Infrastructure Debt

Newsletter Q1 2023

Overview

- Total 2022 global deal value amounted to USD 1,070.8bn with a deal count of 3,369. Geopolitical and macroeconomic stress factors, such as rising interest rates and inflation, supply chain issues as well as global conflicts negatively affected the infrastructure market. Nonetheless, 2022 marked another record year for global infrastructure deals with a 2.4% increase in total deal value. The increase was mostly driven by a very strong first quarter with YoY declining values thereafter.
- With sector shares remaining stable in Q4, transport, energy and renewables accounted for two thirds of the deal value for the whole year.
- The most notable deal of the fourth quarter was Brookfield's acquisition of a 49% stake in Intel's two Arizona semiconductor manufacturing facilities at a USD 15bn valuation.
- The leverage ratio for 2022 stands at 53% (Capital markets: 5%, Loans: 48%) with USD 569bn of the total deal value financed by debt, compared to a leverage ratio of 54% and USD 566bn in debt in 2021.

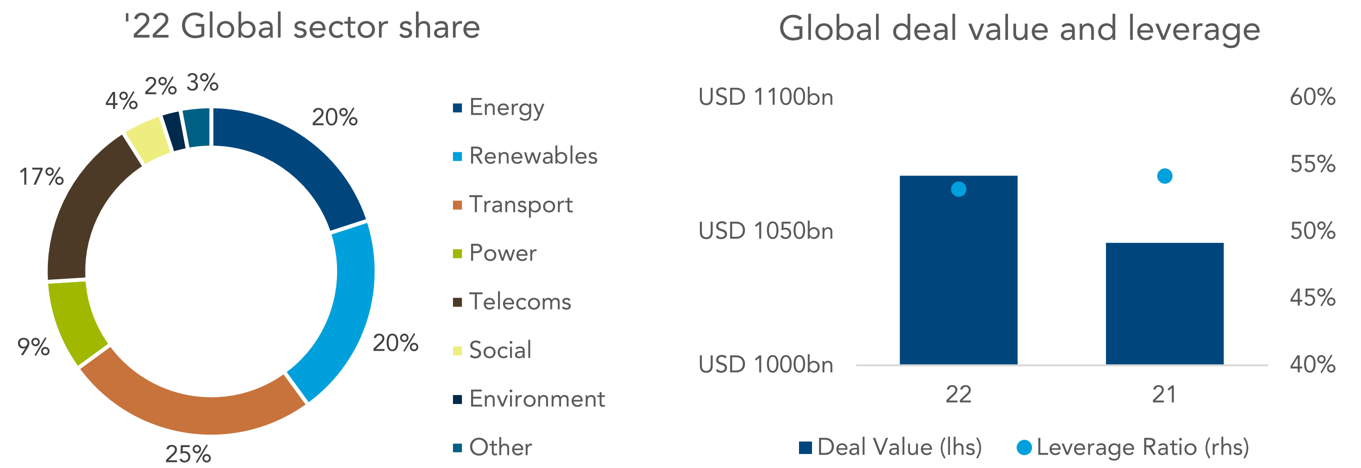

Figure 1: Sector Share and Global Deal Value[1]

[1] Source of data: Inframation March 2023: Global | Inframation Deals - Infrastructure Data & Research (inframationnews.com)

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Infrastructure Debt – Activity in detail

According to Inframation data, 2022 was another record year for infrastructure deals. With 3,369 deals and a deal value of USD 1,071bn, 2021 was exceeded by 1.9% and 2.4%, respectively. After a record Q1 but YoY declines since, Q4 once again showed weaker performance than the year before decreasing by 11.4%. The impact of manifold macro stress factors can be seen in the strong decrease in capital markets financing, which stands at -37.5% YoY. By sector, transport, energy, and renewables consisted for almost two thirds of the market with shares of 24.8%, 20.0% and 19.9%, respectively. Social infrastructure (4.2% market share) and transport grew the most with YoY developments of +42.3% and +38.5%, respectively.

