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Infrastructure Debt

Newsletter Q1 2021

Global Infrastructure FY 2020 Overview

> Total global deal value (equity and debt) for FY 2020 was USD 704.30bn, which is c. 4% below the USD 733.39bn of FY 2019. Deal numbers also fell from 2,563 deals in FY 2019 to 2,546 deals in FY 2020.

> In the year of COVID-19, brownfield infrastructure showed its strength, which was reflected in a slight increase in deal value to USD 311.23bn in FY 2020 with an exceptional performance in the Telecom sector. Despite the suffering established markets in America and Europe, some Asian markets such as China kept deal value at a comparable level to 2019.

> The Transport sector suffered the largest loss in terms of deal value share with a -7 PP YoY decrease to a 17% share. On the other hand, the Telecoms sector more than doubled its share with an increase of +7 PP YoY to a share of 13% in FY 2020.

> Leading sectors in FY 2020 have been the Renewables sector with 27% and a +5 PP YoY increase as well as the Energy sector with 23% despite a -4 PP YoY decrease.

> Globally, USD 405.27bn of the total global deal value of USD 704.30bn have been financed by debt in FY 2020, which corresponds to a ratio of 57.5% debt and is 0.2 PP lower than in FY 2019

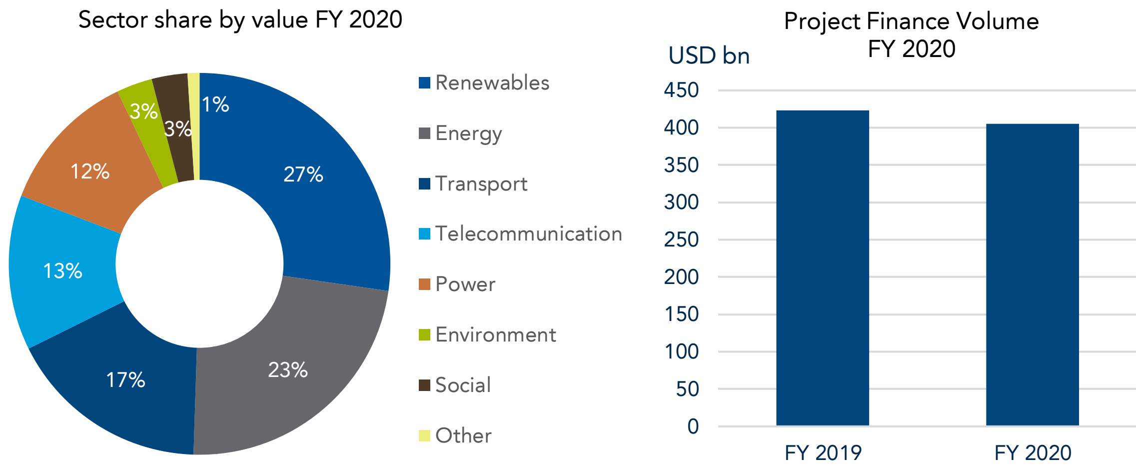

Figure 1: Sector Share and Global Project Finance Volume[1]

[1] Source of data: Inframation Februaray 2021: https://www.inframationnews.com/league-table-reports/detail/7691641/detail.thtml?parent=7148126

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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 -4% YoY from USD 733.39bn in FY 2019 to USD 704.30bn in FY 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 still 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 FY 2020 with respect to FY 2019. Additionally, the strong performance of the Renewables sector proves that the macro trend of decarbonisation more than compensated the general slowdown in the broad infrastructure market.

Europe's infrastructure finance market in FY 2020 was -6.9% below FY 2019 levels, with USD 228.00bn of deals closing in 2020 against USD 244.87bn in 2019. On the debt financing side, classical project finance via loans was down -10.7% to USD 112.01bn, while DCM financing fell by -23.6% YoY to USD 18.27bn.

Renewables were the largest sector by total deal value, representing 35% of the European market in FY 2020 (vs. 24% in FY 2019). With the Renewable's top position and due to standardization in Europe, the Core-European markets show a clear homogenization of spread levels in that market, too. Compared to the Nordics or Southern and Eastern European countries, market price exposure (Nordics) or country risk is reflected in margin pick-ups, respectively. The table below shows spread levels observed in European regions for Senior and Junior Renewable financings.

Region	Senior Spread	Junior Spreads
Germany	160 bps	430 bps
France	180 bps	450 bps
BeNeLux	190 bps	460 bps
Spain	240 bps	520 bps
Nordics	230 bps	540 bps
Poland	350 bps	630 bps

Table: Renewables Spreads in Europe; PCAG

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 nearly doubled its share to 20%. 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 established core infrastructure sectors Transport and Energy substantially suffered from the Covid pandemic, resulting in a -11PP YoY lower market share for Transport (to 19% in 2020) and -12PP YoY for Energy (to 10% in 2020).

The **North American market** experienced an only minimal -1.0% decrease in terms of deal value during the Covid year 2020. Deals in the amount of USD 231.08bn have been closed in FY 2020 compared to USD 233.87bn in FY 2019. Around 53% of the total volume of USD 231.08bn have been financed by debt with USD 102.91bn provided through loans and USD 18.79bn through capital market issuances.

