White-Line Fever – the European malady

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In a perfect world all infrastructure and energy projects are delivered without hitch, operate as expected and run the course of the contract within the parameters outlined in tomes of legal documentation.

That rose-tinted view of project delivery is touted during procurement. But as any soldier will tell you – no plan survives contact with the enemy… wisdom that is chalked up to Field Marshal Helmuth Karl Bernhard Graf von Moltke (1800-91) who served as Chief of Staff to the Prussian army from 1857 to 1871.

Wise words from someone who had more than his fair share of involvement in the Austro-Prussian and Franco-Prussian wars… but never once got his hands dirty in European PPP or braved the North Sea to deliver a wind farm.

In this case, the plan that will not survive contact with the market involves the structuring of European deals across the board. We are well into the creation of a bubble as market participants fail to price in risk.

This is no new phenomenon. We've seen it before. And we will see it again.

But right now, it's becoming increasingly apparent in a world where deals are falling over as white-line fever takes hold, everyone hell-bent on getting to the line, blithely ignoring downside risk.

As one infra specialist says this week: "On one deal we were recently involved with, we looked at the returns they were seeking for and we had to take the view that nothing could go wrong. The exit strategy and residual value needed to come all at the same time… and that's a problem – because they never all come at the same time."

Market realities are being disregarded in the race to the bottom in a market driven by the need to invest.

On the debt front, short-tenor debt is pricing a sniff below long-tenor. Meanwhile on the equity side, construction risk has been relegated to a mere footnote on documents… something that is most stark in the offshore wind space where financial investors are coming in increasingly early in the process.

Speaking on offshore wind, one leading infra lender says: "It's one thing coming in when it is up-and-running, but during construction is a different matter entirely.

"And why is that happening? Perhaps it's because they feel they understand the risks, or perhaps because they feel the risk has not manifested itself to date… and so the risk is not so great."

But should a moment of self-reflection ever hit such people and these investors be entirely honest with themselves, they would have to admit that it is the need to invest that drives investment decisions – not so much their deep knowledge of the sector and comfort with it.

Ach to heck with it – call a spade a spade – all they really care about (and the risk they would truly admit to in that moment of honesty) would be that they don't want to be left sitting on the asset for too long.

Essentially, it's a high-risk game of asset pass-the-parcel. And we all know how that game ends.

This is pushing investors to investigate opportunities in markets where they have not traditionally been involved… markets where projects (if they do make it through procurement) rarely fall over because they are so well structured and the returns match their aspirations.

Non-traditional markets

It is serendipitous to be able to say in the same week that *IJGlobal* staged the Africa Energy & Infrastructure Investment Forum 2018 in London – sponsored by Engie and White & Case – that many believe the answer lies in Sub Saharan Africa.

Having spent the most of Wednesday at the conference in West London (left early to prepare for our Europe and Africa awards night), confidence is riding high for projects across the continent… not all countries, of course.

There are 46 countries in Sub Saharan Africa and the need for infrastructure investment is vast.

According to people who work on these deals, if the projects get there, they never fall over thanks to watertight structures. Bottom line, everyone goes over them with a fine-tooth comb to the point that failure is unlikely.

Oh, and the return potential's good.

"Everyone only wants European geographic exposure and they don't want to touch Africa… even though – if you can get a deal away in Africa – it's bulletproof and the returns are massive," says one adviser active in the region.

And it's a fair point when you look at the awards presented this week in the Natural History Museum:

- **Coral South FLNG in Mozambique** – first floating LNG project in Africa and the third globally. This saw the monetisation of offshore natural gas resource with BP purchasing its entire volume for the next 20 years
- **Bangweulu Solar, Zambia** – the first project to be closed under IFC's Scaling Solar Programme… the first of many more to come
- **Kigali Bulk Water Supply PPP, Rwanda** – the first IWP in the country and the first bulk surface water PPP in Sub Saharan Africa
- **Nacala Logistics Corridor, Mozambique** – rehabilitation of old rail lines and construction of new in Mozambique, passing through Malawi. Vast project connecting the mines to the port
- **Hakan Peat-fired Power, Rwanda** – an 800MW peat-fired power plant. Not sure how good that is for the environment, they are using what they have to be self-reliant and when you only have 186MW of installed capacity… you burn peat. Particularly impressive is that 85% of the debt came from regional lenders
- **Vitol Sankofa OCTP, Ghana** – estimated reserves of 132 million barrels of oil and one trillion cubic feet of gas
- **Ravinala Airports, Madagascar** – one of the first project financings in a country with one of the lowest GDPs per capita in the world
- **Nokeng Flurospar Mine, South Africa** – financed in difficult international commodity markets with major political shifts in South Africa

About time folk started paying a lot more attention to Africa. We are going to see an upsurge in deals across the continent… but you better get in before China snaps it all up.