Global Project Sponsors Report

2020

PROXIMO RESEARCH

Disclaimer

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Foreword

Welcome to Proximo's Global Project Sponsors Report 2020.

We'd like to thank all those that took the time to fill out the market surveys for this report – we knew when we started that it was a long questionnaire and greatly appreciate your participation.

Your efforts have produced an independent report based on the opinions of project sponsors and borrowers across multiple sectors – providing insight into how the project finance lending/structuring market is perceived by its client base and how it might better serve that client base.

For those involved in project finance – where deals are often custom solutions to a unique set of risks and borrower requirements and are delivered over years rather than months – perceptions of what borrowers are looking for from the market tend to reflect the intricacies of deals most recently worked on. There is very high awareness and servicing of individual borrower needs and concerns, as reflected in the survey that follows, but project finance practitioners tend to be sector based, so the bigger market picture – the issues typical to all project borrowers, regardless of sector or geography, and the differences – is less clear, simply because of the way the market functions. This report, which we plan to repeat annually, gives that broader market picture.

Although the survey was conducted largely prior to covid-19, because much of project finance feeds development of essential infrastructure – deals that are both financially robust in design and likely to bounce back first once a degree of normality returns to the market – the report gives very strong indicators of what project borrowers will be looking for post-covid-19, at least in sectors other than oil and gas which has its own unique set of additional problems.

Some argue covid-19 could change how the world functions for the long term, and with it the types of infrastructure and energy required by users. But the demand for project finance to meet those changing requirements will remain. So, what project and infrastructure borrowers were, and are, looking for in terms of support from the project finance sector will be as relevant post covid-19 as it was before.

Thanks again to all those that helped in the production of this report. If any readers have ideas on how we might improve or expand it for 2021 please contact me – market feedback, good and bad, is always welcome.

Sean Keating,
Editor,
Proximo

Executive Summary

Shortening tenor lengths on bank loans are a concern for key project finance players. Participants in the survey repeatedly identified shorter tenors on project loans as a major obstacle to successful project finance deals. As new Basel capital requirements for banks come into force around the world, bank appetite for long-term debt has diminished and there is a disconnect between the tenors that developers need on project loans and the tenors banks are able to deliver.

Institutional investors are viewed as central to the long-term future of project finance.

ECA/DFI backing on deals is considered less important.

There is little incentive for project financiers to pursue ESG-linked debt.

Oil and gas will be one of the hardest hit sectors by the COVID-19 pandemic.

Introduction

Project financing, in all its forms, has resilience built in. It invariably comes with very strong covenants that trap cash to meet project debt obligations in times of stress. While the recent double whammy of extreme oil price volatility and fallout from the coronavirus pandemic has hit many projects hard, particularly those where the structure is optimised for refinancing this year, the general ratings agency consensus is that the vast majority of projects (operational and in development) will get through the crisis, albeit with some restructuring.

Although the speed and extent to which end-user demand, and hence project cashflows, will return to pre-crisis levels is impossible to predict, project finance borrowers tend to operate in essential infrastructure sectors which adds to their resilience – in short, of all financial markets, project finance is one of the most likely to bounce back relatively quickly.

Given that likelihood, the following survey gives insights into what project borrowers will be looking for once a degree of normality returns to the market platform) to give factual context to trends and opinions highlighted by the survey responses.

Survey responses were collected in the last months of 2019, before the coronavirus pandemic reached its present severity. The report incorporates information about the effects of the pandemic on project finance, whilst concurrently giving strong indicators of what the project finance market will look like after the crisis dissipates. The report is not purely based on borrower opinion – it also uses Proximo's project finance data (hosted on TXF's Tagmydeals platform) to give factual context to trends and opinions highlighted by the survey responses.

Aim of the report

There is currently no empirical, independent report that canvasses the views of project sponsors and borrowers. This report looks to fill that gap, providing insight into how the project finance lending market is perceived by its client base and how it might better serve that client base.

