IJGlobal
A Green Street Company

The bluffer’s guide to infrastructure

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09/02/2018

Sitting down yesterday to an old-school lunch with a rare selection of industry veterans, discussion over a succulent rack of lamb and a cheeky bottle of red inevitably turned to the nostalgic “where are they now?” and swiftly evolved into the more waspish “how are they still there?”.

By the time pudding menus appeared with a flourish (greedily ignored as no-one cared to be the first to admit “yes, I would like one”), the kernel of an idea was taking shape for today’s editorial – how people have blagged their way through the last decade, holding down banking jobs while doing Sweet Fanny Adams.

Consensus had it that location was the primary enabler for an easy life of minimal activity in a bank, and the ones where there was a lot of “talk” about pipelines of projects were an ideal fit.

This move to an emerging infra market would have to gain institution-wide support combined with zealot-like belief that it was essential to have boots on the ground… after all, you’ve got to be in it to win it.

Top of the list was the Middle East. It was unanimously carried that 10 years ago – when the market went to hell in a handcart – if you were looking for somewhere to keep the head down and avoid swingeing cuts, the Cradle of Civilisation was precisely where you would have wanted to hide out.

In a part of the world where conferences have outnumbered opportunities by a scale of 10x for a good many years, that was an excellent policy… however, the wind of change is gathering pace and we are seeing a remarkable uptick in deal flow.

For many years, the incessant stream of news stories on Kuwait’s pipeline of deals – it’s on; it’s off; it’s complicated; it’s on again; oh no, it’s off again – was enough to set your teeth on edge.

With enormous pipelines that ended up going nowhere and projects that evaded financial close at all costs, the Middle East was truly the infrastructure gentleman/lady of leisure’s location of choice to while away a few years talking a good fight.

And to while away those years, there was always something to keep them busy – recycling assets being one of the most popular wheezes. Shorter-dated assets that allow constant refinancing soon became the gift that keeps on giving, a trick learned from the leveraged world where churning is an art form.

Then again, you could have talked up an emerging infra market like in – say – Latin America. Is there potential there? For sure. It is now one of the jewels in the global infra crown… but back in the early days of the global financial crisis, you could buy yourself a good two years by setting up an office on the ground.

The first year is devoted to establishing the office and staffing up, and the second to working out the market. After that, it’s a waiting game… punctuated by conferences where everyone agrees enthusiastically that the potential is great.

Securitisation

However, if you're looking for a job in the here-and-now where you won't be stretched, you want to take a look at the world of securitisation. Yes, everyone's favourite structure is making a return with the full weight of Basel III behind it.

There was a time when securitisation was an infrequent occurrence that made people sit up and pay attention. You'd be more likely to set your calendar by it than your watch.

The last real one that leaps to mind is Exeter Blue which was closed by Lloyds in late 2008. Back then, Mike Chappell protected the identity of his investor as though it was his virtue. This was followed mid-2010 by SMBC's synthetic structure which was more of an insurance wrap than a true securitisation.

If people are just starting to talk about securitisation, this could be just the ticket for a chancer looking for an easy ride over the next couple of years. And if you are looking to take on someone who actually knows how to deliver a CLO, you would do a lot worse than reach out to some of the old DEPFA team.

With Basel III being tougher on banks than its previous incarnation, there is a good chance that securitisation will indeed make it back on to the scene – across the board, not just for project finance.

The motivation for this comes from the Basel international regulatory framework for banks. Under Basel II, banks were allowed to use an internal rating approach for assets which – needless to say – the banks think is more than adequate. Basel III is of a different mind as it pushes on with its relentless goal to have more capital held against deals.

The banking community is in the process of raising this issue with the Bank of International Settlements and its goal is to see this return to the happy days of Basel II… in Basel IV.

However, one thing about securitisation that needs to be taken into account is that back in 2006/07, it was cheap as chips. You could buy securitisation protection for the book on a full-sale basis or an insurance wrap basis for as low as 30bp.

Nowadays that will come in at north of 100bp, so you need to be carrying a high margin to carry the cost.

However, as securitisation becomes increasingly fashionable – with more buyers out there for the paper – that cost will surely come down… and before you know it we will be back in the cycle that started in 2002.

The return of securitisation vehicles – for project finance, real estate, corporate, well… everything – will be slow to start with due to cost... and sources reckon it will take off properly from mid-2019 at the very earliest, likely early 2020.

Securitisation jobs in the Middle East

So there we have it. If you have been malingering in the Middle East for the last decade enjoying more time with the family than you probably wanted, you should now be pitching your skillset at securitisation. That will buy you a couple of years on the conference circuit before any work has to be done!

In the meantime, you might want to move away from the Middle East as the market's really starting to hot up and project finance is on the tip of everyone's tongue.

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