Saudi – pricing the sun and wind

Angus Leslie Melville

01/06/2018

The Middle East has shot to the top of the renewable energy industry's onshore leader board with an enviable programme of scale. Bidders are now tripping over themselves to compete and word from the banking community has it that lenders are wincing at the margins.

IJGlobal recently published a piece of analysis on the Saudi Arabian renewable energy tenders and the scale of it is enough to send a shiver down your spine.

In a nation where energy consumption is forecast to increase three-fold by 2030, it was an obvious win to harness free sources of energy – which it has in abundance – and so promptly set itself an initial target of generating 9.5GW.

And so was born the King Salman Renewable Energy Initiative which envisaged renewable energy accounting for 10GW of the kingdom's total power. The programme is then to be scaled up to 75GW… and then 100GW.

To this end, Turki Al Shehri, head of the Renewable Energy Project Development Office (REPDO), revealed in January that the kingdom planned this year to tender 3.3GW of solar and 800MW of wind, an investment of up to $7 billion.

That's quite a turn-around for a country where in 2011, more than 50% of its electricity was produced by burning oil.

Its commitment to renewables was underpinned in March when Japanese investment giant SoftBank signed an MoU to build $200 billion of solar capacity in the kingdom by 2030.

The market was really hotting up and with limited onshore greenfield renewable energy pipelines in Europe – outside of France – the focus shifted dramatically towards the Middle East.

If you are in any doubt as to how far-reaching this attraction is proving, just look at the diversity of the 16 successful bidders competing for Jordan's Round 3 solar PV tender:

- Voltalia
- Solarpack with XENEL
- ACWA with Chint Solar (AstroEnergy)
- Building Energy Development Africa
- TBEA
- First Solar
- Neoen with Catalyst
- Masdar
- Adenium Energy Capital with ET Solutions
- HEC with KEPCO and ATC
- FRV
- RAI Energy with Capital Investments

- Jinko Solar
- Kawar with Canadian Solar
- Linuo Group
- Phelan Energy Group

That's a truly diverse range of companies from all corners of the planet – from Canada to Korea, South Africa, France and India – brought to the table for a Middle East PV project.

As one banker said this week: "When you have a 1GW-plus solar project, it does attract a lot of attention."

But it comes at a price…

Talking to EMEA lenders this week, you are confronted with two views of the local market: the true price of debt… and the margins they are trying to talk it up to.

Speaking to some, and the initial response is that pricing should be sitting around the 200bp range. A little more prodding and you discover one closed recently in the region at 125bp. There was some (off-record) argument on this figure, some saying it was artificially low.

"I have heard of pricing for a recent Saudi renewables deal that was insanely low, and it was of that order," says one active regional lender.

As always, when talking to lenders you end up negotiating pricing that we can report until we find a range they are comfortable with. Most settle at 150bp to 200bp.

However, one thing that does come across loud-and-clear is that tenors are long and there's no urge to push mini-perms which rose to popularity during the financial crisis, but have since died off. In the years since the credit crisis, we have seen a return to long-tenor debt on projects in the region.

"There is appetite to go to 23-25 years in Saudi now," says one banker.

One banker says that he has been looking at an RFP for a desalination project in Saudi and – if he is reading the documents correctly – it would appear that the procurer is dis-allowing a mini-perm approach. So it's long-tenor all the way.

As to structures, lenders seem to be fairly comfortable on this front as they are largely using the IWPP template which keeps bankers happy on overall risk.

And then there's country risk. This seems to have been swept under the carpet.

Another lender says: "There are plenty of banks that have been active in Saudi already, and they all have renewables teams. There is certainly no lack of liquidity chasing these deals. Every competition we have seen has been hugely fought over."

Flavour of the day…

With so little happening on the thermal power side, and a constrained onshore renewable energy market in Europe and beyond, Saudi – actually the Middle East solar and wind market in general – is proving to be one of the best gigs in town.

"Nobody can afford to ignore this area," says yet another banker. "It is going to be THE growth area… unless you can do China."

As to pricing, a final word from a banker who lends in the region: "We can always hope for an increasing in pricing, but it never sticks – even if it does come."