Methodology

The report is based on data collected using a mixed methods design that involved a quantitative and a qualitative component. The quantitative data was collected using an online survey platform (SurveyMonkey) while telephone interviews were used to collect the qualitative data.

The survey

The survey questions were designed exclusively for sponsors and borrowers active in the project finance space. The questions cover:

Background and demographics:
This data gives you a picture of the types of project sponsor that took part in the survey.

Project financing:
Covering most of the report, these questions delve into project sponsors' views on pricing and tenor across the different sectors (and how these are expected to change over the next two years), challenges in raising project finance, disrupters in the market, factors that influence decision making, and the role of outside forms of economic support.

Sustainability:
These questions explore how growing investor awareness of sustainability is impacting how project sponsors operate, and their views on its wider influence over the project finance space.

The telephone interviews

To explain the quantitative trends, in-depth, semi-structured phone interviews were conducted with five respondents to understand ***why*** and ***how*** the patterns occurred.

The topic guide for the interview was based on each individual's survey responses to ensure that the conversation remained focussed. Interviews were conducted between March and April 2020, lasted between 15 minutes and 25 minutes, and were audio recorded for accuracy and further analysis. Any qualitative data used throughout this report has been anonymised with all identifying information removed to protect the anonymity of the interviewee.

The Proximo perspective

Throughout the survey, Proximo provides its interpretation on some of the key findings. These comments are designed to be thought provoking and offer a more holistic view on the implication of the data for the industry.

Findings

- Background and demographics
- The intricacies of project financing
- A closer look at sustainability

Background and demographics

In total, 52 project sponsors took part in the survey.