The **European market** recorded 1,547 deals with a total value of USD 380.6bn in 2022 compared to 1,414 deals (+9.4%) and total deal value of USD 390.5bn (-2.5%) in 2021, slightly underperforming the global value trend but exceeding on deal count. Like the global picture, European deal values have started strong compared to the year ago but came in weaker in the quarters thereafter. Q4 shows a 16.5% decrease, which is the strongest quarterly YoY drop of 2022. Average leverage in 2022 has decreased to 51% after 57% in 2021 and is now below the global level. While bank loan value has decreased by 7.4% to USD 182.1bn, debt capital market (DCM) activity has continued its multiyear negative trend and decreased by 25.1% to USD 13.3bn, thus increasing the importance of loans once more.

The most notable European deals of the year were the Take Private of Atlantia by Blackstone for USD 44.9bn and the acquisition of an 88% stake in Autostrade per l'Italia by Macquarie and Blackstone for USD 18.9bn, strongly pushing transportation's market share. These two transactions account for 17% of European and 6% of global market value. The ten largest deals' share of the overall value is 32%.

In terms of sectors, transportation had the largest share with 32%, 17PP higher than the year before. This was followed by renewables and telecoms who retained their share from the year before at 22% and 21%, respectively.

The **North American market** recorded 811 deals with a total transaction value of USD 345.8bn in 2022 compared to 859 deals (+10.2%) and a transaction value of USD 313.9bn (-5.6%) in 2021, which is a weak performance in terms of transaction value but a good one in terms of number of deals compared to the global market. Throughout the year, the American market also had a relatively heterogenous value performance with both a stronger Q2 and Q4 than in 2021 but a much lower Q3. Average leverage was at 55% compared to a relatively low average leverage of 44% in 2021 and translates into a total debt amount of USD 190.6bn. DCM value decreased by 30.3% to USD 18.9bn and DCM financing share halved to 10% as 90% was financed via loans.

Among the notable American deals were the project financing of Plaquemines Parish LNG by Venture Global LNG for USD 16.6bn and the acquisition of CyrusOne's US business by GIP and KKR for USD 15.3bn. The ten largest deals' share of the overall value is 31%.

With regards to sector distribution, energy had by far the largest share with 30% after 29% in 2021, followed by telecoms with 19% (2021: 15%) and renewables with 18% (2021: 23%). Thus, the three largest contributors account for 57% of the overall value and the sector distribution was pretty stable.

The **Australasian market** recorded 507 transactions with a total value of USD 191.7bn compared to 507 deals and a total deal value of USD 177.1bn (+8.2%) in 2021, outperforming the global development on a value basis. Average leverage in 2022 has decreased to 46% from 51% and is thus below the global average. Similar to the other regions, DCM lost financing market share resulting from a 39.5% decrease in value to USD 5.6bn while loan value grew by 2.7% to USD 83.0bn.

The Australasian development was strongly influenced by its largest deals with just two deals, the acquisitions of the Sydney Airport by GIP and IFM for USD 23.4bn and the acquisition of AusNet Services by Brookfield for USD 13.2bn, accounting for almost 20% of overall deal value.

The largest Australian sectors were transportation, which increased slightly to 35% from 31% in 2021, energy, which increased to 18% from 11% in 2021 due to a large YoY increase caused by the AusNet transaction and power, which remained unchanged at 17%. Together, these three account for 70% of the overall Australian market value.

In terms of Asian sectors, renewables had the largest share with 39% (2021: 43%). Transportation takes the second spot with 33% after a 13PP share increase mostly resulting from some notable large-cap transactions. Telecoms take the third place with a 14% share after a 9PP increase, also due to the acquisition of ARA Asset Management by ASR for USD 5.6bn, which was the largest Asian transaction in 2022. Therefore, the three largest sectors account for 86%, which is the largest sectoral dominance among the regions.

"Spotlight": New EU regulation for the energy transition and digitalization – an impulse for private sector infrastructure investments?

In February, the European Commission presented its proposal to enhance the competitiveness of Europe's net-zero industry and support the fast transition to climate neutrality, the "Green deal Industrial Plan for the Net-Zero Age" (the Plan). It is designed to maintain EU competitiveness, especially in light of the adoption of the United States Inflation Reduction Act and promote the twin transition towards a sustainable and digitalized economy. The Plan is built on four main mainstays: a predictable and simplified regulatory environment, improved access to funding, enhancing skills and open trade. The implementation of this plan will require substantial investments in the infrastructure sector in the coming decades and will provide important impetus for increasing investment opportunities in infrastructure-private debt. In addition, the EU's approach opens up some completely new asset classes to the infrastructure segment that traditionally would have been considered too far "up-stream" in the supply chain to be considered infrastructure projects, for example in (battery) cathode and anode production, the chemical processing and mining of raw materials and rare earth extraction. Successful implementation of green value chains in manufacturing will play a key part in laying the foundation for Europe's future prosperity and part of the proposed regulation aims at ensuring that green value chains will be positioned within the EU, in order to secure the future industrial base of the EU economy.

