



Infrastructure Debt

Newsletter Q2 2022

Infrastructure Q2 2022 Overview

- > Total global deal value for Q1 2022 amounted to USD 235.4bn with a deal count of 637. Although, COVID-19 is less of a concern compared to the previous two years, other economic head-winds such as the continuous labor shortage and supply-chain disruption as well as rising inflation, and the exacerbating impact of the war in Ukraine are hindering a swift recovery. Despite all this, 2022 saw a strong start to the year with total infrastructure value up 51% YoY.
- > Transport and Telecommunication sectors account for almost half of total market share throughout Q1 2022 (46%), as several large scale transactions boosted the sectors' values.
- > The Transport sector has recorded a growth in transaction value of +231%, which was driven by the USD 23.5bn Sydney Airport sale that made up 44% of global deal value within the sector.
- > Leverage for the first quarter of 2022 stands at 44% with USD 104bn of the total deal value being financed by debt (YoY: -19.0%, Market based lending: 6.6%, Loans: 37.4%).



Figure 1: Sector Share and Global Debt Value¹

¹ Source of data: Inframation May 2022: <https://www.inframationnews.com/league-table-reports/detail/9884646/detail.html?parent=9675126>
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Infrastructure Debt – Activity in detail

According to Inframation, the value of global infrastructure and energy transactions stood at USD 235.1bn at the end of the first quarter of 2022, up from USD 155.6bn during the same period one year prior. The increase in transaction value was realised despite a drop in the number of deals from 672 in Q1 2021 to 635 in Q1 2022. Sector wise, Telecommunications was the best performing segment in the first quarter with transactions totalling USD 55.15bn, almost quadrupling deal activity compared to Q1 2021 and reaching a market share of 23%. Similarly, Transport displayed a strong start to the year with total transaction value reaching USD 53.05bn (YoY: +231%) and a market share of 23% in Q1 2022. Debt markets have remained robust during the first quarter of 2022 with debt value totalling USD 104.04bn for the period (YoY: +7.2%). In 2022, bank financing continues to be the main source of debt financing, making up 85% of total debt value, while the share of debt issued from capital markets has dropped by 3.8% to 15% of total debt. Overall, the leverage ratio for global infrastructure transactions has decreased significantly to 44% in Q1 2022, down from 63% during the same period one year prior.

The **European market** demonstrated a strong start to the year, featuring 301 infrastructure deals in Q1 2022 with a total value of USD 76.33bn. This compares to 285 transactions with a total value of USD 53.99bn in Q1 21, constituting an increase of +6% and +30% in deal count and transaction value, respectively. Deal financing was mainly sourced through classic lending, amounting to USD 39.76bn (52% of total transaction value; +47% YoY), while capital market activity continued to remain calm, amounting to a total of USD 3.25bn in the first quarter (4.25% of total transaction value; +9.4% YoY). On average, the leverage ratio for European infrastructure deals stood at 56%.

The Energy and Telecommunication sectors continue to produce landmark deals in the European market during the first quarter of 2022. With a value of USD 14bn the asset sale of Swedish Lundin Petroleum Upstream to an acquirer backed by BP and Aker has been the largest infrastructure deal by value during Q1 2022 and accounted for 31% of global transaction value within the Energy sector. In Italy, 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 34% of global transaction value within the sector.

Given these landmark deals, particularly within the Telecommunication sector, it is not surprising that Telecomms captured a market share of 40% during the first three months of 2022 (YoY: +29%). This was followed by Renewables with a market share of 20%, which continues to be a key focus for investments in the European region, and the Transport sector with a share of 19% (YoY: +8%) that continues to attract more capital as well.

In the **North-American market** 148 deals have been recorded in Q1 2022, amounting to a total transaction value of USD 52.17bn (YoY: +38%). The transactions have been financed with USD 14.4bn in debt, resulting in an average leverage ratio of 28% (56% in Q1 2021), indicating a retreat of lenders as uncertainty on monetary policy looms over markets. The majority of debt financing has been provided

via bank loans (72% of total debt; -1% YoY), while DCM accounted for 28% of total debt, once again making the North-American market a hot spot for capital market activity.

In terms of high value deals, the Telecommunication and Energy sectors took a predominant role in the North-American market as well. By far, the largest transaction during the first quarter 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 largest transaction during Q1 2022 has been the USD 3.25bn acquisition of Warburg Pincus owned natural gas services company Navitas Midstream Partners by Enterprise Products Partners.

The market distribution in North-America almost mirrors the European market during the first three months of 2022. The CyrusOne deal boosted the Telecoms sector tremendously in terms of market share, as the sector accounted for 41% of total market value in Q1 2022 (YoY: +35%). This was followed by Renewables with a market share of 20% and the Energy sector with a share of 19%. Both sectors continue to attract large amounts of capital, however, considerably less than in the previous year. Renewables lost -11% of their Q1 2021 market share, while the market share of the Energy sector dropped by -15%.

In Q1 2022, the **Australasian market** recorded 77 transactions with a total value of USD 64.58bn (YoY: +121%). The average leverage ratio stood at 27% during the first quarter, while the debt has been almost exclusively raised via bank loans (96% of total debt). DCM activity was very low in the region, with only USD 248.5m raised via capital markets (YoY: -91%).

The most notable deal has been 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 for 10% of global 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 4.8bn acquisition of a 49% stake in Pluto LNG by Global Infrastructure Partners.

Sector wise, Renewables continues to be the largest sector by value in mainland Asia with a market share of 54% in Q1 2022 (YoY: +11%) and is now making up more than half of the total market value. This is followed by the Transport sector with a share of 34% (YoY: +18%), making the two sectors with a combined market share of 88% the main targets for investments. In Australia and New Zealand, the Sydney Airport sale drove up the market share of the Transport sector, which accounted for nearly half the total market value (49%; YoY: +34%), followed by the Power sector with a market share of 29% (YoY: +27%), which is largely driven by a few large scale transactions including the AusNet Services sale.

“Spotlight”: Decentralization – paving the way for sustainable power generation

While the world is rapidly trying to diversify its primary source of energy away from fossils, the demand for energy is constantly increasing, making the transition towards more sustainable, renewable sources of energy essential.

Combined heat and power (CHP) is a form of decentralized generation that represents a more sustainable way to generate power through higher efficiency. CHP is an integrated system that is located at or near a facility, generating utility grade electricity which satisfies the electrical load of the building in parts, and captures and recycles waste heat that is produced by the electric generating equipment, providing thermal energy directly to the facility.² The simultaneous generation of electricity and heat can increase the energy efficiency of the plant by more than 100% compared to large centralized power plants. Additionally, CHPs can save up to 60% of CO₂ and NO_x when natural gas is used as dedicated fuel source, while emissions can be reduced to close to zero if renewable fuels, such as biomethane, are used.

CHP plants have experienced a strong development, particularly in Germany. Since 2009, the number of CHP plants has increased at a CAGR of 27%, reaching 55.783 in 2019 and the drivers for future growth continue to be strong. With the national and international emergence of

sustainability policies there will be increasing investments into more efficient forms of energy generation in the near future.

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 decarbonisation of the EU’s electricity grids 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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² [Combined Heat and Power | Sustainability: A Comprehensive Foundation \(lumenlearning.com\)](https://www.lumenlearning.com)
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