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Report Says 2016 Could Be New Era In Bond Refinancing In The Project Finance Sector.

OVERVIEW

- We believe that 2016 could usher in a new era in bond refinancing in the project finance sector.
- Our research shows that institutional investor interest and refinancing conditions for loans made and priced at the height of the global financial crisis are now ripe for capital market takeouts.
- Assuming that deal flow matches the high demand for infrastructure investment within the institutional investor market, we believe financing conditions for long-dated debt transactions in the capital markets can only get better.

LONDON (Standard & Poor's) Dec. 22, 2015–With the end of the low interest rate cycle now clearly in sight, and the likely consequence of this on swap rates, Standard & Poor's believes 2016 could herald a new era in project finance bond refinancings.

"Assuming that deal flow matches the high demand for infrastructure investment within the institutional investor market, we believe financing conditions for long-dated debt transactions in the capital markets can only get better," said Standard & Poor's credit analyst Michael Wilkins, in the report published today, "Project Finance: Rate Rise May Herald A Wave Of Refinancing In The Bond Market."

Rising rates could actually provide a boost to refinancings of infrastructure project debt in the capital markets.

In today's low-yield environment, insurers and asset managers are particularly eager to invest in real assets such as infrastructure. That's because these projects provide inflation-linked, relatively attractive risk-adjusted returns, with a low correlation to the economic cycle and healthy cash flow and income yield. Also, those low interest rates have meant banks have been able to fund themselves at a historically low cost. This has led to ample liquidity in the market and has helped increase bank lending to project finance and infrastructure (see "Are Rumors For Global Project Finance Bank Lending's Demise Greatly Exaggerated?" published Jan. 14, 2015, on RatingsDirect).

At the same time, the amount of issuance in the project bond market has ticked higher over the last couple of years, which has also been partly due to low interest rates. Low interest rates have also been a factor in the upsurge in direct lending and private placements to infrastructure projects from institutions. Yet the number of capital market refinancings of bank loans via new project bond issues hasn't matched this trend, partly due to the disincentives of breaking the swaps associated with bank financings.

However, with the prospect of a low-rate cycle coming to an end, this picture changes. As swap rates go up, the breakage costs for swaps are reduced on a mark-to-market basis, making breakage costs less punitive. Accordingly, refinancings of infrastructure project debt in the capital markets may receive a boost as a consequence.

Standards & Poor's Ratings Services' research shows that institutional investor interest and refinancing conditions for loans made and priced at the height of the global financial crisis are now ripe for capital market takeouts. Our simulations show that the mark-to-market swap breakage cost saving could be as high as 40% for some project loans if swap rates rise by 100 basis points (bps) from where they are today.

We have determined, based solely on the developments described herein, that no rating actions are currently warranted. Only a rating committee may determine a rating action and, as these developments were not viewed as material to the ratings, neither they nor this report were reviewed by a rating committee.

The report is available to subscribers of RatingsDirect at www.globalcreditportal.com and at www.spcapitaliq.com. If you are not a RatingsDirect subscriber, you may purchase a copy of the report by calling (1) 212-438-7280 or sending an e-mail to research_request@standardandpoors.com.

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Primary Credit Analyst: Michael Wilkins, London (44) 20-7176-3528;
mike.wilkins@standardandpoors.com

Research Contributor: Xenia Xie, London;
xenia.xie@standardandpoors.com