



Infrastructure Debt

Newsletter Q4 2021

Infrastructure Q4 2021 Overview

- > Total global deal value for the first nine months amounted to USD 513.4bn, the deal count stood at 1,842. Although, COVID-19 is still around 9M'21 showed signs of recovery in the infrastructure market with deal volume slightly up by 0.6% YoY and total global deal value up by 7% YoY for the nine month period.
- > Renewables and Energy sectors continued to account for the majority of all conducted deals during the third quarter (44%), as sustainability remains a major investment topic.
- > With the start of the COVID-19 pandemic the Telecoms sector recorded a boost in deal value, increasing its global share from 6% in 2019 to 15% in 2020. The sector kept its traction throughout the first nine months of 2021, claiming a share of 19% of global deal value.
- > Leverage over the first nine months of 2021 stands at 54% of the total USD 513.4bn in deal value being financed with debt (YoY: -3.0%, Market based lending: 10%, Loans: 44%).

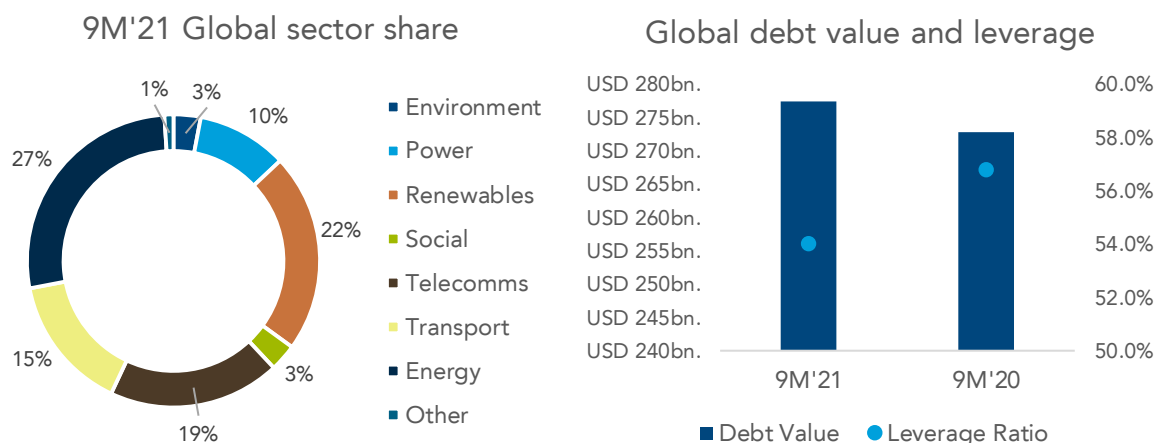


Figure 1: Sector Share and Global Debt Value¹

¹ Source of data: Inframation December 2021: <https://www.inframationnews.com/league-table-reports/detail/8826176/detail.html?parent=8755061>
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Infrastructure Debt – Activity in detail

According to Inframation, global commitments to investments in infrastructure and energy projects has increased by 6.9% YoY to USD 513.4bn in the first nine months of 2021. This stands in contrast to the USD 480.4bn invested during the same period one year prior. Sector wise, this year's growth was mainly driven by energy and telecommunication (25% volume growth each, YoY), while at the same time social infra has shown considerable momentum, nearly doubling its volume.

Debt market activity gained momentum in Q3 2021 with total debt value increasing to USD 277bn for the first three quarters (YoY: +2%). Although, bank financing continues to be the dominant form of debt (80% of total debt), the total value of loans is down 5%. Consequently, capital market activity has picked up. In the first nine months of 2021 USD 54bn have been raised via public markets which constitutes an increase of 43% year on year.

The European market for infrastructure financing featured 724 deals with a total value of USD 163.5bn throughout the first nine months of 2021. Compared to 9M 2020, this constitutes for increases of 4% and 2% in deal count and deal value, respectively. Besides equity investments, the majority of deal volume has been financed via classic lending, amounting to USD 81.2bn during the first three quarters (50% of total value, +5% YoY). Debt Capital Market activity, however, remained low (5% of total value, -1.5% YoY) as yields stayed at unattractive levels. Overall, the average leverage ratio for European projects stood at 55% for the first three quarters.

