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# *Infrastructure Debt*

Newsletter Q1 2020

## Global Infrastructure Q1 2020 Overview

> Total global deal value (equity and debt) for Q1 2020 was USD 139bn and nearly exactly the level of 2019. Deal number substantially fell from 535 deals in 2019 to 414 deals in 2020

> After a very weak Q1 2019, deal flow in the market increased substantially in H2 2019. Despite Covid-19 and oil price war, the momentum of H2 2019 supports numbers of Q1 2020

> Sector allocation already shifted with a relative weak volume in Energy with 16% and Transport with 15% seeing a -8 PP YoY and -4 PP YoY decrease respectively

> Leading sectors in Q1 2020 have been the Renewables sector with 25% and a +5 PP YoY increase as well as the Telecoms sector with 22% and a massive +14 PP YoY increase

> Globally, USD 74bn of the total global deal value of USD 139bn have been financed by debt in Q1 2020, which corresponds to a ratio of 53% debt and is slightly more conservative than 59% in 2019

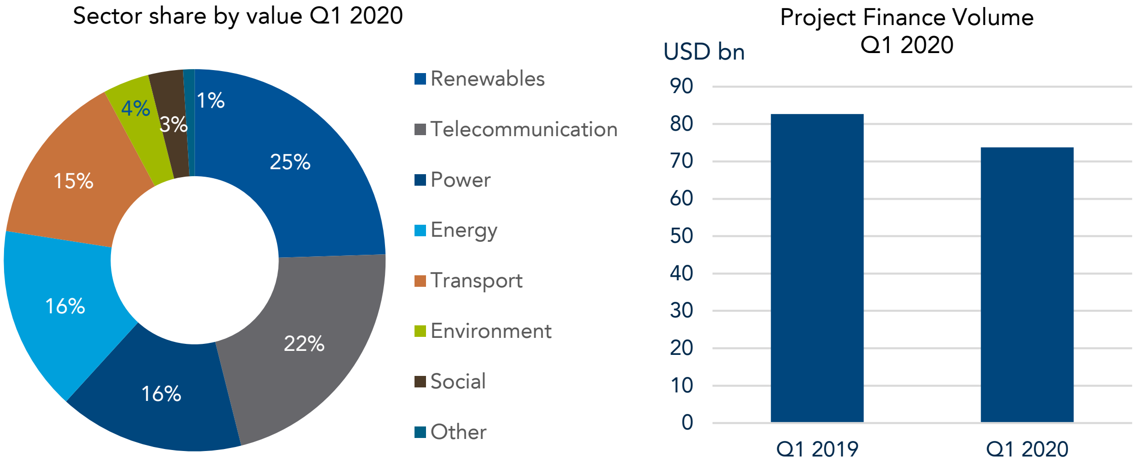


*Figure 1: Sector Share and Global Project Finance Volume; Source: Inframation*

## Infrastructure Debt – Activity in detail

Deal value, or the total amount of capital committed to infrastructure transactions, more or less unchanged YoY at a reasonable USD 139.3bn. Especially the North American market kept those numbers high. In Europe, the value of deals in the Transport and Social sectors dropped sharply YoY and performance looks to further weaken amidst the coronavirus crisis. A slowdown in deal volume in the first quarter of 2020 points to what is likely to be a challenging Q2, although telecoms and utility deals kept the infrastructure market going during the period.

Europe's infrastructure finance market contracted by -8.2% in Q1 2020 compared to the same period a year ago, with USD 45bn of deals closing against USD 49bn in Q1 2019. While loan volume remained flat at USD 21bn, capital markets debt activity fell by -52% to USD 4bn compared to USD 8bn in Q1 2019.

