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Infrastructure Debt

Newsletter Q2 2021

Infrastructure Q2 2021 Overview

> Total global deal value (equity and debt) for Q1 '21 amounted to USD 90.78bn, the deal count stood at 464. As of Q1 '21, COVID-19 has been around for more than a year. Its impact is felt both in deal numbers (-21%) and in deal values (-46%), whereas sectors such as telecoms or healthcare saw increased activity. As the pandemic is now set to fade, those trends slowly start to reverse.

> Renewables and Energy sectors accounted for the majority of all conducted deals during the quarter (58%, YoY: +7%), pointing to the increasing trend towards sustainable financing.

> Of the total global deal value of USD 90.78bn, 60% was financed with debt (Market based: 22%, Bank based 78%). Compared to pre-COVID, bank lending for infrastructure financings contracted by more than 5% on a yearly basis, hinting at the opportunities for alternative lenders to fill the gap.

> During the quarter, Greenfield projects accounted for roughly 42% of total deal volume whereas the remaining 58% has been allocated towards existing projects. This represents the adjusted risk profile of investors, as the pre-COVID split tilted towards 50:50.

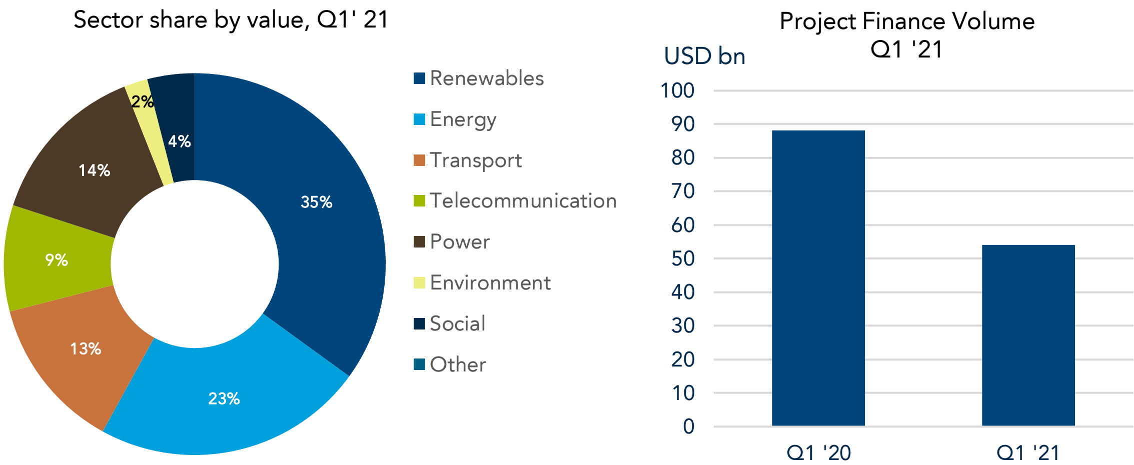

Figure 1: Sector Share and Global Project Finance Volume[1]

[1] Source of data: Inframation May 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, the total global amount of capital committed to infrastructure during the first quarter of 2021 was lower than the exposure in the previous year (YoY: -46%). Sector wise, Renewables and Energy accounted for the majority of all conducted deals (58%), once again pointing to the ever increasing desire for sustainable financing. Activity in the transport sector remained on the same level (13%) whereas the telecom sector – a beneficiary of the pandemic – showed first signs of cooling off (YoY: -11%) throughout Q1 '21.

All of this may point to a rather gloomy start into the year, but several large-scale deals have been agreed in Q1, which are still subject to close. Furthermore, the vaccine rollout around the world gains traction, slowly pushing the pandemic back and ultimately accelerating deal activity. This is also evidenced by the fact that COVID-induced trends in impacted sectors such as telecoms or transport slowly come to a halt or reverse altogether. Furthermore, across all markets, Q1 '20 has been record-breaking making YoY comparisons somewhat biased.

The European market for infrastructure financing featured 199 deals with a total volume of USD 32.37bn throughout the quarter. Equity aside, the transactions were financed by USD 18.47bn of debt mainly via classic lending activity (91% of total volume, YoY share: +11%) since Debt Capital Market activity almost came to a halt (9% of total volume, YoY share: -11%). In total, the average European leverage ratio for Q1 '21 projects' stood at roughly 57% (YoY share: + 2%).

Landmark deals during the quarter featured the USD 2.6bn financing of the Courseulles-sur-mer Offshore Windfarm by Crédit Agricole and BNP Paribas as well as KKRs' partnership with Telecom Italia. Under this deal, KKR agreed to be an exclusive partner to help develop TI's ultra-broadband business, with debt commitments up to USD 2.2bn.

Renewables were the largest sector by total deal value, representing 45% of the European market in Q1 '21 (YoY: +25%), closely followed by Telecoms (18%, YoY: -12%) and Transport (17%, YoY: +/- 0%). With the Telecom's strong deal flow in the last year with many greenfield Fiber deals, but also some acquisitions and refinancing of operating assets, a broad range in spreads could be observed in the market. Speaking of the core-European markets (BeNeLux, Germany, France) and the Nordics, spreads are observed as follows.

