Update: Trends In Global Project Finance

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23rd October 2014
Topics

• Trends in Rated Global Project Finance
• Trends in Un-Rated Global Project Finance
Trends In Rated Global Project Finance
Trends In Rated Global Project Finance

Standard & Poor’s Rating Services has rated 514 project finance debt issues since 1991. The annual average default rate is 1.5%

Trends In Rated Global Project Finance

The average initial rating on defaulting issues was 'BB-', while the average initial rating for project finance was 'BBB-'. Recent defaults were mostly in the Power Industry.

<table>
<thead>
<tr>
<th>Sector</th>
<th>Issuer</th>
<th>Description</th>
<th>Country</th>
<th>Original rating</th>
<th>Rating prior to default</th>
<th>Time to Default (years)</th>
<th>Source: S&amp;P Rating Services “Default Study: Project Finance Default And Recovery: Shale Gas Fuels Rise In US Defaults (August 9, 2013)”</th>
</tr>
</thead>
<tbody>
<tr>
<td>INDUSTRIAL</td>
<td>California Statewide Communities Development Authority</td>
<td>U.S.</td>
<td>BB</td>
<td>CCC+</td>
<td>5/5/2007</td>
<td>9/22/2011</td>
<td>4.3</td>
</tr>
</tbody>
</table>

Market price exposure
Price and interest rate dependence

Operational Issues
Driven by chronic operational issues that cause underperformance

Technology or design issues
Equipment failure & flawed design impairing operating efficiency
The average recovery rate in the rated universe was approximately 75%. The majority of the lenders received recovery close to 100% and very few received close to 0%.

Recoveries varied greatly by sector. The **Transport** and **Power** sectors had the highest recoveries at approximately **88%** and **63%** respectively.

**Oil and Gas** had the lowest recovery rate of less than **10%**.

The small number of default and recovery samples is the main concern as there were only 13 resolved projects in the rated universe.

It means that a small number of outliers can affect the results materially.

Source: S&P Rating Services "Default Study: Project Finance Default And Recovery: Shale Gas Fuels Rise In US Defaults (August 9, 2013)".
Trends In Un-Rated Global Project Finance
Trends In Un-Rated Global Project Finance

While projects can be financed in a number of ways including bond, equity, and bank loan offerings, the majority of financing comes from bank loans. To solve the issue of the relatively small sample size in the rated universe, one can leverage the S&P Capital IQ Project Finance Consortium database.

- Originally initiated by four global banks in 2001
- The database represents a historical compilation of performance information from the portfolios of 35 lending institutions
- Participating banks contribute data annually on a confidential basis to S&P Capital IQ Credit Solutions who then standardize, aggregate, and analyse each dataset
  - The data requirements are approved by a client advisory group
- In 2013, the database represented a considerable percentage of global project finance syndicated loans providing a representative and robust database to calculate reliable benchmarks
  - 7,596 projects in total versus 462 projects in the rated universe
  - 576 defaulted projects versus 34 projects in the rated universe
  - 435 projects resolved from default versus 13 projected in the rated universe

Trends In Un-Rated Global Project Finance

The Project Finance Consortium database is a truly global data repository. It has considerable coverage across each region.

North America
1,584 Projects

Latin America
567 Projects

Western Europe
3,197 Projects

Middle East And Africa
632 Projects

Eastern Europe
317 Projects

Asia Pacific
851 Projects

Oceania
448 Projects
Trends In Un-Rated Global Project Finance

Project Finance origination was impacted by the financial crisis of 2008 but has picked up again. In 2013 there were 259 new projects originated and submitted to the study. The number of new originations stayed flat compared with 2012.

Source: S&P Capital IQ.
Since 2010, there has been steady Project Finance growth across all global regions – particularly Asia Pacific and Latin America.

### 2010

<table>
<thead>
<tr>
<th>Region</th>
<th>%Portfolio</th>
<th>%Defaults</th>
</tr>
</thead>
<tbody>
<tr>
<td>Western Europe</td>
<td>42%</td>
<td>27%</td>
</tr>
<tr>
<td>North America</td>
<td>21%</td>
<td>32%</td>
</tr>
<tr>
<td>Asia Pacific</td>
<td>11%</td>
<td>15%</td>
</tr>
<tr>
<td>Africa &amp; Middle East</td>
<td>8%</td>
<td>3%</td>
</tr>
<tr>
<td>Latin America</td>
<td>7%</td>
<td>14%</td>
</tr>
<tr>
<td>Oceania</td>
<td>6%</td>
<td>6%</td>
</tr>
<tr>
<td>Eastern Europe</td>
<td>4%</td>
<td>3%</td>
</tr>
</tbody>
</table>

### 2013

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Source: S&P Capital IQ.
Across industries, strong growth in the Power, Infrastructure, and Oil & Gas segments. Infrastructure’s performance has deteriorated slightly but still maintains a low 10-year cumulative default rate compared to other industries.
Trends In Annual Default Rates – Un-Rated Global Project Finance

Compared to the rated universe study, there was no uptick in the default rates from 2010 to 2012 in the un-rated universe. Preliminary analysis suggests relatively flat default rates between 2012 to 2013.

Note: Values for default rates are not shown to preserve the confidentiality agreement with member banks.

Source: S&P Capital IQ.
* Please note that we are unable to show the Y axis values due to the confidential nature of the Project Finance Data Consortium.
Trends In Un-Rated Global Project Finance

This slide shows the recovery rate distribution. It shows a bullet distribution, where a majority of the total resolved loans had almost full recovery (between 91% and 100%). The remaining recoveries were spread quite evenly among other buckets.

Comment: Majority of the Project Finance loans recovered close to 100%

Note: The percentage of total tranches is hidden because of confidentiality agreement with member banks.

Source: S&P Capital IQ.