The market was held up partly as some mega deals reached financial close before the spread of the coronavirus across Europe, like the EUR 3bn refinancing of French toll road operator APRR, and the EUR 1.4bn financing for German broadband firm Deutsche Glasfaser or the EUR 2.1bn debt raise for InfraVia and Iliad's French broadband expansion. This activity in the Telecom sector can also be seen in total sector activity with Telecom leading with 30% of the market compared to 11% in Q1 2019. The Transport sector numbers fell by -17PP YoY from 36% in Q1 2019 to 19% in Q1 2020. The countries that saw the fibre-optic and energy investment activity during the quarter have recorded the best performance in terms of volume across Europe in Q1. Germany recorded 12 deals totaling almost USD 6bn on the back of a very strong Q4 2019. 70% of deal volume in the country was linked to either the Power or Telecom sectors. France also performed well, with USD 9bn of deals closed in the quarter.

The North American market experienced an increase in the number of deals from 125 in Q1 2019 to 134 in Q1 2020. In terms of value, deals in the amount of USD 55bn have been closed in Q1 2020 compared to USD 34bn in Q1 2019. Especially high activity was seen in the Telecom sector that supported the North American infra deal market significantly. Ca. 49 % of the total volume of USD 55bn have been finance by debt with USD 22bn been provided by loans and USD 5bn by capital market issuance. While in Q1 2019 the Energy sector made up for 36% of the total market, it reached only 19% in Q1 2020. This quarter was clearly shaped by the Telecom market comprising for 30% of the North American infra market in Q1 2020 compared to 9% in Q1 2019. The deal volumes were furthermore supported by a stable Power and Renewables activity comprising ca 43% of total deal volume.

The Australasian market has seen 63 deals in Q1 2020 with a total volume of USD 29bn and thus is down 24% compared to USD 38bn in Q1 2019. While on the Asian mainland Power and Renewables deals make up for ca. 55% of the market in Q1 2019 and 2020, the Australian and New Zealand market was dominated by the Social sector (47%). Notable deals in Q1 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: Coronavirus impact

In general, the infrastructure market is relatively robust with regards to short-term external shocks, such as the coronavirus pandemic. Nevertheless, a reduced economic activity in combination with the oil price war and short-term trade and production reduction due to the coronavirus could especially affect volume-based projects (e.g. toll roads, ports) as well as the Oil & Gas sector.

Toll road utilization on average fell by around -70% YoY due to nation-wide lockdowns and decreased economic activity globally. With China reopening its economy, utilization rates increased promptly again. For the risk assessment of toll road, airport and port projects, liquidity is the first parameter to be monitored as well as reserve accounts in place. First estimates indicate no normalization with regards to travel before year end, thus a 6 to 9 months liquidity coverage will be key.

The Oil & Gas sector currently sees a "perfect storm". Global economic slowdown due to the corona pandemic already puts pressure on the oil price, which is again topped by the oil price war. The oil & gas infrastructure sector (storage, midstream/downstream, transport etc.) is in general shaped by long-term contracts, which are not directly linked to the price of the commodity itself and thus secure project cash-flows for debt providers in the current phase. However, exposure to counterparty risk with regards to the offtakers is likely to increase in line with increased pressure on the profitability in the oil and gas producing

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industry. The last structural decrease in oil prices between 2014-2017 led to pressure on equity prices, profitability and finally on credit risk ratings. The current situation induces an even heavier impact with first time observed negative prices for oil.

With regards to credit and project documentation in the overall Infra debt market, a pandemic, such as Covid-19, is not defined as a case of force majeure. But especially for very Capex intensive projects and greenfield projects an inclusion seems to be likely for new contracts (e.g. EPC-Contracts).

With regards to market activity, we see Q1 2020 as an indicator of what is about to come in Q2 and Q3. For example, infrastructure activity in terms of volume in Europe's most affected country, Italy, plummeted to total deal value of below EUR 1bn. However, even there, the Telecom market was the winning sector with a market share of around 18%. This indicates an increase in attractivity in this particular sector, which was already anticipated in 2019.

Prime Capital - with its unique multi-channel sourcing model - is well prepared to keep transactions going in such unprecedented times. Especially, our well established network with leading banks (attractive balance sheet transactions) as well as our network amongst advisors and project developers secures a stable pipeline investors can benefit from, even in such a constraint market environment.

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> Management of mandates 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
www.primecapital-ag.com

Contact:

Prime Capital – Investment Management Private Debt
mailto: impd@primecapital-ag.com

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