Figure 1: Region of operation

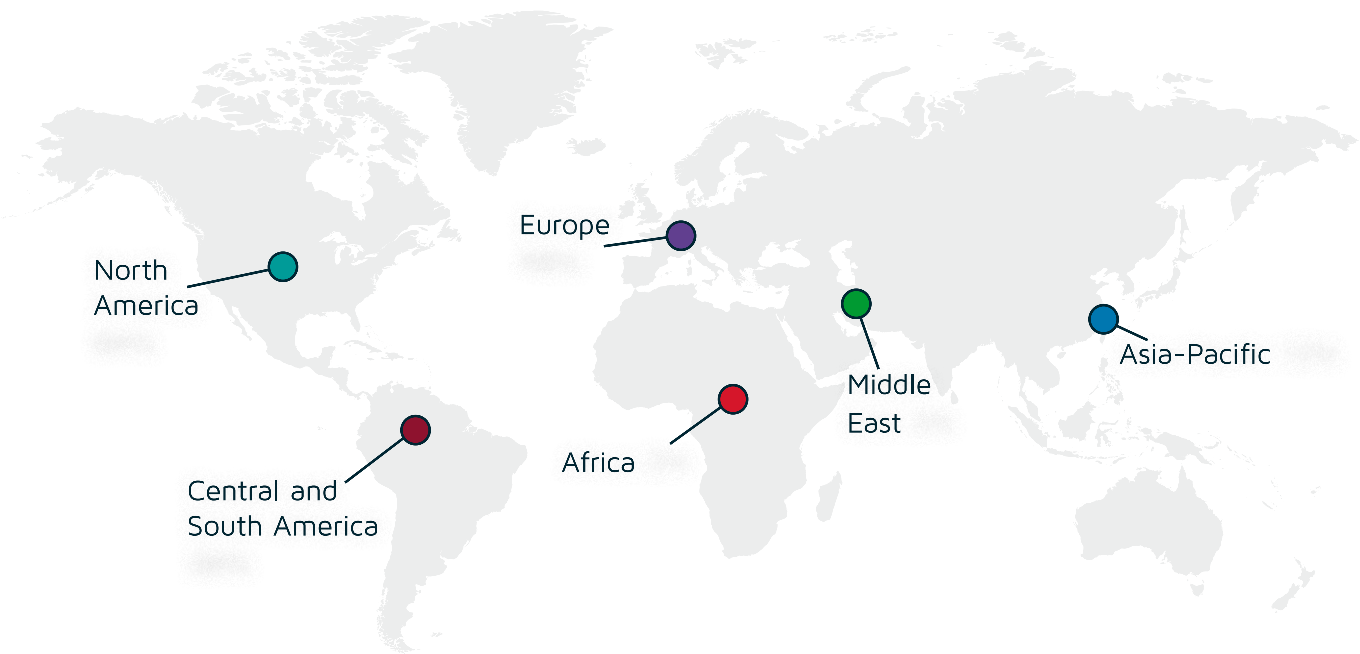
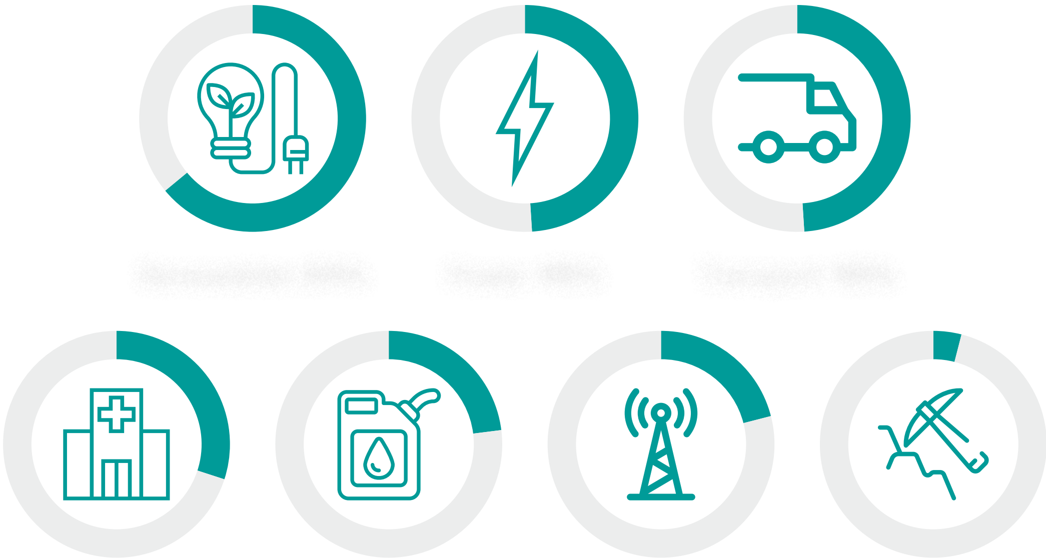


Figure 2: Project finance sectors



A brief look to the future

When projecting regional growth according to sector over the next five years, 43% of respondents thought that North America would see the greatest growth in renewables.

[illegible]

Figure 3: Predicted regional growth in project finance over the next 5 years

	[illegible]	[illegible]	[illegible]
Oil & gas	[illegible]	[illegible]	[illegible]
Mining	[illegible]	[illegible]	[illegible]
Transport	[illegible]	[illegible]	[illegible]
Power	[illegible]	[illegible]	[illegible]
Renewables	[illegible]	[illegible]	[illegible]
Communications	[illegible]	[illegible]	[illegible]
Social infrastructure	[illegible]	[illegible]	[illegible]

	[illegible]	[illegible]	[illegible]
Oil & gas	[illegible]	[illegible]	[illegible]
Mining	[illegible]	[illegible]	[illegible]
Transport	[illegible]	[illegible]	[illegible]
Power	[illegible]	[illegible]	[illegible]
Renewables	[illegible]	[illegible]	[illegible]
Communications	[illegible]	[illegible]	[illegible]
Social infrastructure	[illegible]	[illegible]	[illegible]

The intricacies of project finance

- The details
- A look to the past
- Greenfield projects
- Can project finance expect outside help?
- Variety is the spice of (project finance) life
- The importance of a bank's international footprint
- The ratings agencies: overrated or underestimated?

