Renewable energy – opportunity knocks

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In a market where there's a lot more cash available than places to deploy it, developers are following opportunity wherever that may be… hounded by a retinue of eager lenders, equity players and advisers.

A market reality that has been addressed repeatedly in these pages over the years is that when it comes to project finance, the whip hand is wielded with gusto by whoever is in the position to do so.

Right now, this privilege lies with borrowers and – boy – are they happy to squeeze until the pips squeak.

With constrained deal flow in many established markets, lenders are having to go cheap or go home, forcing a point where bad deals (as far as the lenders are concerned) are being negotiated, locking them in for longer than they want at prices that look bad now… never mind in a year's time.

It has been suggested that Seamade Offshore Wind Farm set the scene for lenders being trapped in long-term at uncomfortably-low pricing. On this deal, 15 banks were signed up for 19 years at Euribor +135bp during construction, stepping down just 10bp to 125bp once fully-operational… which may prove challenging to refi.

In this perfect storm of (relatively) limited opportunity for developers and keenly-priced debt, alternative markets are the only option if you want to stay active and grow your business.

And when it comes to seeking out fresh opportunity in pastures new, there are many well-trodden paths. Take, for example, Skanska exiting Europe (apart from its home market) in 2014 (if memory serves) to chase North American transport projects.

Ponder a moment on every single Spanish company involved in infrastructure and energy who packed bags and fled their home market in the (really) bad years to chase LatAm opportunities – and quite right too.

Then you have France-based Indigo which sold every car park it owned in the UK, Germany, Czech Republic and Slovakia to Saba Infraestructuras and then formed a JV with Sunsea Parking in China to enter the Asian market.

And that's just scratching the surface.

In the renewable energy sector, this is played out time and again as sponsors go where pipeline and political will is strongest to compete for deals.

One such region that is ramping up impressively is the Middle East where in certain states the happy marriage of pipeline and political will should be good for business for a few years to come.

The Middle East

IJGlobal has been tracking project finance developments on the ground in the Middle East for many years, and last [summer](#) we reported on Saudi Arabia leading the charge with a hugely ambitious programme – the King Salman Renewable Energy Initiative – that envisions the installation of 100GW.

Saudi stands head-and-shoulders above its neighbours having in 2017 established its Renewable Energy Project Development Office (REPDO) within the Ministry of Energy, Industry and Mineral Resources to deliver the National Renewable Energy Program (NREP) in line with its Vision 2030.

This is quite a shake-up for a country where as recently as 2011, half of its energy was generated by oil-burning power plants, but the commitment to (primarily) onshore wind and solar energy is strong in Saudi.

In recent years, we have seen two major project finance transactions (focusing here primarily on solar and wind power) make it over the line:

- Sakaka PV Solar Plant (300MW) – FC November 2018 – with ACWA Power and Al Gihaz
- Waad Al Shamal Integrated Solar Combined Cycle Plant (50MW) – FC December 2015 – with Saudi Electricity Company (SEC)

But it is the pipeline that has the market excited:

- Alfaisaliah Solar PV Plant – 600MW
- Midyan Wind Farm – 400MW
- Jeddah Solar PV Plant – 300MW
- Rabigh Solar PV Plant – 300MW
- Qurayyat Solar PV Plant Phase I – 200MW
- Madinah Solar PV Plant – 50MW
- Rafha Solar PV Plant – 45MW
- Mahad Dahab Solar PV Plant – 20MW

When it comes to renewable energy, Saudi Arabia is all about the opportunity, but – as has been demonstrated – there is no lack of that on the ground.

A view of Jordan

Turning the focus on Jordan, this nation is a shining beacon in the region… but on a less enthusiastic scale than Saudi Arabia where the "big is beautiful" mantra is in full effect.

While not as chunky, Jordan has closed 25 solar and wind project finance deals since late 2013, and – while it has been fairly quiet of late as the nation works its way through a power generation freeze – this commitment is expected to revive in coming years.

Larger deals have closed in recent years across:

- Al Husainiyah Solar PV Plant (50MW) – FC April 2019 – AMEA Power and Philadelphia Solar
- Rashadiyah Solar PV Plant (15.6MW) – FC November 2018 – Adenium Energy Capital
- Al Manakher Solar PV Plant (52MW) – FC September 2018 – Mitsui & Co, AES Corp and Nebras Power
- Daehan Wind Farm (51.75MW) – FC September 2018 – Korea Southern Power and Daelim
- Abour Energy Wind Farm (50MW) – FC September 2018 – Xenel International
- Al Badiya Solar PV Plant (11MW) Phase Two – FC May 2018 – Philadelphia Solar
- Risha Solar PV Plant (61.3MW) – FC December 2017 – ACWA Power
- Shobak Wind Farm (44.6MW) – FC December 2017 – Alcazar and Hecate Energy
- Al Safawi Solar PV Plant (51MW) – FC September 2017 – Fotowatio Renewable Ventures (FRV) and Arabia Trading & Consulting
- Mafraq Solar PV Plant (60.3MW) – FC March 2017 – ACWA Power and SunRise Photovoltaic Systems
- Empire Solar PV Plant (67MW) – FC February 2017 – FRV

- Jordan One Solar PV Plant (66.4MW) – FC February 2017 – FRV
- Al Fujeij Wind Farm (89.1MW) – FC December 2016 – KEPCO
- Al Rajef Wind Farm (82MW) – FC November 2015 – KEPCO

The earlier deals (from end-2013 to mid-2015) were mostly fairly humble, but the first deal to have made it to financial close was actually the biggest one to have made it over the line to date in the kingdom.

