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Infrastructure Debt

Newsletter Q3 2021

Infrastructure Q3 2021 Overview

> Total global deal value (equity and debt) for H1 '21 amounted to USD 269.4bn, the deal count stood at 1,073. As of H1 '21, COVID-19 has been around for more than a year. Its impact is felt both in deal numbers (-10%) and in deal values (-18%), 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 (52%, YoY: +3pp), pointing to the increasing trend towards sustainable financing.

> Of the total global deal value of USD 269.4bn, 30% was financed with debt (market based: 22%, Bank based 78%). Compared to pre-COVID, bank lending for infrastructure financings contracted by more than -60% on a year by year basis, hinting at increasing selectivity in banking processes and decreased money supply in the market.

> During the first half year 2021, Greenfield projects accounted for -57% less at USD 59.5bn vs USD 93.5bn in H1 2020. On the other side, brownfield had a relatively modest YoY decline of -3% to USD 143.89bn in the first half of 2021.

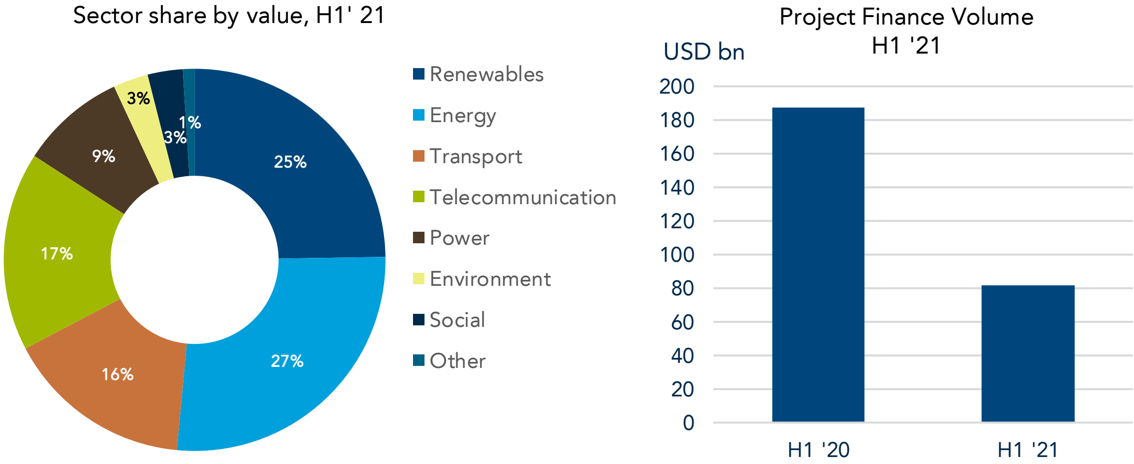

Figure 1: Sector Share and Global Project Finance Volume[1]

[1] Source of data: Inframation August 2021: https://www.inframationnews.com/league-table-reports/detail/8826176/detail.thtml?parent=8755061

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Infrastructure Debt – Activity in detail

According to Inframation, the total global amount of capital committed to infrastructure during the first half of 2021 was lower than in the previous year (YoY: -18%). Sector wise, Renewables and Energy accounted for the majority of all conducted deals (52%), once again pointing to the ever increasing desire for sustainable financing. Activity in the transport sector remained on the same level (16%) whereas the telecom sector – a beneficiary of the pandemic –proved its strength throughout H1 '21 with a total share of 17% (YoY: +1%).

While financing in H1 2020 was mainly dependent on infrastructure sponsors calling on their close relationships with banks, the loan market shrank to USD 63.7m in H1 2021 (YoY: -60.9%). The big fall may have been seen as a sign for alternative financing but that too was down to USD 18.0bn (YoY: -27.2%). Thus, the relative strength of leading infrastructure banks in the market remained at 78% of debt volume provided.

The European market for infrastructure financing featured 435 deals with a total volume of USD 96.85bn throughout H1 2021. Although, numbers are -14% down compared to H1 2020, the strong 2nd quarter provides a positive view on what is to follow in H2. Equity aside, the transactions were financed by USD 33.56bn of debt mainly via classic lending activity (88% of total volume, YoY share: +4%) since Debt Capital Market activity remained at the low levels of the previous year (12% of total volume, YoY share: -4%). In total, the average European leverage ratio for H1 '21 projects' stood at low 35%.

Landmark deals during Q2 mainly featured German Telecommunication deals, such as USD 6.02bn Unsere Grüne Glasfaser, USD 7.59bn Telxius Tower Sale as well as USD 2.20bn Tele Columbus deal. Those German transactions were accompanied by the USD 3.04bn refinancing and consolidation of debt of Nordic Fibre Company GlobalConnect.