The details

Most respondents (81%) indicated that they intend to raise project financing over the next 12 months (figure 4).

Figure 4: Respondents' plans to raise project finance over the next 12 months

Figure 5: Project financing over the next 12 months, by sector

Figure 6: Project financing over the next 12 months, by facility type

Figure 7: Average amount invested in project finance over the next 12 months

Figure 8: Average tenor for project financing deals over the next 12 months

Figure 9: Average pricing for project financing over the next 12 months: prospective pricing

A look to the past

Looking back at the last 24 months, 65% of those surveyed indicated that they had been involved with project finance over that period (figure 10).

Figure 10: Involvement with project financing over the past 24 months

Figure 11: Perception of pricing over the past 24 months

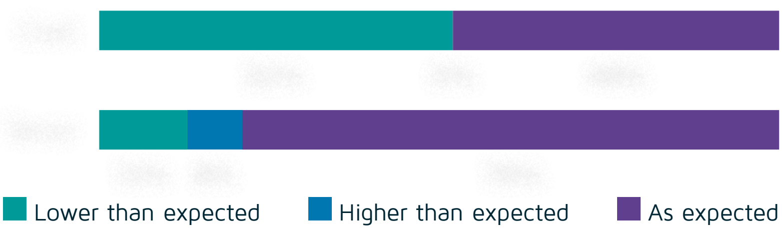


Figure 12: Perception of change in cost and tenor change over the past 24 months

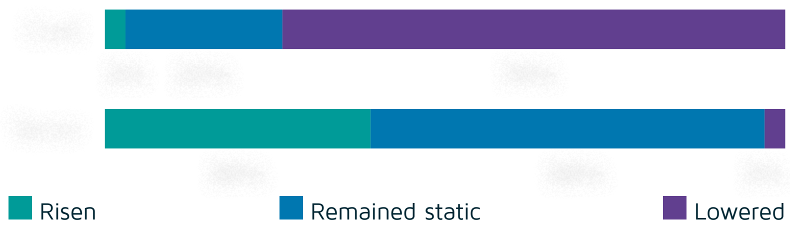
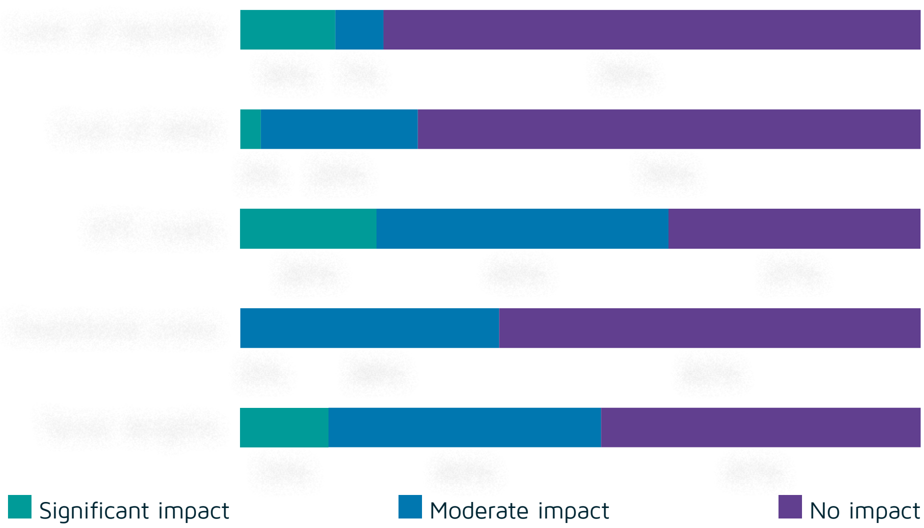


Figure 13: Perception of the challenges that have detrimentally impacted the raising of project finance



Greenfield projects

Those surveyed anticipated that oil and gas would be the sector with the highest pricing for greenfield projects, carrying an expected average pricing of

Figure 14: Perception of anticipated competitive debt pricing for greenfield projects

	[illegible]
Oil & gas	[illegible]
Power	[illegible]
Communications	[illegible]
Renewables	[illegible]
Transport	[illegible]
Social infrastructure	[illegible]
Mining	[illegible]

Figure 15: Perception of the best predicted pricing for greenfield projects

	[illegible]
Oil & gas	[illegible]
Transport	[illegible]
Power	[illegible]
Renewables	[illegible]
Communications	[illegible]
Social infrastructure	[illegible]

relative to other sectors.