Region	Senior Spreads	Junior Spreads
Fiber	220-350 bps	450-580 bps
Greenfield Data Centre	230-350 bps	470-580 bps
Brownfield Data Centre	175-250 bps	420-500 bps

Table: Renewables Spreads in Europe; PCAG

On the **North American market**, 133 deals with a total volume of USD 26.84bn (YoY: -60%) have been observed. Of this total deal value, USD 13.35bn has been financed, amounting to a total leverage ratio of nearly 50%. Loans accounted for 22% (YoY share: -61%) of total debt and the remaining 78% (YoY share: +61%) have been due to market based financing.

Notable deals include the strengthening of NRG Energies footprint in North America with the acquisition of Direct Energy from Centrica for roughly USD 3.6bn. Citi and Credit Suisse acted as designated advisors. Infrastructure BCs' USD 1.72bn redevelopment of the St. Paul's Hospital in Downton-Vancouver is also worthwhile to mention: The current 125-year old facility does not adequately meet governmental requirements (space, seismic protection) and staff, services and programs have outgrown the hospital's current space.

Renewables (33%, YoY: +4%) and Energy (29%, YoY: +12%) contributed more than 60% to the total volume, closely followed by the Power sector (20%, YoY: +0%)

During Q1' 21 in the **Australasian market**, 67 deals with a total volume of USD 17.96bn (YoY: -40%) have been conducted. Those transactions have been financed with an average leverage ratio of 66%, where market based financing played a minor role (13%, YoY share: +9%).

In terms of interesting deals, Adani Green Energy secured financing to back their 1.69GW solar and wind portfolio. The Indian developer raised appx. USD 1.35bn. via a syndicated RCF – India's biggest green hybrid project loan to date – in order to support the construction of their portfolio in Rajasthan. Lead arranger MUFG compiled a syndicate among Deutsche Bank, Barclays, BNP Paribas and others. Another transaction in Australia saw Shell selling its 26.25% stake in the Queensland QGC LNG plant to Global Infrastructure Australia for more than USD 2.5bn.

The Asian mainland was once more dominated by Renewable deals, accounting for nearly 50% of all transactions (YoY: +9%), closely followed by the transport sector (YoY: +0%). In Australia and New Zealand on the other hand, the Energy and Social Infrastructure sector contributed the majority with almost 70% of total deal volume (YoY: +20%) with Renewables declining slightly to 17% (YoY: -2%).

"Spotlight": Junior Debt – A compelling Growth Case

Since its first emergence in the aftermath of the financial crisis 2008, the European infrastructure market has changed and matured. The overall demand for infrastructure debt grew in line and almost tripled since then. Competition comes in the form of banks and insurance backed asset managers. According to Inframation, only 15% of all European Infrastructure financings are provided by debt funds. Within this competitive landscape, junior structures offer attractive market parameters for debt funds. Now, with dry powder at an all-time high, it is worthwhile to take an in-depth look on Infrastructue Junior Debt opportunities, its market environment as well as risk return parameters.

The rise of the Junior Debt is a trend supported by dry-powder of debt investors, high back-log in infrastructure investments all over the EU alongside increased capital and complexity requirements of equity investors. Especially,

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projects in core infrastructure, where fluctuations in revenues and costs are traditionally low, allow for more leverage. Equity investors seek to differentiate themselves with a better cost of capital in order to win over deals. By enhancing the capital structure with Junior Debt, this becomes possible. Also, Junior Debt exposure allows alternative lenders to avoid the direct competition with banks since regulation forces them to stick with senior structures. Junior tranches are shunned, since they would significantly increase banks' RWA in compliance with the Basel accords and thus force them to back these loans with more costly equity.

Generally, in Junior Debt, successful deal sourcing and closing largely depends on strong networks and a geographical presence. Areas in which local alternative financers are traditionally strong, as they are able to engage with stakeholders faster while also employing less bureaucracy. But still, banks influence the market heavily. As of Q1 '21, Inframation finds that the lead bank lender in Europe provided more Infrastructure financings than all debt funds combined. This is why bank cooperations are so attractive for alternative lenders: Banks grant short-term, senior commitments as term loan, Capex facilities or liquidity facilities, whereas the fund prefers to lend junior debt on a fixed rate, often on Holdco level.

Especially in the Junior Debt segment, alternative lenders can deliver value. Due to the macro trends of decarbonisation and digitization, there is a large demand for capital in the transportation, energy, and telecommunication sectors. Furthermore, commercialization in target sectors led to a diverse field of mid-sized independent sponsors, operators, or contractors with complex capital needs and demand for individual funding solutions. Debt funds with their fast responsivity and low bureaucracy processes stand ready to suffice this demand. And lastly, there are constantly new technologies and sub-sectors evolving, which are not yet covered by traditional project finance banks and other players in the market.

Prime Capital, with its unsurpassed expertise for complex and individual structures, long established relationships to sponsors and banks and stable deal pipeline stands ready to help navigating the challenges of the Junior Debt market and provide its customers with an unmatched deal security. Together with its external partners and network and its in-house legal and structuring teams, Prime Capital provides value and acts at the cutting edge of the Junior Debt market for all 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 850m. 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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