Landmark deals in the European market have particularly featured the Transport and Energy sectors. The USD 6.9bn refinancing of the new Istanbul Airport has been the largest deal of Q3'21 and accounted for 54% of the Transport sector's deal value and 16% of total deal value. Similarly, the USD 3.4bn acquisition of a 50% stake in Swedish heating network operator Stockholm Exergy by a consortium of financial sponsors has accounted for 34% of the Energy sector's deal value in the third quarter of 2021. The largest deal in the Telecoms sectors for the year so far has been the USD 7.5bn acquisition of KKR and Telefonica owned Telxius Towers by American Towers.

Given these landmark deals it is no surprise the telecommunication sector has been the largest sector in 9M'21 with a share of 27% (YoY: +2%) of total deal value, followed by the Renewables sector with a share of 23% (YoY: -8%) of total value. Both, the transport and the Energy sector come in third place with market shares of 16% each (YoY: -3%, YoY: +5%).

In the **North-American market**, 534 deals with a total value of USD 176bn (YoY: +15%) have been conducted. Out of the total deal value, USD 81.9bn have been financed using debt, equating to a leverage ratio of 46% showing the appetite of lenders in the region. The majority of the debt was accounted for by loans (77% of total debt, -4% YoY), whereas the remaining 23% were financed via public markets (+4% YoY).

Since the COVID-19 pandemic, the telecommunication sector has attracted an ever increasing volume of

investments. This trend continued in the third quarter of 2021 on the back of two landmark transactions. In August, QTS Realty Trust closed its USD 10bn sale of one of its US Data Centers to the Blackstone Group. In the same month TPG sold its fiber optics company Astound in an USD 8.1bn acquisition to Stonepeak. These two deals accounted for 56% of total deal value within the telecoms sector for Q3.

With a share of 31% (YoY: -1%) the Energy sector has been the largest by deal value, followed by the Renewables sector with a share of 22% (YoY: -4%), which will maintain its large share as new projects and increasing multiples attract billions of USD in investments. On the back the mentioned landmark deals in telecoms, the sector continued to grow to 21% (YoY: +5%) of total deal value.

During the first three quarters of 2021 deals conducted in the **Australasian market** have amounted to 261 with a total value of USD 79.8bn (YoY: -5%). The transactions have been financed with an average leverage ratio of 51%. The majority of leverage was provided via direct lending (89%), whereas market based financing accounted for only 11%.

Notable deals in Q3 have been the USD 3.4bn acquisition of the Australian broadband provider Vocus Group by Aware Super and Macquarie Asset Management and the USD 4bn Greenfield project of Jewar International Airport (India) which will support the transportation infrastructure in the New Delhi area by handling up to 50 million passengers annually.

Renewables has continued to be the dominant sector in mainland Asia during the first nine months 2021 with a share of 35% of total deal value (YoY: -1%), followed by the transport sector with a share of 23% (YoY: -3%) and the Energy sector with a 21% share of deal value (YoY: +6%). In Australia and New Zealand, on the other hand, Social Infra has continued the strong trend of H1'21, making up 17% of share in total value in 9M'21 (YoY: +9%). Deal making in the Energy sector has also largely is still strong, making it the largest sector with a share of 21% of total deal value. However, on a year on year basis the Energy sector has lost 21% of market share.

“Spotlight”: Fibre optic networks – A European comparison

With the continuous digitalization of society, the demand for high bandwidth capacity is rapidly growing. This trend has been further accelerated by the COVID-19 pandemic, as stay-at-home-mandates caused a sharp increase in data consumption through teleworking, remote studying, and intensive use of video content and high definition streaming. However, the necessary infrastructure to offer comprehensive access to high-speed connections that are able to accommodate current and future data-demand is not yet given.

The state of household-access to fibre networks is particularly scattered across Europe, as the penetration of Fibre-to-the-Home/Building (FTTH/B) access varies widely across leading European nations.