Paul Clark, a director at ICBC Standard, goes further than this, saying:

> *"I don't necessarily agree that an RBL for a crossover investment grade rated company such as Chrysaor priced at 225 basis points over versus a single B rated company who's 10 times smaller than Chrysaor being priced at 325 basis points over is rational. It just doesn't reflect the underlying risks. I would actually argue a lot of RBLs are probably under-priced and reflect banks' cost of funding more than credit risk." He also notes that banks do not always look to RBLs as their primary source of revenue but use RBLs to acquire "ancillary opportunities like the debt capital market or equity capital market issuances, as well as advisory services."*

Can project finance expect outside help?

A significant number (75%) of participants noted that institutional investors were taking more substantial roles in project finance deals (figure 16).

Figure 16: Perception on the impact of institutional investors, ECAs and DFIs in project financing

The Proximo perspective

There has long been scepticism about long term infrastructure investor appetite for the market – better returns elsewhere and they would be off.

While that is certainly valid for non-specialised funds, many institutions have built up considerable expertise in project and infrastructure finance, having hired large numbers of ex-project finance bankers and lawyers to their teams. Covid-19 will undoubtedly test appetite – but institutional investors are here to

Variety is the spice of (project finance) life

In an assessment of the importance of various project finance instruments to their business models,

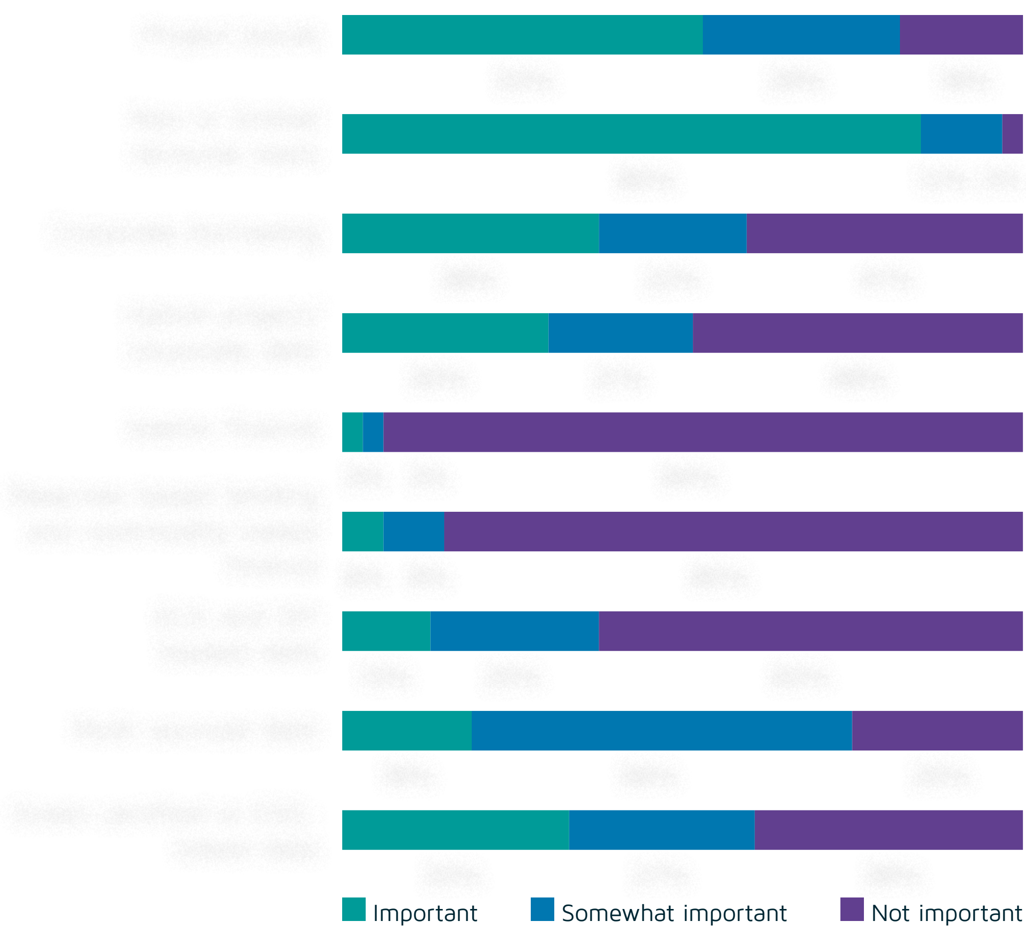
stay and are a growing and very useful source of funding diversification.

