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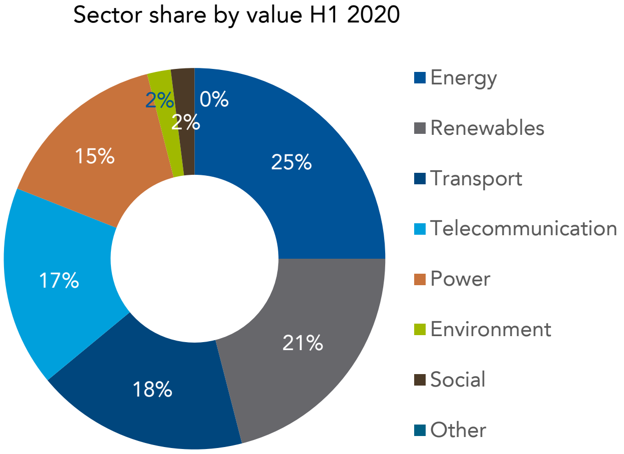
# *Infrastructure Debt*

Newsletter H1 2020

## Global Infrastructure H1 2020 Overview

- Total global deal value (equity and debt) for H1 2020 was USD 304bn, which is ca. 6.6% below the USD 322bn of H1 2019. Deal numbers also fell from 1,160 deals in H1 2019 to 1,006 deals in H1 2020
- While some momentum of H2 2019 kept Q1 2020 numbers still on a higher level, the coronavirus' and oil price movements' impact on the infrastructure market becomes clear with H1 2020 numbers
- Sector allocation shifted with a relative weak volume in the Transport sector with a 18% share and a -7 PP YoY decrease to the Telecom sector with a massive increase of +12PP YoY and a market share of 17% in H1 2020
- Leading sectors in H1 2020 have been the Energy sector with 25% with a -2 PP YoY decrease as well as the Renewables sector with 21% at the same level as in 2019
- Globally, USD 174bn of the total global deal value of USD 304bn have been financed by debt in H1 2020, which corresponds to a ratio of 57% debt and is on the same level as in H1 2019



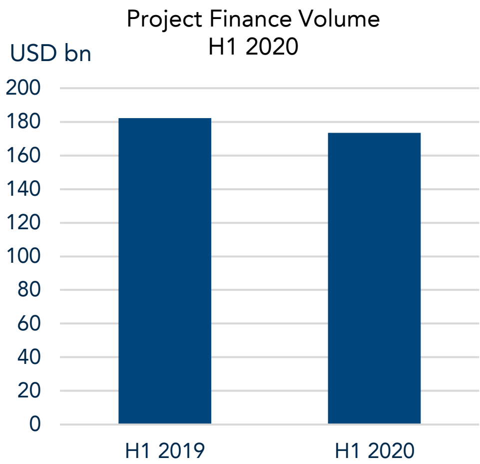




*Figure 1: Sector Share and Global Project Finance Volume*[1]

[1] Source of data: Inframation July 2020: https://www.inframationnews.com/league-table-reports/detail/6251931/detail.thtml?parent=6090486

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## Infrastructure Debt – Activity in detail

According to Inframation, deal value, or the total amount of capital committed to infrastructure transactions, fell by nearly -7% YoY from USD 321.8bn in H1 2019 to USD 304.2bn in H1 2020. Especially the Transport sector dropped sharply YoY and performance looks to further weaken amidst the coronavirus crisis. The crisis is also reflected in credit spreads for infrastructure project and corporate debt, which can be seen in the table below.

| | Q4 2019 | Q2 2020 |
|---|---|---|
| Infra Project Debt | ~ 160 bps | ~ 180 bps |
| Infra Corporate Debt | ~ 140 bps | ~ 180 bps |

A slowdown in deal volume in the first half of 2020 was another consequence of the crisis, which also points to what is likely to be challenging in H2. However, the slowdown is partly offset by a massive increase of investments in the Telecoms market, which can be seen as an indication for a structural shift in the market away from "core" infrastructure.

**Europe's infrastructure finance market** was nearly on the same level compared to the same period a year ago, with USD 98.88bn of deals closing in H1 2020 against USD 99.51bn in H1 2019. On the debt financing side, classical project finance via loans was up +8% to USD 49.25bn, while capital market financing fell by nearly one third YoY to USD 8.19bn.