In conjunction with the realignment of the regulatory framework, the Commission is proposing a series of amendments to facilitate improvement in supply of and access to private and public funding, including:

- Simplified access to aid for renewable energy projects and aid for projects related to the decarbonization of industrial processes.
- More targeted aid for major new production projects in strategic net-zero value chains.
- Creation of new investment support schemes (including via tax benefits) in targeted net-zero sectors.
- Facilitating the capacity to react to cases of relocation risks by matching aid available in other jurisdictions.

In addition, the Plan includes provisions to significantly increase notification thresholds for state aid and it is intended to simplify and streamline approval processes and procedures for projects of strategic importance as well as smaller projects.

In complimentary legislation, the EU has now also published its final draft of the "EU Critical Raw Materials Act", a new law that identifies a list of strategic raw materials and sets clear benchmarks for domestic capacities with the aim of diversifying the EU's supply chain by 2030. In addition to the ESG-dimension and expectations of a significant future increase in demand for mineral raw materials, which are essential for climate-friendly and digital technologies, supply of raw materials has taken on a geopolitical dimension that takes the issue far beyond the procurement of materials. The dependence on energy resources outside of the EU, the increasing spread of political conflicts to raw materials and the material shortages and supply chain disruptions in the aftermath of the Covid-19 pandemic and Ukraine war have led to calls for a more strategic orientation of EU raw materials policy.

The new strategic orientation is aimed at stimulating the strength of Europe as a leading high-tech location, which is necessary to position the EU at the forefront of the mammoth task of the dual transition of energy transformation and digitalization. In view of this enormous and complex undertaking, a bold push for financing is needed, choosing appropriate instruments to mobilize the necessary investments along the value chain. In its communication on the subject, the Commission acknowledges that substantial private funding will be required to achieve the ambitious investment goals that have been set for the transition in energy production and digitalization. For this reason (and in addition to amending the state aid rules to unlock private financing) the Commission has in this context also confirmed its commitment to developing a Capital Markets Union to mobilize more private funding on capital markets for strategic infrastructure investment.

The new regulatory framework will have substantial long-term implications on the strategic investment decision-making for investors and businesses in the EU and beyond and will also deliver attractive opportunities for infrastructure investors in the short-term. The Plan aims to establish a supportive environment for the expansion of manufacturing capacity in technology sectors that are critical for the successful net-zero transition and create the capacities required to meet the EU's ambitious climate targets. Clearly reflecting the EU's ambition and commitment to the transition towards a net-zero economy based on green energy, it also aims at maintaining the EU's competitiveness in key technologies. In doing this, the Plan creates significant opportunities for companies to gain better access to government aid and other support schemes. Some private sector actors criticize that the role for private finance in transitioning Europe's industries could and should have been more pronounced and had hoped for clearer signals from policymakers to mobilize all forms of finance towards transformation. Therefore, even though the proposed changes represent an important step in the right direction, further action will be needed if the EU wants its ambitious initiative of becoming carbon neutral by 2050 and maintain its position as a world leader in technologic advancement to succeed.

Currently, accessing EU subsidies is more complicated than it should be, particularly for smaller companies in need of funds who are often struggling to efficiently deal with the EU's subsidy bureaucracy. The new regulatory set-up seeks to address these shortcomings. It aims to simplify access to various existing EU programs and streamline the approval of national green funding instruments in Brussels. If this succeeds, this alone would already be a very important success. It is argued that the proposed legislation could be more efficient in actually achieving these goals. In many areas, the US-framework appears to be more effective in setting transitional incentives and easier to access and navigate. However, whether or not the EU managed to "level the playing field" with the US, the implementation of this new regulatory set-up will certainly help to make the EU a more attractive market for private infrastructure investments.

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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 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 more than EUR 2bn across asset classes for institutional investors.

Further information about Prime Capital AG can be found at www.primecapital-ag.com

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

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