The Proximo perspective

The difference in mandates between ECAs and DFIs, the former being commercial, government-backed sales tools to boost exports, does no always co-operation between the two in emerging markets easy.

And borrowers often complain that due diligence processes, particularly at ECAs, take too long to be practicable for projects that carry a strict timetable and penalties for overruns. Both have a role to play, but many borrowers still see them as lenders of last resort because of the pressures they can add to project time constraints.

Figure 17: Perception on the importance of project finance instruments to their own business



The importance of a bank's international footprint

Asked about what project sponsors considered most significant when selecting a bank for project finance, all respondents felt that global footprint was important.

Figure 18: Perception on the most important attributes to developers when choosing a bank for project finance

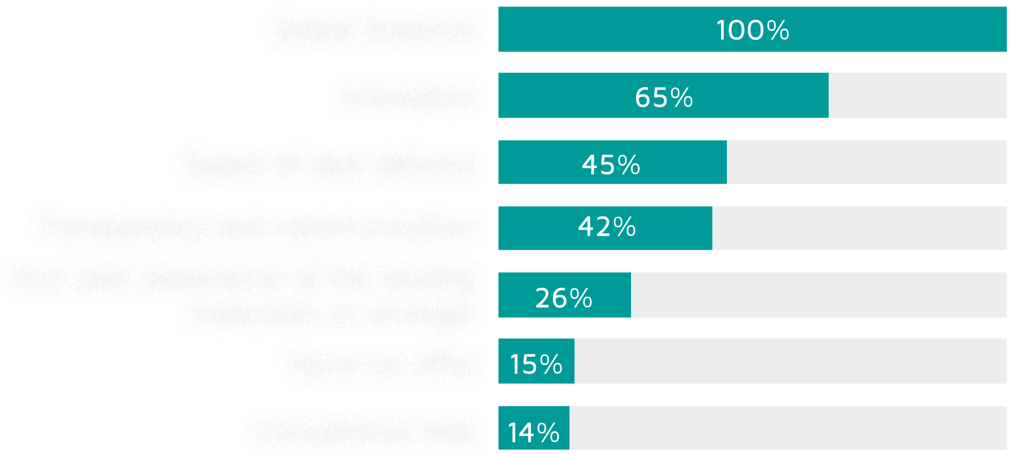


Figure 19: Perception on the importance of possible changes in project finance

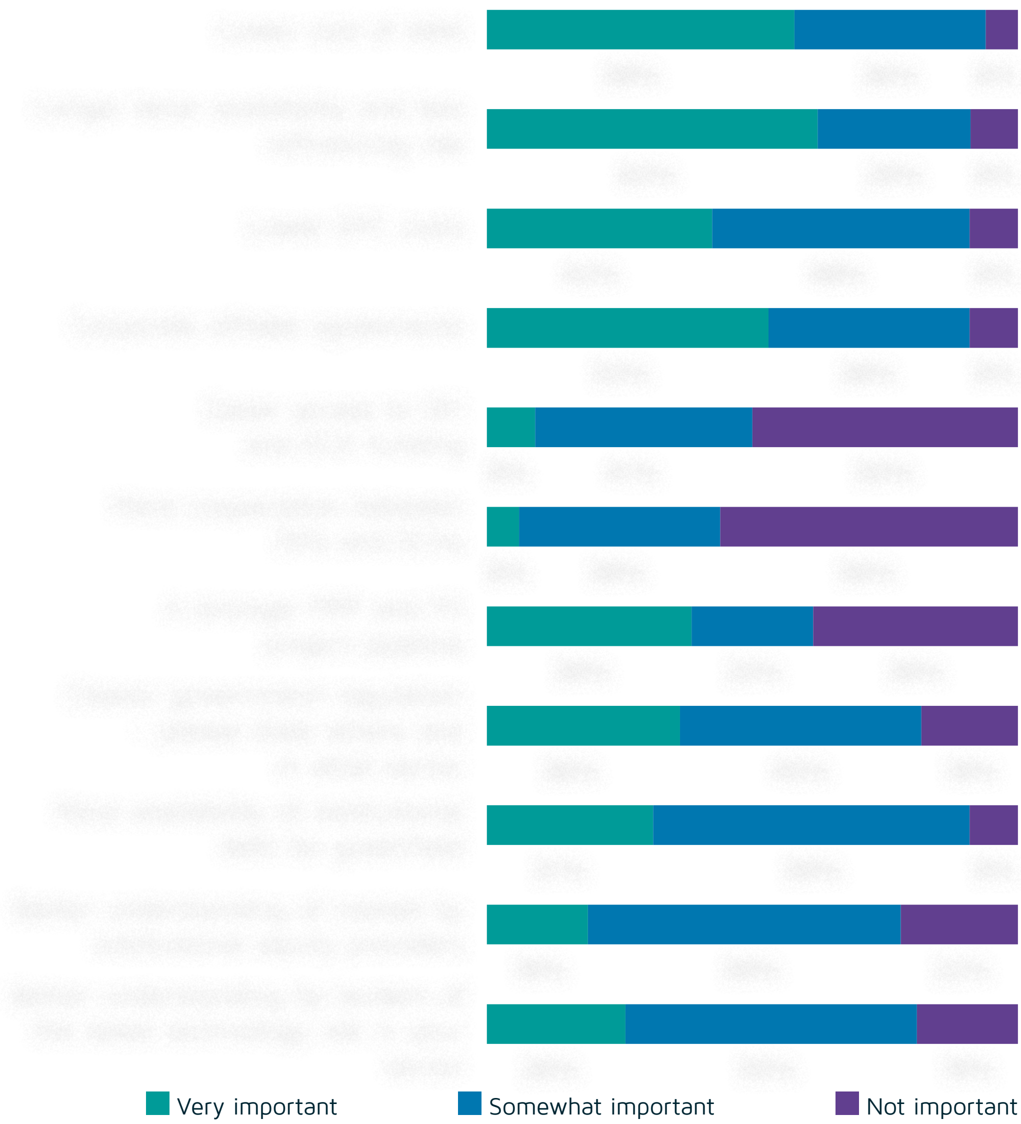
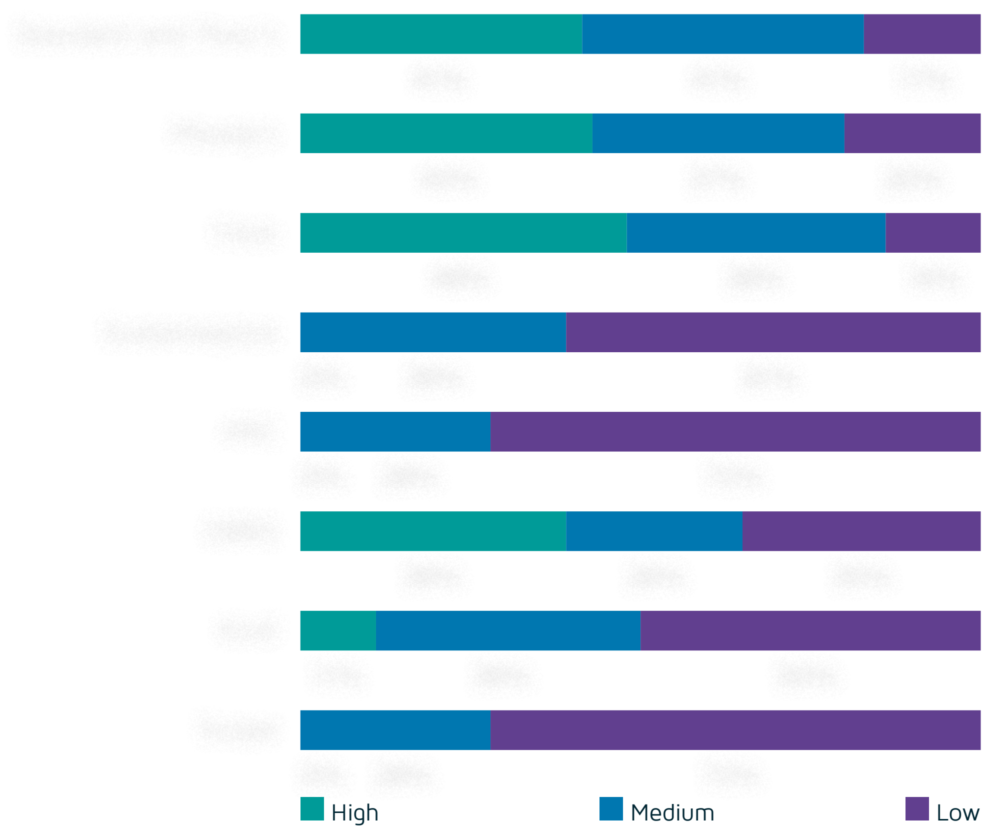