The market was for the first time dominated by the Telecommunications segment, which represented 26% of the European market in H1 2020 (8% in H1 2019). The European market saw some landmark transactions in this sector closing in H1 2020, namely the French Iliad transaction called Project Violin with USD 3.31bn, the Irish National Broadband financing with a deal value of USD 4.44bn, and the sale of Deutsche Glasfaser in Germany with a deal value of USD 3.07bn. For H2, other Telecom deals are already in the pipeline, such as Telxius' acquisition of German telecom towers or Ardian's acquisition of INWIT. Apart from Telecoms, the Renewables sector was again strong in the European market with a 26% share.

The **North American market** experienced an increase in terms of value. Deals in the amount of USD 113bn have been closed in H1 2020 compared to USD 90bn in H1 2019. C. 57 % of the total volume of USD 113bn have been financed by debt with USD 55bn been provided by loans and USD 9bn by capital market issuance.

While in H1 2019 the Energy sector represented 39% of the total market, it reached 32% in H1 2020. Six out of ten landmark transactions in the North American market have been Energy transactions, e.g., the USD 3.4bn Freeport LNG deal and the USD 4.7 Coastal GasLink Pipeline transaction. However, most notable for the North American market is the strong performance of the Telecom sector, which was clearly shaping H1 2020. This sector generated 19% of all deal volume in H1 2020, which is an +11 PP increase YoY coming from 8% in H1 2019. This increase was mainly supported by the landmark deal of Zayo Group's acquisition with a deal volume of USD 14.3bn closed in March 2020. The deal volumes were furthermore supported by a stable Power and Renewables activity comprising ca 36% of total deal volume.

The **Australasian market** has seen 157 deals in H1 2020 with a total volume of USD 54bn and thus is down -28% compared to USD 75bn in H1 2019. While on the Asian mainland Renewables deals make up for ca. 41% of the market in H1 2020, and thus increased by +21 PP YoY, the Australian and New Zealand market was dominated by the Energy sector (54%). A decreased market activity and the dominant USD 8.3bn transaction of Ichthys LNG led to this extraordinary market share of the Energy sector in Australia. Further notable deals in H1 2020 have been the USD 1.5bn New Royal Adelaide Hospital Refinancing as well as the 3bn Changfang & Xidao Offshore Wind deal in Taiwan.

## Case Study: Sustainability & Infrastructure Debt

Private Infrastructure Debt, as an asset class, is particularly well suited for Sustainable and Responsible Investments (SRI). In particular, sustainability factors may be efficiently and seamlessly integrated into the investment process, which is one of the key SRI requirements.

Firstly, debt instruments may specifically allocate some, or all, proceeds to environmental or social outcomes. Typically, loan proceeds from infrastructure financings are linked to a specific, well-defined project or a company with a special

field of infrastructure operations, which is accordingly documented in the origination and credit approval process. Thus, control over the use of the debt proceeds is known and contractually binding, which is usually not the case in general corporate financings.

Secondly, infrastructure debt has a high potential for contributing to positive sustainable outcomes, given the link of infrastructure assets to economic development, energy generation & use, and essential public services. This link to economic development and high potential impact on environmental and social goals is also reflected in the EU's Sustainable Finance Taxonomy. The Taxonomy focusses on sectors, the impact of which on primarily meeting the EU's Climate Change Goals is high. In total, the EU has identified seven key sectors. The Infrastructure investment universe covers four of these sectors in total: Transport; Information and Communication Technologies; Water, Sewage, Waste and Remediation; and Electricity, Gas, Steam and Air Conditioning Supply.

ESG criteria may be integrated into investment decisions at different levels, ranging from simply excluding certain sectors, thematic investments into "sustainable" sectors to a fully-fledged integration of ESG assessments into the investment process.

Taking advantage of the special features of infrastructure debt and the unique sourcing model of Prime Capital, we have devised a rigorous investment process, which fully integrates sustainability factors alongside downside risk protection bottom-up, fundamental credit analysis.

To leverage the full potential for positive sustainability outcomes of infrastructure investments, our investment process incorporates in-depth sustainability assessments using three different, complementary ESG strategies:

> Screening Strategy
> ESG-Integration Strategy
> Engagement Strategy

These strategies are consistently applied in the investment process and monitoring process.

Crucial for successfully integrating SRI in the investment process for private assets is being able to engage sponsors and co-lenders early in the origination phase; otherwise, there is limited scope for ensuring that ESG criteria are taken into account in a relevant and impactful manner. Prime Capital's longstanding and strong relationships allow us to address ESG-relevant issues in project development and structuring early in the process with the relevant stakeholders.

### 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

> Access to leading European and global infrastructure finance banks for sourcing as well as direct lending activities

> Investments in Senior and Mezzanine debt

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Further information about Prime Capital AG can be found on the web site

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