Let the wind blow high, let the debt price low…

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29/03/2019

Having recently been in Miami for our Latin American renewables conference – REFF LatAm – and soon to be in Amsterdam for a similar event, it feels timely to take a look at this sector and marvel at its evolution.

To this end, the *IJGlobal* data team kindly pulled together a spreadsheet on the European market that shows some rather remarkable findings… and leaves one pondering offshore wind pathfinders around Europe (to access the PDF, click here…)

One thing that jumps off the spreadsheet is the massive uptick in project finance lending to European offshore wind farms against fairly stable performance across other sub-sectors, a trend that looks set to continue over the short-term.

Offshore wind accounts for a good bit more than half of H2 2018's European project finance lending (both primary and refi) to the renewables space, which amounted to $27.3 billion.

The deployment of debt to the offshore wind sector breaks down, by half years in reverse chronological order, thus:

- H2 2018 – $15.8 billion
- H1 2018 – $4.4 billion
- H2 2017 – $7.4 billion
- H1 2017 – $3.9 billion
- H2 2016 – $6.9 billion

From the start of H2 2016 to the end of last year, a total of $38 billion has been deployed across offshore wind project financing. And when stacked up against other renewable energy sub-sectors around Europe, offshore wind's $15.8 billion from the last half stands out as the clear leader against the other main sectors:

- $5.3 billion – onshore wind
- $3.1 billion – solar PV
- $1.6 billion – waste-to-energy

Onshore wind remains a steady performer with each half for the last two years performing well, registering the quietest half in H2 2016 when just $3.1 billion in primary financing and refi deals made it to financial close. From H1 2016 to end 2018, this sector has logged $20.7 billion PF lending.

Solar PV has also been solid over that timescale, with $14 billion deployed across the sector in that time scale – from mid-point 2016 through to end 2018.

With great debt comes great liquidity

Looking across the *IJGlobal* database, one cannot help but revel at the diversity of lenders on chunky offshore wind deals. All the usual suspects turn up… alongside a slew of "who-the-hell-are-they" institutions.

The only bar to entry seems to be the lender's capacity to sit at the table… and, more recently, the capacity to lend at margins that are designed for take-and-hold as refinancing enters the realms of the impossibility.

Let's take as an ideal example Belgium's [Seamade Offshore Wind Farm] which closed in early December (2018) and was lucky enough to pick up a trophy last week at our [London awards night].

This deal floundered for a long time as two different project – Seastar and Mermaid offshore wind farms – but took off once combined to become the 487MW Seamade with a sponsor team led by Otary, Eneco, Engie (through Belgian subsidiary Electrabel) and using Siemens Gamesa 8.4MW turbines.

The debt pricing was eye-watering at:

- Euribor +135bp – during construction
- Euribor +125bp – once operational

Now that's low for a greenfield project – even when you take into account the increasingly commoditised nature of the offshore wind market, especially where subsidies are still available… and Seamade is the last of the Belgian projects to benefit from these.

Talking to lenders, pricing on an offshore wind farm (with subsidies) should come in at around 135bp, however ratcheting up once operational to 180bp (usually in five-year increments) in a bid to force a refi. As was witnessed last year, you can expect refi of operational offshore wind farms to come in at a range of 120-140bp, though this will trend downwards.

Such keenly-priced debt on greenfield is breath-taking. And you can't even put it down to a bunch of hippy bankers squeezing out established players in a virtuous bid to save the world one renewable energy debt package at a time.

Looking – once again – at Seamade, it had a 16-strong commercial lender line-up that included seasoned veterans who could never be accused of being hippies:

- MUFG Bank
- Santander
- Sumitomo Mitsui Trust Bank
- Société Générale

That is not to say that the other 12 commercial lenders are all local institutions and sandal-wearing dope smokers… however, we hear there was a distinct whiff of hemp from some around the table.

Everyone's got an excuse

In a very different world – one in which this infra hack had fewer grey hairs and no beard (grey or otherwise) – the same song was sung to a slightly different tune as pricing in the greenfield European PPP world spiralled uncomfortably south of 60bp.

The justifications were many and vigorous, the vanity without bound… right up to the point that the music stopped playing as the global financial crisis tightened its grip.

Back then, cautious lenders (shouldn't they all be that) had drawn a line in the sand (much to bonus-motivated bankers' chagrin) and lending to vanilla PPP ground to a halt. Meanwhile, the rest filled of them their boots… and those boots are still full to this day!

The over-supply of lending capacity that was witnessed in 2006 is being repeated and while we are a long way from the creation of zombie banks, it is worrying.

As to lenders' exit, one senior PF specialist says of the debt pricing on Seamade: "The borrower may look to refi out, but right now they are having a great time getting the terms at a level that he does not need to worry about refinancing in three years' time. He can just keep it there."

The source adds: "With three years of construction, followed by 15-20 years of subsidy period – depending on the regime – you are looking at 19 years' debt max, amortising. If there is no power-price risk, that's good. And even last year banks have become more comfortable with these projects completing on time and on budget and they are increasingly comfortably with the EPC contactors and turbine suppliers involved.

"It is a well-functioning, but small market in the sense that you know that the likes of Van Oord has delivered a track record across the board, and Siemens Gamesa has not had issues with their turbines, nor has MHI Vestas had issues with theirs – and they have strong guarantee packages.

"You are seeing that they are being built without needing to use the contingent facilities they have in place – and there is a lot more historical track record, not just for the parties involved – but for projects in the area… so the risk of construction is fairly comfortable to take, unless there are parties that people are not familiar with, or there is a new turbine model that people are not familiar with of a completely different scale."

And this source is bang on the money, even with Blauwwind – Borssele III and IV Offshore Wind Farms – which closed towards the end of June last year (2018), pricing started at 155bp during construction. Once complete, it drops to 135bp and steps up in 10bp increments to 175bp by the end of 2035.

At least Blauwwind stands a chance of refinancing down the line, but it'll be 2025 before pricing creeps up to 145bp which is great news for the borrowers and those who are happy with take-and-hold… oh yes, and the hippies will be there for the duration because they need something to ramble on about when they're stoned.