

# Asia-Pacific Hydroelectric Deal of the Year 2013: Zhaoheng Hydro

14/03/2014

The \$50 million senior debt and \$25 million equity financing for Zhaoheng Hydropower crystallises two trends in China's renewable sector. It highlights a shift towards larger portfolio deals and local developers increasing interest in offshore debt and equity because of the advantages in tenor and reputational benefits that they bring. International Finance Corporation (IFC) led the financing, which was designed to prepare Zhaoheng for an initial public offering.

Zhaoheng Hydropower is a hydroelectric developer that owns 36 small-to-medium sized plants in China. The company's 683MW portfolio consists of 558MW of operational capacity and 125MW under construction. Around 90% of its assets are located in the southern provinces of Yunnan, Guizhou, Guangxi, Sichuan, Hunan and Hubei.

Zhaoheng Hydropower is a Cayman Islands-based entity, which owns indirectly, through Zhaoheng Hong Kong, 100% of Shengzhen Zhaoheng Hydropower. The company's shareholders include Zhaoheng (BVI), a holding company whose ultimate owner is the company's founder Xu Guosheng, as well as several recent private equity investors.

The developer plans to expand its installed capacity to over 1GW over the next two years and started the process of raising funds for its expansion in 2010, when it raised \$150 million from private equity investors that included Morgan Stanley Infrastructure Partners, Olympus Capital Asia, the investee fund of the IFC, and FountainVest Partners, a China-focused private equity firm set up by Frank Tang, formerly of Temasek.

The same consortium of investors provided a further \$150 million in funding two years later, making Zhaoheng the recipient of the largest private equity investment in China's renewable sector to date. The latest IFC equity investment is designed to further shore up Zhaoheng's capital base, support its expansion plans and help make a future public listing feasible.

The IFC received board approval for its equity investment on 16 May, signed the agreement on 5 July and completed the investment on 25 October. The IFC is providing a \$25 million pre-IPO investment in the form of series C preferred shares in Zhaoheng (BVI).

The involvement of IFC environmental and social risk management personnel during due diligence on future projects, not to mention the IFC's presence as an investor, should help Zhaoheng expand its debt and equity investor base. The developer is likely to tap the international capital markets to fund future expansion, including holding an initial public offering.

The IFC also signed, on 25 November 2013, a \$50 million loan agreement with three of Zhaoheng Hydropower's subsidiaries to support the construction of 75.6MW of new capacity in the southwestern provinces of Yunnan and Guizhou. The financing benefits from a guarantee from onshore holding company Shengzhen Zhaoheng Hydropower.

<b>Zhaoheng Hydropower</b>
STATUS
Equity signed 5 July and closed 25 October 2013, loan agreement signed 25 November 2013
SIZE
\$75 million
SPONSOR
Zhaoheng Hydropower
DESCRIPTION
Debt financing to support the construction of 75.6MW of greenfield hydropower development in southern China, and pre-IPO investment
INVESTOR AND LENDER
International Finance Corporation
IFCS LEGAL ADVISER
White & Case
SPONSOR LEGAL COUNSEL
Troutman Sanders
TECHNICAL ADVISER
Halcrow China

The loan agreement includes a \$17 million 12-year facility with Dagan Jingyun Hydropower Industry, which carries a grace period of 3 years. The borrower owns two projects, Gaoqiao III and Gaoqiao IV, which have a total capacity of 27.7MW. The projects are located in Dagan, Yunnan Province and are expected to start operations in 2015.

The IFC is also providing a \$6 million 12-year loan with a 3-year grace period to Guizhou Dushan Lidu Industry Development. The borrower owns two projects, Yangmen and Bainan, which have a total capacity of 14.2MW. Both projects are located in Dushan, Guizhou province. The Bainan project is already operational and the Yangmen province is expected to start operations shortly.

The final \$27 million loan agreement is with Yingjiang Menglang Hydropower and also has a maturity of 12 years and a grace period of 3 years. That borrower owns two projects, Yinhee and Songpo, which have a combined capacity of 33.7MW. The plants will be located in Yingjiang, Yunnan province, and are expected to start operations in early 2016.

The loan proceeds are an important source of funding for Zhaoheng Hydropower. Even the most creditworthy developers struggle to access debt maturities of longer than 5 or 6 years from the local banking market and even less for small-scale projects.

There has been some speculation, although unconfirmed, that the IFC might mobilise a \$50 million B loan from commercial lenders for Zhaoheng. Whether this materialises or not, the developer already benefits from a longer debt maturity profile and the seal of approval of a multilateral development bank.

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