Living in unprecedented times

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At times like these – and there haven't been any of those – it's hard not to peer into the rear-view mirror to draw comparisons with yesteryear. However, that's not possible in these unprecedented times… a term that's already ageing badly… as coronavirus sweeps the planet.

On the project finance front, pretty much every single deal in procurement in *IJGlobal's* database has hit go-slow for reasons that range from supply chain through to self-isolation, challenges faced by fundraisers and an impending credit crunch… but most important, nobody wants to lend until they know where the market is.

And this is where we glance briefly backwards.

PF market conditions today bring to mind a big-ticket MoD PPP that was dragged (kicking and screaming) over the line almost exactly 12 years ago – Future Strategic Tanker Aircraft (FSTA) which closed on 27 March 2008 in a turbulent market.

The UK government brought huge pressure to bear on lenders to close FSTA at margins that didn't bear scrutiny even as the ink dried. On the biggest slug of debt – £2.14 billion – margins came in at an eye-wateringly low Libor +100bp (stepping up to 115bp over 25 years).

It's harsh to reference this deal during turbulent market conditions as the one that set the scene for what not to do, but those margins remain jaw-dropping given that nobody could agree reference rate, let alone appropriate price of debt.

And here we find ourselves again, but we won't see a repeat of FSTA as those dynamics are hard to recreate – huge government pressure to sign a deal to replace the Air Force's air-to-air refuelling fleet which was all but dropping out of the sky.

Looking round the *IJGlobal* database, nothing there quite falls into that category of urgency. Granted each project has its local – sometimes international – drivers, but most of them will not suffer too much for a couple of months' delay.

Better to delay and blame the lenders (everyone does anyway) than force through deals that will prove embarrassing and will struggle to deliver on time given supply chain issues, never mind workforce availability.

Market correction

IJGlobal – along with pretty much everyone else out there – has been anticipating a market correction for some time (Editorial Oct 2018)… but nobody called what we're seeing right now.

And at this early stage, we are hearing that its impact on debt pricing is already significant – BBB credit has widened from around 140-150bp to 230-250bp… and that's just the start.

"Volatility in the capital markets is very high. Hedging products and swaps are going to be much more difficult to get done, and lending is going to go to quality and relationship," says one PF lender of many years standing.

"Pricing is going to go up and liquidity is going to fall. A classic credit squeeze is coming… but coupled this time with a significant demand slump underneath – not a pretty picture."

Another senior lender who has more years at the ledger than he'd care to admit, says: "This GDP event we're involved in right now, and that we are about to see evolve over the coming weeks and months, is – and I know it's clichéd – an unprecedented time.

"This is not 2008. It's not 2002. It's not the DotCom burst. It's not even the 87 crash. It's not the early 90s. The nearest this is to – is war."

This is an analogy that has been doing the rounds of late… well, the last few days, to be fair. Having given it a lot of thought, the financing community can only draw a parallel between covid-19 and warfare.

To mitigate the impact of tumultuous markets, action is being taken… but it's starting to feel like spray-and-pray, rather than precision bombing.

"There is much talk about ECB stimulus or mitigation, quantitative easing, the Bank of England interest rates have come down, the US has done the same," says another PF luminary.

"They're talking about money drops and all this kind of stuff… that is all to cover off the risk-free rate. None of that is going to cover off spreads."

He adds: "What is the illiquidity premium now? What is going to happen to that? Is there one? How big is it? What markets does it affect more or less? Nobody knows and it is not visible. And trading is volatile right now.

"This is just like being back post-Lehman. Nobody knew what Libor was. Nobody knows where the market is right now. It's absolute mayhem."

Which brings us nicely back to FSTA and bad decisions being made under pressure… which we do not anticipate happening in this market as we are all older, wiser… and the government is not breathing down anyone's neck to get the deal away!

But not everyone out there is quivering with terror.

What we hear from the street – make that the dining room – fundraisers at infra debt funds say that investors are curiously relaxed about the current situation, but that's not likely to continue as they enter week two of self-isolation.

If the view from the front windows is not enough to rattle that confidence, then learning that we're already starting to hear about rescue financing in Asia surely will.

Given the path that coronavirus has taken over the past couple of months, we can expect to hear early mutterings in New York and London long before we emerge from social distancing, stepping out of front doors, blinking in the sunlight.

And then there's talk of distressed activity… which may be a bit early, but it's coming.

As one senior source says: "If I were an airport, a toll road or a port, I might be looking for some liquidity right now. We have started making calls out to people to see if they need it. We haven't had our hands bitten off, but I suspect that will happen in the next 2-3 weeks. People are still reeling for now."

There's ammunition there for editorials for the rest of the isolation period, so for now let's switch focus to the M&A space which remains curiously vibrant.

M&A forever

Infrastructure and energy M&A activity has remained lively with a lot of news breaking this week on deals… some of which are clearly being rushed to close before things get too nasty, others far enough advanced to tip them over the line.

The one deal that had most self-isolated infra types choking on their early afternoon GnTs (nobody seems to know the right time for the first drink of the day when working within feet of the drinks cabinet) was the KKR acquisition of Viridor.

This is curious as the KKR offer of a similar amount was rejected at the end of last year, but now it has been accepted at first-round against five other bidders for just a sniff more than it had on the table in late 2019.

Having said that, in this climate, perhaps the view was taken that a bird in the hand is better than trying your luck in a tanking market. Good call to grab the money and run.

And it's not alone. Here follows some of the deals that signed or closed this week:

- contractor and co-investor sign for Malaysia CCGT
- Vinci buys transmission assets from Sterlite
- IndInfravit Trust closes on toll roads acquisition
- Total buys into floating offshore wind
- Clearway closes on sale of Delaware CCGT
- GE sells stake in CCGT with PG&E offtake
- CPPIB closes Pattern take-private deal
- Greenbacker buys Maine wind farm

Sources in the market remain bullish that deals will move forward, even if impacted by a re-pricing and delays. That, of course, relies on everyone being in good enough condition to work on the deals.

Summer's cancelled

Batten down the hatches and lock the front door. We have a couple of months of this ahead and plenty of time to carry out distant due diligence.

In reality, summer is cancelled… which will come as a nasty shock to a lot of folk and will cause mayhem towards the end of the year as people struggle to fit holidays into schedules with all the deals pushed back into the latter part of the year.

There is a desire to return to normality as soon as possible, but international travel is not going to be flavour of the day – for work or leisure – and staycations are now the norm.

Come autumn the virus will return and we'll have a fairly miserable run up to Christmas, but by that point, most people will have already been infected, and it will slowly peter out.

Roll on 2021, this year sucks monumentally.