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Mini-perm treatment for GCC tenors in need of a trim

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Mini-perm financings are increasingly in vogue across the GCC, driven by ultra-competitive pricing on renewable energy projects and restrictions on bank liquidity.

The tender for the 300MW Sakaka solar project in Saudi invites bidders to submit proposals featuring a soft mini-perm financing, sources say, despite procurement authorities generally not being keen on structures that encourage refinancing. Lenders are being squeezed by BASEL III regulations coming into force however, making long-term debt more expensive for banks to hold on their balance sheets.

“We’re starting to see a realisation by procurers that the days of projects being structured with 25-year tenors and no refinancing incentives is not going to happen again,” a source at an international lender commented. “The market is shifting and procurers have to shift with it.”

Some banks have withdrawn completely from long-term lending but are still liquid enough to consider renewable deals where they can also garner green credits.

It’s up to procurers whether they allow for refinancing incentives such as the cash sweeps or steep step-ups seen with soft mini-perms. The reason for the greater number of soft mini-perm financings seen recently is, in short, because it helps reduce tariffs bid in tenders, according to one Saudi banker.

The flip side of procurement authorities being exposed to refinancing risk is that tariffs in the solar sector are beyond competitive. The Emirates saw two world-beating bids in 2016 as the Dubai and Abu Dhabi solar projects received headline tariffs of $0.0299 per kWh and $0.0242/kWh in May and September, respectively.

“Bidders need to tighten every screw to win so are adopting soft mini perms because it gives them an edge in terms of the cost of finance, since the initial margin is lower than for vanilla long-term debt,” one sponsor said. “Bidders then take the view in their equity case that they will be able to refi before the cash sweep and margin ratchets kick in.”

“Which for a relatively low risk project like a PV plant is not a particularly big gamble assuming the debt markets do not deteriorate significantly from now until five years.”

That might raise questions about the future effects of low oil prices on projects with a government-backed offtake, although lender credit committees are more likely to consider whether they’re comfortable with a country today irrespective of where oil revenues may be in 20 years.

“If oil price tanks from the current level, the credit story will worsen,” a regional lender comments. “Likewise, if geopolitical climate worsens, credit risk premiums will spike.”

Liquidity is quite comfortable across the region, particularly for deals in the sub-$1 billion ballpark – which the upcoming

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300MW Sakaka solar project in Saudi Arabia is likely to be.

"That doesn't mean the next mega-project multi billion deal won't have a hard mini perm," the international banking source said – and that means procurement authorities may need to take on more refinancing risk with larger deals where much more liquidity is required.

"If we're talking about a $3-4bn deal in the market they'll have to accept it," the international banking source says, "it's an eventuality."

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