- Jordan Solar One PV Plant (20MW) – FC May 2015 – Adenium Energy Capital, Kingdom Electricity Company and Bank of Etihad
- Falcon Solar PV Plant (21MW) – FC May 2015 – Catalyst Private Equity Fund, Maccaferri Industrial Group and Desert Technologies
- Arabia One Solar PV Plant (10MW) – FC May 2015 – CAF, Hanwha Engineering & Construction and Arabia Trading & Consulting
- SunEdison Jordan Solar PV Plant (23.8MW) – FC January 2015 – SunEdison
- Shams Ma'an Solar PV Plant (52.5MW) – FC January 2015 – Nebras Power, and Mitsubishi Corp Kawar Group,
- Oryx Solar PV Plant (10MW) – FC November 2014 – Scatec Solar
- Green Land Solar PV Plant (10MW) – FC November 2014 – Scatec Solar
- EJRE Solar PV Plant (20MW) – FC November 2014 – Scatec Solar
- AES Amman PV Plant (20MW) – FC October 2014 – AES Corporation and Riverstone Holdings
- Shamsuna Solar PV Plant (10MW) – FC October 2014 – Foursan Capital Partners and Shamsuna Power
- Tafila wind farm financing (117MW) – FC November 2013 – InfraMed, Masdar and EP Global Energy

As a pathfinder, Tafila Wind Farm did – not surprisingly – bring to table a raft of development finance institutions and ECAs. The six-strong lending line-up included the likes of IFC, EIB, EKF, OPEC, FMO, joined by Europe Arab Bank and Capital Bank of Jordan.

The pipeline, however, is less impressive. In fact, can one project ever actually be referred to as a "pipeline"?

The IJGlobal database currently has one project in procurement – the 30MW Ma'an Battery Storage PPP which has more bidders than you can shake a stick at… but an awful lot of them have fallen away, which does rather leave one wondering how good a deal it is.

United Arab Emirates

When it comes to scale, the UAE leads the field by a long chalk for closed deals with Dubai and Abu Dhabi principle among the emirates:

- Mohammed bin Rashid Al Maktoum CSP and Solar PV Plant Phase IV (950MW) – FC March 2019 – ACWA Power, China Silk Road Fund and Dubai Electricity & Water Authority (DEWA)
- Sharjah Waste-to-Energy Plant (30MW) – FC December 2018 – Masdar and Bee'ah
- Mohammed bin Rashid Al Maktoum Solar PV Phase III (800MW) – FC June 2017 – DEWA, Masdar and EDF Renewables (EDFR)
- Sweihan Solar PV Plant (1177MW) – FC May 2017 – Abu Dhabi Water & Electricity Authority (ADWEA), Jinko Solar and Marubeni
- Shuaa Energy 1 Solar PV Plant (200MW) – FC July 2015 – DEWA, ACWA Power and TSK
- Shams 1 Thermal Solar (100MW) – FC March 2011 – Masdar, Abengoa and Total

It is hugely impressive to have already procured the 1.2GW Sweihan solar park in Abu Dhabi, taking it to financial close in 2017 with a slew of (mostly) obvious lenders – one local bank, four Japanese and three French.

The tenor of 26 years is enough to make an elegantly plucked eyebrow rise… and the same goes for pricing which saw the lenders sign up to Libor +120bp, stepping up to 190bp in year three when cash sweeps kick in.

Still impressive at 950MW, Dubai's fourth phase of Mohammed bin Rashid Al Maktoum CSP and solar project closed this year (2019) and tells a similar story on tenors at 27 years – but a very different pricing strategy. This deal closed at 200bp, stepping up to 330bp by 2029 and there was a slew of Chinese lenders around the table.

Sticking with Dubai, the third phase of the Mohammed bin Rashid Al Maktoum CSP and solar projects weighed in at 800MW and closed mid-2017. Again we see long tenors with 27 years, but pricing started at 175bp with cash sweeps of 90-100% in 2024, at which stage the pricing steps up to 250bp. It has five-yearly increments to 325bp.

When it comes to scale, the UAE is carrying on as it started… with big projects:

- Al Dhafra Solar PV Plant (2GW) – Abu Dhabi
- Mohammed bin Rashid Al Maktoum Solar PV Plant Phase V (900MW) – Dubai

Following the deals

In a market where developers lead and the projects community follows, it's a good time to be an established lender with a remit to play in the Middle East.

Given the nationalities of the developers and the established relationships they bring to bear on lenders (in particular), there should be no lack of support for all of these projects – and more.

Where the most progressive states lead, the other nations follow… and given the liquidity out there – this will pose no problem to the wider project finance market. In fact it's welcome.