

# African Utility Week

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The largest global meeting place from African Utilities

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Investment trends and challenges in power in Africa

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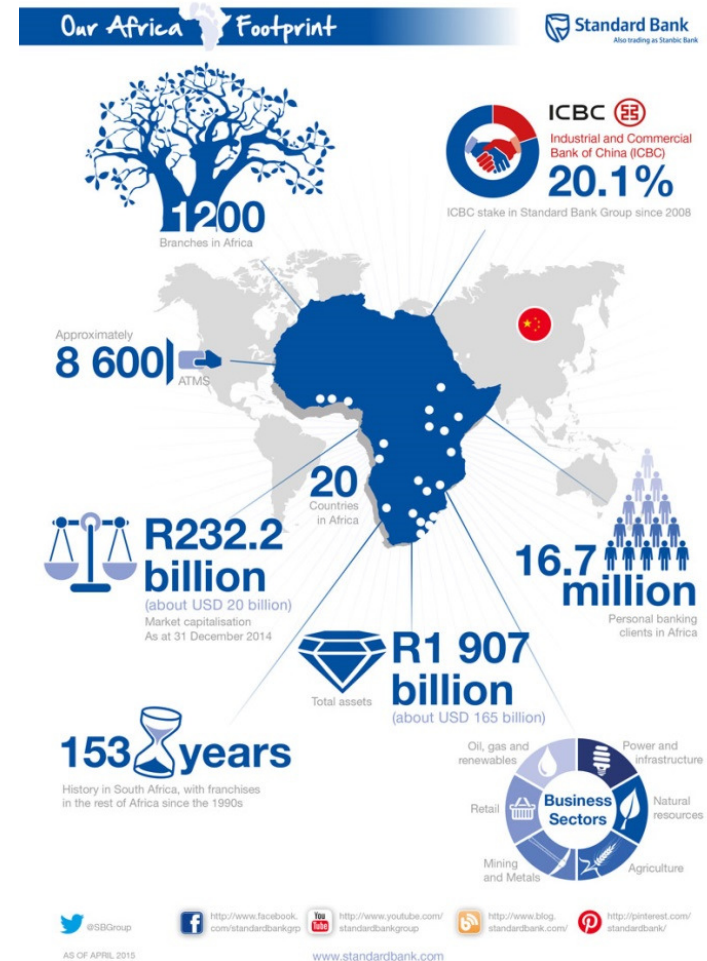
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## **Section 1:**