While in FY 2019 the Energy sector represented a substantial 43% of the total market, it only reached 28% in FY 2020 sharing the top position with the Renewables sector also representing 28% of deal value in 2020. Notable deals in the Energy 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. The take-private of Renewables company Pattern Energy by CPPIB was by far the biggest Renewables deal in 2020 with a total deal value of USD 6.10bn. However, the strong performance of the Telecoms sector is still the most prominent event of FY 2020. This sector generated 16% of all deal volume in FY 2020, which is a +11 PP increase YoY coming from 5% in FY 2019. This increase was still largely supported by the landmark deal of Zayo Group's acquisition with a deal volume of USD 14.30bn 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 +1 PP to 14%.

The **Australasian market** has seen 389 deals in FY 2020 with a total volume of USD 114.26bn, thus down -20.8% compared to USD 144.28bn in FY 2019. While on the Asian mainland Renewables deals made up for ca. 32% of the market in FY 2020, and thus increased by +11 PP YoY, the Australian and New Zealand market was dominated by the Transport (30%) and Energy sector (29%). 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 FY 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": Hydrogen – Europe's economic and environmental future?

With our H1 2020 newsletter, we started a "mini series" on Sustainable and Responsible Investments (SRI) in the Private Infrastructure Debt asset class. We have already discussed the integration of ESG-factors into investment processes as well as the sustainable recovery of European economies post Covid.

As outlined in our last newsletter, a major topic in Core-European Covid recovery plans is the support of the Green Hydrogen industry. Thus, this quarter's "Spotlight" is on the market environment for Hydrogen infrastructure in Europe and the economic and environmental potential so far lying dormant within this sector for investors.

Speaking of the Hydrogen market, many different "shades" of Hydrogen – such as grey, blue and green – are known. Nowadays, most Hydrogen is produced by processing natural gas and separating the Hydrogen from the carbon resulting in the generation of CO2 alongside. Capturing this CO2 and avoiding its dispersion to the atmosphere makes this production "low carbon" or blue. Last but not least, if electricity generated from renewables is used for the Hydrogen production, the result is considered Green Hydrogen. This is illustrated in the Figure below, displaying the Green Hydrogen production alongside direct consumption of electricity produced by renewables:

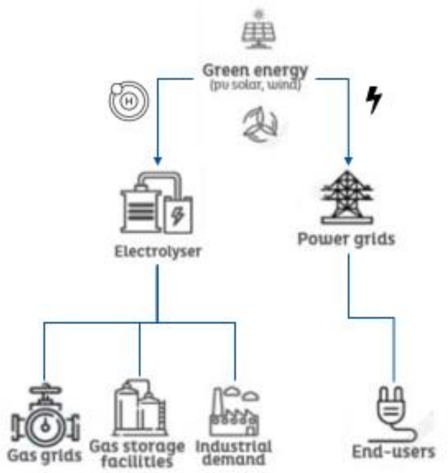

Figure: Green Hydrogen value chain as part of Green Energy production; PCAG

Hydrogen and especially Green Hydrogen offers many different advantages such as the reduction of energy import dependencies and its high potential as an energy carrier alongside its application in many fields, incl. transport, energy, synthetic fuels and the industry. Consequently, global demand for Hydrogen is estimated to have huge growth potential in the next 3 decades.

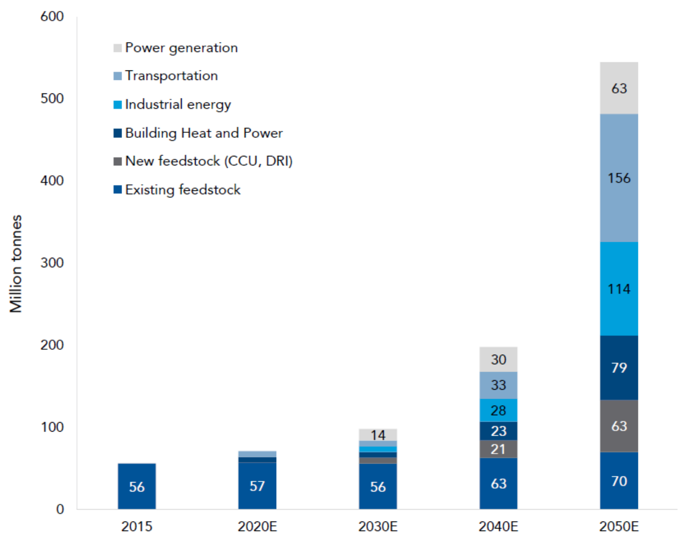

Figure: Global Hydrogen Demand by Field; PCAG

Thus, the Green Hydrogen industry has been identified by EU member states as being crucial for both, the environmental transition of Europe's economies as well as their economic recovery itself. 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.

Especially advantageous for the Hydrogen production is the direct combination with good wind resources, which promise low-cost energy supply (e.g. wind farms) alongside enabling the construction of large scale combined plants.

Crucial for participating in the growth in the European Green Hydrogen market is being able to manage the main risks – namely technology, market and competitive risk - in such a quickly emerging asset class. Prime Capital's longstanding experience in the renewables market and its strong relationships to both, established leading technology suppliers as well as infrastructure sponsors, allow us to tap the potentials of Sustainable Europe and to be at the cutting edge for investments in Green Hydrogen.

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

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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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