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Infrastructure Debt

Newsletter Q3 2020

Global Infrastructure Q3 2020 Overview

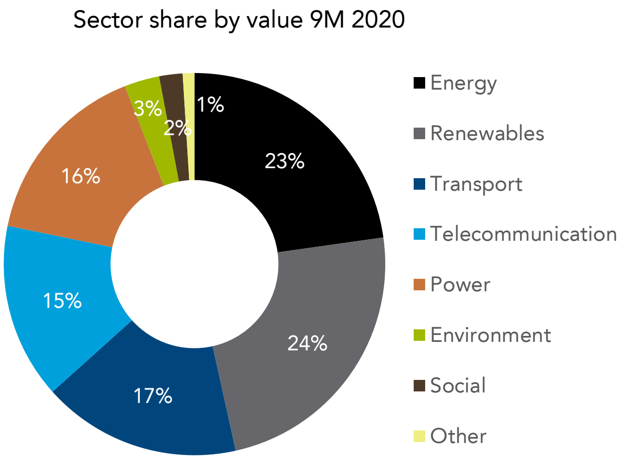
> Total global deal value (equity and debt) for 9M 2020 was USD 457.50bn, which is c. 6.7% below the USD 490.11bn of 9M 2019. Deal numbers also fell from 1,763 deals in 9M 2019 to 1,585 deals in 9M 2020.

> Some markets like Asia and Latin America actually did better YoY in the third quarter with a slew of large and mostly brownfield deals in India, Brazil and Mexico. However, Southeast Asia, EMEA, and North America performed worse as the late-2019 momentum behind many deals that reached financial closing in the first half of 2020 gave way to the business downturn associated with the COVID-19 crisis.

> The Transport sector suffered the largest loss in terms of value share with a 17% share and a -6 PP YoY decrease. On the other hand, the Telecoms sector more than doubled its share with an increase of +9 PP YoY and a share of 15% in 9M 2020.

> Leading sectors in 9M 2020 have been the Renewables sector with 24% and a +1 PP YoY increase as well as the Energy sector with 23% and a -2 PP YoY decrease.

> Globally, USD 253.18bn of the total global deal value of USD 457.50bn have been financed by debt in 9M 2020, which corresponds to a ratio of 55% debt and is 3 PP lower than in 9M 2019



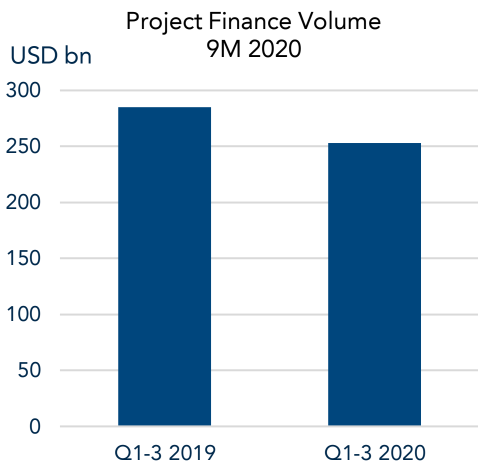


Figure 1: Sector Share and Global Project Finance Volume[1]

[1] Source of data: Inframation October 2020: https://www.inframationnews.com/league-table-reports/6697656/inframation-and-sparkspread-1q3q20-league-table-and-trend-report.thtml

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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 -6.7% YoY from USD 490.11bn in 9M 2019 to USD 457.50bn in 9M 2020. As in the previous quarter, the Transport sector remains the one that has suffered the most from the COVID-19 crisis, and chances of a speedy recovery in this sector appear dim. Similarly, the Telecoms sector remains the one that has benefitted the most from the crisis, as its value share of overall infrastructure financing more than doubled in 9M 2020 with respect to 9M 2019. Spread development reflected the weak performance of the Transport sector vis-à-vis other infrastructure assets, with spreads for most infrastructure assets remaining relatively stable while airport spreads increased significantly.

	Spread increase since beginning of COVID-crisis
Senior Infra Debt	+20/25 bps
Airport Transactions	+100/150 bps

Europe's infrastructure finance market in 9M 2020 was 10.4% below 9M 2019 levels, with USD 142.15bn of deals closing in the first three quarters of 2020 against USD 158.66bn in the same period of 2019. On the debt financing side, classical project finance via loans was down -13.3% to USD 70.98bn, while DCM financing fell by nearly one third YoY to USD 10.61bn.

Renewables were the largest sector by total deal value, representing 31% of the European market in 9M 2020 (vs. 25% in 9M 2019). Notable deals in this sector were the Pennon Group's sale of its energy-from-waste company Viridor to KKR Infrastructure for GBP 3.7bn, the acquisition of Dutch power company Eneco for EUR 4.1bn by a consortium of Mitsubishi Corp. and Chubu Electric Power, and Scottish and Southern Energy's sale of a 51% stake in the 1.07GW SeaGreen offshore wind park to Total for an enterprise value of GBP 3.4bn. Apart from Renewables, the Telecoms sector more than doubled its share to 24%. One of the most prominent deals in this sector was the sale by Telecom Italia M of a 14.8% stake in its telecom tower unit INWIT to a consortium of investors led by Ardian for EUR 1.35bn. The Transport sector's share fell by -11 PP to 19%.

The **North American market** experienced a 1.0% increase in terms of value. Deals in the amount of USD 148.27bn have been closed in 9M 2020 compared to USD 146.80bn in 9M 2019. C. 56% of the total volume of USD 148.27bn have been financed by debt with USD 70.76bn provided through loans and USD 12.58bn through capital market issuance.