The Nordic countries are amongst the nations with the highest FTTH coverage worldwide. In 2021 Sweden has an

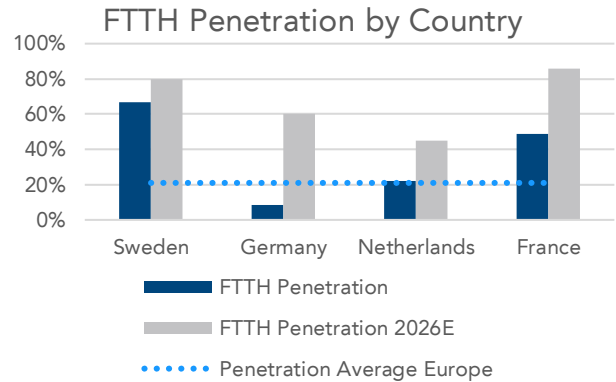
FTTH/B penetration ratio of 67% and is expected to reach a ratio of 79% by 2026. The high coverage is matched with increasing demand for fibre connections. In Sweden, Norway, and Denmark the FTTH market has been growing with a CAGR of 13% between 2017 and 2020, while it is expected to continue growing by 7% until 2025. The demand for fibre networks will continue to grow with the expansion of hyper-scalers such as Microsoft, Facebook or Google that are planning on operating new data centres in the Nordic region.

In contrast to the Nordic countries, Germany has been rather slow in adopting a more rapid expansion of networks with high bandwidth capacity. In terms of FTTH coverage, Germany lacks far behind the European average of 30% with only 9% of households covered (rural areas 4% vs. 14% European average). The FTTH subscription rate (homes actually connected) is with 8.4% in 2021 also behind the European average of 21%. The FTTH Council Europe, however, forecasts the German market to grow tremendously by 2026, with FTTH coverage increasing to 33m households (78%) and subscription rate growing to 59%. The expansion of the fibre network in Germany will largely depend on smaller, more local whole sale operators. Particularly Greenfield projects in rural areas could prove to be more profitable as price pressure is much lower compared to urban regions with more operators.

Looking towards Germany’s western neighbours, much higher progression in terms of fibre network expansion can be observed. In 2020, FTTH coverage in the Netherlands has been beyond the European average with 44% of Dutch households passed. This rate is expected to almost double until 2024 to 78% with FTTH roll-outs projected to grow at an 11-17% CAGR. However, the market penetration is with 22% of homes connected in line with the European average and offers plenty of whitespace opportunities. While the fibre market in large cities is mainly dominated by KPN, smaller cities, towns, and villages offer opportunities for smaller, local operators with roughly 2.1m homes to be connected. Furthermore, with the willingness of customers to pay for fibre outpacing alternatives due to increasing demand for high-speed connections, operators can profit from premium ARPUs. Compared to copper cables, fibre could increase average revenue per unit by 10%.

France is similarly ahead of the European average. Since the inception of the national broadband plan in 2013, which led to mass-roll-outs of FTTH, financed with EUR 20bn of public and private investments, France has one of the highest rates of fibre coverage across Europe. In densely populated areas the FTTH coverage is estimated to be close to 90%, while in rural areas coverage is around 15%. This is considerably lower, however, still in line with the European average of 14%. According to FTTH Council Europe, the household penetration is with 49% amongst the highest in Europe and is expected to grow further to 86% by 2026. The roll-out in

France is largely driven by telecom incumbents like Orange, which is planning to team up with third parties in order to accelerate the roll-out, leading to opportunities for smaller players to participate in the market growth.



The different stages of maturity in the FTTH market across European countries offers attractive investment opportunities and the participation in the digital development of the European economy.

Prime Capital is continuously investing in Telecom assets across Europe, building up a distinctive track record in Fibre and Data Centres as well as supplementary infrastructure assets and technologies. With its established relationships to telecommunication and infrastructure sponsors as well as leading technology providers, Prime Capital is well positioned to further contribute to the digitalization of EU’s economies 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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