Figure 20: Perception on the importance of getting a rating for a deal a worthwhile investment

The ratings agencies: overrated or underestimated?

Those surveyed had a very mixed view of the experience of the performance of ratings agencies in project finance:

Figure 21: Perception on the experience of the ratings agencies in project finance



The Proximo perspective

Ratings agencies do a good job walking the line between their customers' expectations and providing realistic, independent ratings evaluations. But clearly perceptions of the quality of their service are not as high as they should be, which is something they need to address going forward. The credibility of their ratings methodologies is not the issue – the problem appears to be at the customer service level rather than disappointment about the actual ratings received.

A closer look at sustainability

- “I think it is a bit of a buzzword”

"I think it is a bit of a buzzword"

Over half (55%) of the sample said they did not consider banks' sustainability credentials significant (figure 22).

Figure 22: Perception on the importance of a bank's sustainability credentials to you

Figure 23: Perception on the benefit of separating a project into green and non-green elements

Figure 24: Perception on whether or not there is pressure from shareholders to raise ESG-linked or green project debt

Figure 25: Perception on whether or not there is any real pricing benefit to getting green certification or an ESG rating for project financing

Conclusion

If the world goes back to a semblance of normality in the coming months – and for oil and gas it is going to take a lot longer than months – many of the key issues highlighted in this report will be as valid going forward as they were when they were canvassed.

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List of figures

About Proximo Research

Proximo Research supplies some of the most detailed market insights into the project finance industry. Using an in-depth and robust methodology that combines quantitative trends with thought provoking qualitative insights, Proximo Research provides unique and proprietary data and analysis based on primary sources. In addition, it offers a bespoke research service to paying clients. Working in collaboration, Proximo Research collect, collate, analyse and write reports to the focus and scope of the research, with the final product being a thought leadership piece to be used by the client as they choose.

Proximo Research

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