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The renewable race to refi

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All you ever hear these days is doom and gloom. You'd think we were back in the days of box-toting bankers smiling ruefully for the cameras as they exit Lehman Brothers for a final time, liberated pot plant under arm.

Perhaps the most frequent gripe doing the rounds at the moment is record-low interest rates – which is not such a great thing if you're trying to lend against infrastructure and energy in an increasingly competitive market… but pretty damn good news if you're a borrower.

A low interest rate environment is all the more challenging for lenders in a constrained primary financing market, leading one to take a closer look at the murky world of refinancing.

To that end, the *IJGlobal* data team kindly pulled together some interesting stats on the time it takes for projects to achieve that all-important first refi.

They compiled data from our entire database, analysing more than 15 years of international project finance data from the early 2000s to today's market – and it was the renewable energy sector that threw up the most interesting findings.

Given that it's a more recent dataset, it primarily reflects deals that made it to financial close over the last decade and a bit more, and the average timing between FC on a renewables project and first refi comes in at:

- Europe – 19.7 months
- North America – 24 months
- Latin America – 29.2 months
- Asia Pacific – 44 months

Please bear in mind that these stats only covers renewable energy deals where *IJ* has logged primary finance and one refi – and taking it as a whole, this averages out across the board on a global basis at 27.4 months.

Looking to the burgeoning European offshore wind sector, while it takes longer than a solar park in France – something that will be proved amply when it rolls out the 2GW tender early next year – the proof of the pudding is that refis are lined up, ready to sign, within days of the maritime monoliths reaching commercial operation.

An excellent example of this is the 558MW Beatrice Offshore Wind Farm which reached financial close in May 2016 and refinanced in July 2019. The rotors had barely concluded their first revolution before the ink dried.

This is, in part, recognition that the offshore wind sector has come of age and – let's be fair – that lenders are cutting each others' throats to get in on deals.

As one senior lender says this week: "Five years ago, people were very nervous about offshore wind, but that has changed – particularly if Orsted is involved as it will run smoothly – and a significant risk premium has come off."

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The source adds: “What you are seeing today, particularly in the corporate sector, is opportunistic leverage increasing. The price you pay may not have changed so much, but today the leverage you can put on – and the flexibility that can be achieved on terms and conditions – is still changing.”

Term and velocity

As one lender puts it, the “velocity on the book is really high at the moment” with refinancings being rattled out at an alarming rate… but some believe this is about to slow down.

“We think that credit spreads should be getting wider,” says a lender. “We are seeing evidence of widening and some of tightening in the market – compared to this time last year.”

And this is something of a conundrum to the banking community where the question is being asked over why they aren’t making money… and the answer, of course, is that they are victim to their desperation to maintain market share.

These two strategies – making money and building market share – are incompatible. If you seek to build market share, it’s highly unlikely you’ll make money. And while you’re merrily book building, might not be a bad idea to keep a weather eye on Basel banking regulation… which will come back to bite you in the… asset.

However, speaking to people this week, maybe the party is already over but a lot of folk have yet to realise it. There’s a mood that the market that it has shifted beyond peak underwrite situation and that distribution is becoming increasingly challenging.

“That velocity you are seeing in refinancing activity – part of that is savvy borrowers putting to bed refis now as they are adding leverage while base rates are low and debt is almost free,” says one source. “These guys are saying ‘let’s do it now and let’s do it quickly’.”

The mood of the day has been: fill your boots while you can. And anyone who missed that wave clearly has never been to a beach!

For banks that one decade ago were banging on about their evolution to an originate-to-distribute model, they seem to have forgotten that all the borrower cares about is balance sheet… not an ability to underwrite.

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