While in 9M 2019 the Energy sector represented 38% of the total market, it reached 32% in 9M 2020. Notable deals in this sector were Blackstone Energy Partners' sale of 42% of Cheniere Energy Partners - which operates the Sabine Pass LNG export terminal in Louisiana - to Brookfield for USD 7.0bn and the development by KKR, the Alberta Investment Management Company, and TC Energy Corporation of the Coastal GasLink Pipeline, a 670km natural gas pipeline which once completed will have an initial capacity of 2.1bn cubic feet per day. However, the strong performance of the Telecoms sector is still the most prominent event of 9M 2020. This sector generated 16% of all deal volume in 9M 2020, which is a +9 PP increase YoY coming from 7% in 9M 2019. This increase was still largely supported by the landmark deal of Zayo Group's acquisition with a deal volume of USD 14.3bn closed in March 2020. Zayo is a US provider of fiber and other telecom infrastructure with a focus on large scale data center businesses. Power's share increased by +5 PP to 19% whereas Renewables' share decreased by -4 PP to 20%.

The **Australasian market** has seen 265 deals in 9M 2020 with a total volume of USD 92.11bn and thus is down -11.4% compared to USD 103.94bn in 9M 2019. While on the Asian mainland Renewables deals make up for ca. 31% of the market in 9M 2020, and thus increased by +11 PP YoY, the Australian and New Zealand market was dominated by the Energy sector (43%). The USD 8.3bn transaction of Ichthys LNG still had a major influence on the extraordinary result achieved by the Energy sector in Australia. Further notable deals in 9M 2020 have been ABB's sale of a 80.1% equity stake in its grid-focused equipment business, ABB Management, to Hitachi for USD 6.9bn and the sale of Reliance-owned Tower Infrastructure Trust to the Brookfield Infrastructure-led consortium comprising GIC and British Columbia Investment Management Corporation for USD 3.4bn.

"Spotlight": Sustainable growth in the European infrastructure market

With our H1 2020 newsletter, we started a "mini series" on Sustainable and Responsible Investments (SRI) in the Private Infrastructure Debt asset class. Whereas our H1 newsletter focused on the general question, why and how to integrate ESG-factors into infrastructure debt investment processes, this quarter's "Spotlight" is set on the market environment for sustainable infrastructure in Europe.

As outlined in our last newsletter, infrastructure assets have a high and natural potential for contributing to positive sustainable outcomes, which has also been reflected in the EU's taxonomy on Sustainable Finance, targeting i.a. the sectors Transport; Information and Communication Technologies; Water, Sewage, Waste and Remediation; and Electricity, Gas, Steam and Air Conditioning Supply.

Speaking of the current market environment for infrastructure finance in Europe, the number of deals plummeted and total deal value decreased. What still remains, is an enormous funding gap of more than EUR 800bn for infrastructure in Europe according to the EIB. In combination with the carbon-neutral transition EU member states are aiming on for 2030 and 2050 respectively, this gap is even increasing. In reaction to the Covid-19 pandemic, EU states have launched far-reaching growth plans.

But in contrast to governments' answers to historic financial crises those growth plans are not only linked to fast economic recovery, but mainly target, a sustainable or green growth following the crisis.

Apart from economic competitiveness, the core focus of those plans is set on decarbonisation, digitization and social infrastructure. The steady performance of Renewables and the strong performance of Telecoms deals during 2020 can

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already be seen as a first indicator of how the future market potentially looks like.

With regards to decarbonisation, the performance of Renewables in Europe implies that green transition in the Energy sector is ahead of the green transition in other sectors, especially the Transportation sector. However, Transportation is one of the key sectors for achieving carbon dioxide emission reductions over the next few decades to be in line with the Paris Agreement. Thus, France and Germany alone allocated more than EUR 25bn to the rail and public transport as well as infrastructure for electric vehicles.

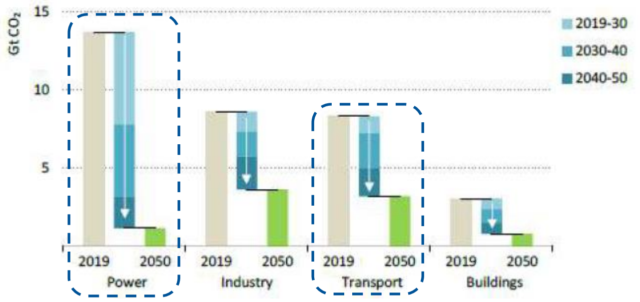

Figure: Direct CO² emissions in selected sectors; Source: IEA, 2020

Different to other projects with regards to decarbonisation, a special focus is set on technologies in the space of Green Hydrogen. Green Hydrogen is seen as "the" core technology for future decarbonisation in all sub-sectors and is also seen as a big market for future economic growth. Subsequently, establishing the European markets in the Green Hydrogen technology must be seen as an economic competitiveness programme, too. Again, France and Germany alone already allocated more than EUR 15bn to research and development in this sector, not including complementary fields of growth plans, such as E-busses & trucks, power storage, renewable energy and electric public transport.

With regards to digitization, the Telecoms market already gained a significant market share in 2020 and the market continues to show impressive dynamics. This development will be further elevated by e.g. recovery plans (EUR 29bn allocated in France and Germany) or explicit plans such as the German EUR 12bn rural fiber development plan. Alongside fiber technology, public sector digitalization, R&D, 5G/6G and cloud computing are some of the supported sub-sectors.

Crucial for participating in the sustainable growth in the European market is being able to source deals in the established banking markets, such as Renewables and Transportation, but be also able to react to and proactively shape new emerging sub-sectors. Prime Capital's longstanding and strong relationships to both, established leading infrastructure banks as well as sponsors allow us to tap the potentials of Sustainable Europe and secures market access for our investors "sustainably".

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 Mezzanine 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 800m. The Private Debt Team also invests in Commercial Real Estate, Aviation 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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