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Infrastructure – in a league (table) of its own

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When it comes to analysing activity across the global infrastructure finance landscape, it's always reassuring to confirm the accuracy – often not the case – of received industry wisdom, while also identifying trends that are less obvious to those who perhaps fail to see the trees for the woods.

One of the greatest benefits of publishing quarterly *IJGlobal* league tables – apart from receiving regular data dumps from the industry to confirm the accuracy of our database of global infra and energy projects – is to provide an international snapshot of a sector that is in constant flux.

Over the years we have fought our way through numerous financial crises – global and local – and the role played by the private sector in the delivery of infra/energy has met challenges through innovation.

Looking at activity across the 2018 calendar year, the standout finding is that M&A activity leads the field by a country mile.

The biggest deal in 2018 was the $20.7 billion acquisition of Spanish toll road operator Abertis by Atlantia and ACS. This impressive deal – which saw the two construction rivals join forces and divide the spoils – is more than double the size of the next largest deals, which both fall in the Texan energy space.

The acquisitions of RSP Permian for $9.5 billion by Concho Resources and an 80% stake in Oncor Electric Delivery Company for $9.4 billion bought by Sempra Energy are second/third ranked and you would have had to be blind to miss them.

It will come as no surprise to hear that the majority of transactions fall in the renewable energy sector with 895 transactions closing around the globe and a combined value of $166.4 billion.

This was a bumper year for alternative energy, a trend that will continue for the foreseeable future as asset-hungry funds snap up everything they can lay their hands on in a flourishing sector as clean-energy agendas gather momentum.

The largest deal to have closed in the renewable energy sector was the $5.8 billion acquisition towards the end of 2018 by Global Infrastructure Partners of a 50% stake in the 1,200MW Hornsea I offshore wind complex in the UK.

The second largest renewables M&A deal closed in early 2018 and was the $5 billion purchase of Singapore-based Equis Energy by GIP, Canada's Public Sector Investment Board and Chinese sovereign wealth fund CIC Capital. This portfolio has 180 assets (more than 11,000MW operational or in the pipeline) across Australia, Japan, India, Indonesia, the Philippines and Thailand.

Big numbers

When it comes to value, oil and gas leads the field with $285.9 billion of deals closed over just 358 deals. This has the right feel to it and we will doubtless see this repeated for a good few years as big-ticket deals close across the O&G sector. The most sizeable deals were in North America and the Middle East.

After RSP Permian (above), the biggest deal was the $8.3 billion Duqm Oil Refinery in Oman by state-owned majors Oman Oil Company and Kuwait Petroleum International. This involved $4.6 billion in debt financing and pulled in a swathe of banks that operates in the region.

There has been a sharp increase in activity in the telecoms space with all the biggest deals closing all being in Europe. They are:

- Telefonica – refinance of a €2.5 billion facility signed in February 2016 and €3 billion facility signed January 2017
- TDC Group – €5.3 billion acquisition of the Danish telco by Macquarie Infrastructure & Real Assets and three Danish pension funds: PKA, PFA and ATP
- Open Fiber – €4.4 billion additional facility for the development of a national fibre-optic ultra-broadband network of the FTTP type across 271 cities in Italy
- Deutsche Telekom – €2.9 billion Eurobond facility to refi existing debt facilities and maintain operations of its assets
- Interoute – €2.5 billion acquisition by GTT Communications of the operator for one of Europe's largest independent fibre networks

With the growth in data centres and fibre optic investments, this sector will flourish in the coming years as it settles into the infrastructure sector.

Over the course of 2018, the largest number of infrastructure finance deals to have closed in any region was across Europe where 937 with a combined value of $382.1 billion. North America closed considerably fewer deals in the same time, and this comes in at a value of $322.2 billion.

As to sources of lending, bank debt continues to rule the roost in Infrastructure Finance across all regions, though bond finance has shown significant increases across Latin America in recent years. This last half, however, was down for LatAm with $7.6 billion of bonds arranged, slim pickings compared to the recent spike half with $20.1 billion in H217.

On a global scale, Infrastructure Finance is on the (slight) increase with $1,048 billion worth of deals having made it over the line in 2018 (figures subject to change as more data comes in) against $1,038 billion in full-year 2017.

If you were to pick a stand-out region for the number of Infrastructure Finance transactions to have closed, that would be Sub-Saharan Africa where deal flow has spiralled from 30-35 deals closing each half to 52 in H218. Sadly this is not reflected in value as it only amounted to $11 billion, which compares poorly to H217 when 31 deals closed, at a value of $23.3 billion.

Project Finance

As a sub-set of the broader Infrastructure Finance category, Project Finance has had a curate's egg of a year – good in parts.

Renewable energy has enjoyed greatest success, leading the field for project finance by number of deals closed in 2018 as well as by value. A total of 511 deals made it over the line – granted a lot of them fairly small – at a value of $94.5 billion… and it's not all been refinancing.

The five largest deals (combined value $11.3 billion) are all in Europe and the two biggest being the primary finance of offshore wind in the UK:

- Moray East (950MW) – EDP Renewables, Engie and Mitsubishi Corporation subsidiary Diamond Generating Europe
- Triton Knoll (860MW) – Innogy with J-Power and Kansai Electric Power

The other three are refis on:

- Galloper (353MW) – Innogy and Siemens leading the team for this south east English project
- Dudgeon (402MW) – Equinor and Statkraft with Masdar, east England
- Merkur (369MW) – GE and DEME leading the team on this German project in the North Sea

The next most active sector is transport with 130 closes and a combined value of $78 billion. The largest PF deal was the $6 billion, 142km Jakarta-Bandung HSR which is being delivered by the China Railway Group.

The power sector is particularly interesting as three of the largest deals to have closed in the last calendar year are coal-fired in Asia:

- Nghi Son 2 (1,200MW) – a $2.3 billion Marubeni project in Vietnam
- Kobe (1,300MW) – $2.2 billion Kobe Steel Corp project in Japan
- Hub (1,320MW) – $2 billion China Power International Holding project in Pakistan

Given the worldwide demonization of coal-fired power and the reputational damage for those involved in the delivery and financing of such assets – it's only a matter of time before a dirty list of advisers (as well as sponsors/MLAs) emerges.

When that Dirty List does finally appear, it will be interesting to see how the likes of international law firms and financial advisers react. The likelihood is that teams will be carved out to set up as independent organisations where they will be reviled and envied in equal proportions. Reviled by the unwashed masses and envied by former colleagues who look on in horror as former colleagues work on pariah deals, charging handsome fees.

Moving away from energy to social infrastructure, there is one stand-out deal five that warrants mention – the PPP expansion of Waikeria Prison in New Zealand.

Quite apart from it being the latest of a handful of projects to have made it to financial close in the country – the first one having been Hobsonville Schools in 2012 – and it looks set to be followed by a pipeline (granted, not a terribly big one) of deals.