transaction volume and deal count, respectively. As on a global level, European deal volume in 2022 peaked in the first quarter and has been declining since. Transaction volumes in Q3 2022 were well below the record levels of Q4 2021 (-68%), but also below those of Q3 2021 (-18%). As in the previous quarter, deal financing was mainly sourced through classic lending, amounting to USD 108.64bn (50% of total transaction value; -1% YoY), while debt capital market ("DCM") activity continued to remain calm and slowed down, amounting to a total of USD 11.22bn (5% of total transaction value; -5% YoY) in the first nine months of 2022.

The most notable deals of the third quarter in the European market were in the Power and Renewables sectors. In the UK, the Hornsea Two 1.4GW Offshore Wind Farm (pre-construction) was sold with a deal value of USD 3.31bn. Also in the UK, an electricity transmission deal, NeuConnect, was completed with a transaction value of USD 3.34bn. The largest deals of the year so far, as reported in our previous newsletter, were Atlantia's sale of an 88% stake in Italian toll road operator Autostrade per l'Italia ("ASPI") with a deal value of USD 18.94bn and Cellnex's purchase of CK Hutchison's European towers portfolio, also in Italy, with a value of USD 11.06bn. Of the ten most notable deals in the first three quarters of 2022, the Telecommunications sector accounted for four deals with a total transaction value of USD 27.81bn, representing 13% of the European deal value.

In terms of individual sectors, Telecoms had the largest market share at 27%, 3 percentage points higher than the previous year. This was followed by the Renewables sector with a market share of 25%, which is stable compared to 2021. However, this sector had a significantly lower share of 19% after the first half of the year, but was able to increase this share, in particular due to the Hornsea Two deal. The third largest sector was Transport with 23%, which is a significant increase compared to the 17% market share that this sector had in the first nine months of 2021.

In the **North-American market**, 554 deals were recorded in the first nine months of 2022, with a total transaction value of USD 212.9bn (+7% YoY). The transactions were financed with debt of USD 114.3bn, resulting in an average leverage ratio of 54% (47% in first three quarters of 2021). In terms of debt financing, 91% of total debt was provided by bank loans, an increase of +16 percentage points compared to the same period in 2021, while DCM accounted for a much lower share of only 9% of total debt. Overall, after a relatively strong second quarter, deal activity slowed down in Q3 2022 (-27% QoQ).

Among the high value deals, the Telecommunication, Energy and Transportation sectors played a dominant role in the North-American market. The second largest transaction in the first nine months was Blackstone's acquisition of US college campus P3 developer ACC with a deal value of USD 13.12bn. This social infrastructure transaction was the largest deal completed in Q3 2022. There were two notable deals in the energy sector in Q3 2022, firstly the USD 3.98bn Colgate Energy Partners III Sale and secondly the USD 3.55bn Lucid Energy Group Sale. Other significant deals in the first nine months of 2022 include KKR's acquisition of the data centre company CyrusOne for USD 15.3bn, the largest North American deal of 2022 to date.

The market distribution in North-America was influenced by further transactions in the Energy sector in 2022. Thus, in the first nine months of 2022, the Energy sector accounted for 35% of the total, a decrease of -3 percentage points compared to 2021. The market share of the Telecoms sector remained constant at 20% compared to the previous year. This was followed by Renewables with a market share of 17% (-7 percentage points YoY) and the Transport sector with a share of 11% (steady compared to 2021). These main sectors are also represented among the largest deals of 2022, however, there has not been a notable deal in the Renewables sector in North-America so far. One sector that has increased its share in recent years is the Social sector. After the first nine months of 2022, its share was 8%, driven by the American Campus Communities deal.

After the first three quarters of 2022, the **Australasian market** recorded 323 transactions with a total value of USD 148.72bn (YoY: +35%). The average leverage ratio was 44% in the first nine months of 2022, while debt continued to be raised almost exclusively through bank loans (95% of total debt). DCM activity remained low in the region, with only USD 3.25bn raised through capital markets (YoY: -58%).

As mentioned in our Q2 Newsletter, the most notable deal of 2022 remains the USD 23.5bn Sydney Airport sale to a consortium of investors including Australian Retirement Trust, Global Infrastructure Partners, and Australian Super. Not only did this deal drive up the total value of transactions in the region, but it also accounts for one-fifth of the global deal value in the Transportation sector. Some notable transactions in Q3 2022 were the USD 5.51bn privatization of Victoria Motor Vehicle Registry, which was a social infrastructure deal, as well as the USD 2.52bn sale of Uniti Group, which was a Telecommunications deal. The second largest Asian deal of 2022 was the USD 2.53bn Navi Mumbai Airport PPP in the Transport sector, which was closed in Q3 2022.

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The two largest Asian sectors were Renewables with a market share of 33%, closely followed by Transport with 32%. While the Renewables sector has kept its share relatively constant in recent years, the Transport sector was able to significantly expand its position by 10 percentage points compared to the first nine months of 2021. The Telecomms sector accounted for the third largest share with 20%. Together, these three sectors account for a combined market share of 85%. In Australia and New Zealand, there was a significant shift in market shares when comparing the first three quarters of 2022 and 2021. In 2022, the largest sector was Transport with a market share of 36%, an increase of +200% from the previous year. The second largest sector was Power with 20%, an increase of +12 percentage points compared to 2021. This was followed by the Energy sector with a market share of 19%, a decrease of -12 percentage points compared to the previous year. This was mainly driven by several notable deals in 2022, such as the Sydney Airport Sale for USD 23.55bn and the AusNet Services Sale for USD 13.15bn.

"Spotlight": Energy prices - Sharp hike in gas and electricity prices in Europe

In 2022, energy prices across Europe have risen to new hights. Both wholesale natural gas prices as well as electricity prices have increased significantly throughout this year. An important influencing factor for these price adjustments was the Russian-Ukrainian war. Since Europe is a major off-taker of Russian gas and is even highly dependent on it, prices have been massively influenced by this crisis as Russian gas supply suddenly became a significant issue.

As Ember reports, there have been large adjustments in energy prices in recent years. Between 2015 and 2019, average wholesale energy prices in Europe ranged between EUR 36/MWh and EUR 50/MWH. In 2020, when the Covid pandemic broke out and lockdowns reduced demand, prices averaged EUR 34MWh. This was followed by the first sharp price increase from 2020 to 2021, when average prices reached EUR 102/MWh, an increase of +300%. However, after many years of steadily low prices, the upward trend continued from 2021 into 2022. After Russia's invasion of Ukraine, the energy price increase intensified. In the third quarter of 2022, wholesale energy prices were around EUR 350/MWh.

Looking ahead, energy prices are expected to fall somewhat in 2023, with the World Bank reportedly projecting a decline of -11%. However, they will most likely remain well above historic average levels, with current forward prices for electricity in 2023 at around EUR 300/MWh.

The European Union has been dependent on gas imports from Russia. In 2021, 83% of the EU's natural gas was imported, of which around 50% came from Russia. In response to the war, the EU managed to reduce this share to around 17% by the end of Q3 2022. As the Russian share of energy supply needs to be replaced by an alternative, renewables are an attractive long-term substitute.

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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