The great number of landmark deals in the German Telecom market led to the Telecommunication sector becoming the largest sector in H1 2021, representing 34% of the European market in H1 '21 (YoY: +9%), closely followed by Renewables (29%, YoY: +/- 0%) and Transport (17%, YoY: -4%). With the Telecom's strong deal flow in Germany in the last year with many greenfield Fiber deals, but also some acquisitions and roll-out financings, a broad range in spreads could be observed in the German market.

Germany	Senior Spreads	Junior Spreads
Fiber Greenfield	280-400 bps	450-600 bps
Fiber Value-Add	220-350 bps	430-570 bps

Table: Fiber Spreads in Germany; PCAG

On the **North American market**, 307 deals with a total volume of USD 72.24bn (YoY: -26%) have been observed. Of this total deal value, USD 22.46bn has been debt financed, amounting to a total leverage ratio of 31% similar to the more cautious lending activity in Europe. Loans accounted for 74% of total debt and the remaining 26% (YoY share: +10%) have been due to market based financing.

Since the Corona pandemic hit the world, especially transport has been the most affected sector. However, on the back of the USD 2.10 Transurban DC Roads Portfolio Deal, Transport sector in North America gained traction again.

With a share of 17% (YoY +11%) the sector was 3rd strongest behind Renewables (26%, YoY: +1%) and Energy (30%, YoY: -3%). With the decarbonization targets of the Biden Administration, the share of Renewables deals is set to increase in the coming months. Many international and local banks as well as institutional lenders are already well positioned to capture new market shares in this sector.

During H1' 21 in the **Australasian market**, 158 deals with a total volume of USD 46.48bn (YoY: -18%) have been conducted. Those transactions have been financed with an average leverage ratio of 28%, where market based financing played a minor role (c. 15%).

In terms of notable 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. Other notable deals were the USD 3.28bn financing of Tianjin Metro as well as the 26.25% sale of Queensland Curtis LNG with a volume of USD 2.53bn.

The Asian mainland was once more dominated by Renewable deals, accounting for 30% of all transactions (YoY: -10%), closely followed by the transport sector with 25% (YoY: +1%) and the Energy sector with 23% 8YoY: +5%). In Australia and New Zealand on the other hand, the Social Infrastructure sector had a strong H1 2021 dominating the market with a share of 27% (YoY: +16%) followed by the Energy sector with 24% (YoY: -26%) and the Transport sector 23% (YoY: +1%).

"Spotlight": Power storage – imminent for decarbonization

With the EU's targets for decarbonization of its economies and industries and with increased dependency on variable renewable energy as main source of energy, energy storage is seen as the key to provide much-needed flexibility to adapt to different energy mixes, production and demand profiles.

All scenarios developed by the EU commission show, that storage capacity will significantly increase to enable

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integration of higher shares of variable renewables. Total stationary storage in the power system is expected to reach between 250 TWh and 450 TWh by 2050. While the technologies can on the one hand facilitate an evolving grid and clean electricity system, they can also support serving remote communities, electrified mobility as well as interdependent network infrastructure and critical services (water, communication, health care, etc.).

While energy storage refers to a broad resource type, there are important differences between the varying technologies comprising this category. Most common are batteries, which describe electrochemical solutions, including i.a. advanced chemistry batteries (e.g. lithium-ion, etc.). Furthermore, mechanical energy storage, which leverage kinetic or gravitational energy to store electricity (e.g. pumped hydro power, flywheels, etc.). Furthermore, there is a range of technologies that are still in more nascent stages of development, but are seen as crucial for decarbonization, most of all green hydrogen. Thus, the EU set an ambitious target to have 40GW of electrolyzers (i.e., systems that, through a process known as electrolysis, use electricity to separate water into hydrogen and oxygen) installed within its borders by 2030 to support the development of green hydrogen.

In terms of credit and project financing considerations, the main and most critical consideration remains predictability and expectation of cash flows. Thus, commercial and counterparty risks as well as resource availability are in the focus of analysis. This includes analysis of competitive position (e.g. merchant/PPA exposure, customer-sited energy, etc.) as well as analysis of availability of co-located charging capacity and whole-sale or retail purchases. Additionally, other common project finance considerations have to be included, such as assessment of technology risk, O&M risk as well as construction risk.

Prime Capital is closely following market developments for new technologies in the segment of energy storage and supplementary infrastructure assets and technologies. With its long established relationships to renewable energy and infrastructure sponsors as well as leading technology providers, Prime Capital is well positioned to further contribute to the decarbonization of EU's economies and enabling investments in this emerging 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 950m. 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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