# **Introduction to Standard Bank**

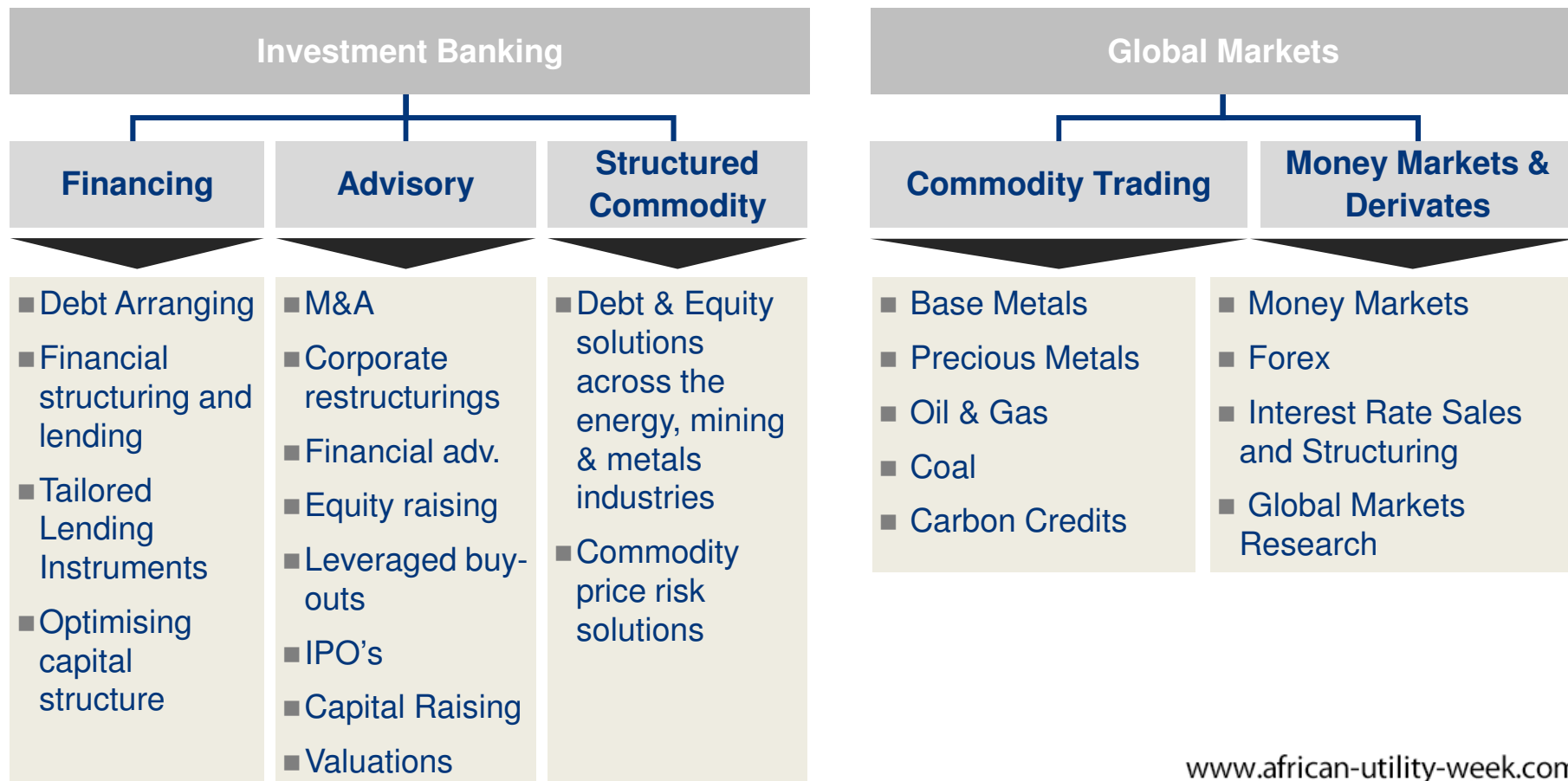
# Introduction to Standard Bank

- African-based financial services group focused on emerging markets on global scale.
- Full service bank covering:
  - Investment banking;
  - Corporate banking;
  - Personal and business banking;
  - Investment management;
  - Life assurance.
- Global reach in 31 countries with capabilities in world's leading financial centers including London, Sao Paulo, Beijing, New York and Hong Kong.
- Corporate and Investment Banking (“CIB”) provides services to corporate clients, financial institutions and international counterparties focused on emerging markets around the world.
- Our market capitalisation and total assets are estimated at \$20bn and \$165bn respectively.
- Relationship with ICBC provides international reach and strengthens access to what will soon be the world's largest economy.



# Universal banking offering

- Core to Standard Bank is developing strong strategic value-based relationships with its key clients
- As a global investment bank, Standard Bank looks to assist clients in executing their growth strategy, through geographic and product diversification, by focusing on solutions to our clients' needs



# The leading corporate & investment bank in Africa



## The Banker Africa 2015

- Best regional bank in Southern Africa
- Best investment bank in Southern Africa



## The Banker Africa 2015

- Best investment bank in East Africa



## The Banker – Deal of the Year Awards 2015

- Africa - Islamic finance: South Africa, USD500m Sovereign Sukuk
- Africa - Woolworths' acquisition of David Jones
- Africa - High yield and leveraged finance: Metair's ZAR1.2bn in preference shares and ZAR750m senior revolving credit facility
- Africa – Infrastructure and project finance: funding for USD623m Lake Turkana wind farm



## African Banker 2015

- Best Retail Bank in Africa



## Euromoney's Real Estate Awards 2015

- Best overall bank in Africa
- Best loan finance bank in Africa
- Best equity finance bank in Africa
- Best M&A advisory bank in Africa
- Best debt capital markets bank in Africa
- Best overall bank in Nigeria, South Africa and Ghana
- Best loan finance bank in Nigeria, South Africa and Ghana
- Best debt capital markets bank in Nigeria and Ghana
- Best equity finance in Ghana
- Best M&A advisory bank in Ghana



## Global Finance World's Best Emerging Markets Banks 2014

- Best Bank in Africa
- Best Bank in the Angola, South Africa and Uganda



## EMEA Finance African Banking Awards 2014

- Best investment bank in Africa
- Best investment bank in Angola, Botswana, Kenya, Mozambique, Tanzania and Uganda
- Best bank in Namibia
- Best broker in Nigeria and South Africa
- Best local bank and local investment bank in South Africa
- Best foreign bank in Uganda



## Euromoney's Real Estate Awards 2014

- Best bank overall in Africa
- Best Bank Overall in Nigeria and South Africa.
- Best Loan Finance Bank in Africa
- Best Equity Finance Bank in Africa
- Best M&A Advisory Bank in Africa
- Best Loan Finance Bank in Nigeria (Stanbic IBTC)
- Best Equity Finance Bank in Nigeria (Stanbic IBTC)
- Best Loan Finance Bank in South Africa

[www.african-utility-week.com](http://www.african-utility-week.com)

# Selected power tombstones

 <p><b>Karshoek Solar One (RF) Pty Ltd</b></p> <p>2015 ZAR 11.0 billion</p> <p>100MW Solar CSP Joint Mandated Lead Arranger, Joint FX hedging bank</p> 	 <p><b>Mulilo Sonnedix Prieska PV Pty Ltd</b></p> <p>2015 ZAR 1.62 billion</p> <p>75MW Solar PV Joint Project/Mandated Lead Arranger</p> 	 <p><b>ACWA Power</b></p> <p>2015 ZAR 725 million</p> <p>Bridge Facility / Sole Mandated Lead Arranger and Underwriter</p> 	 <p><b>Cenpower Ghana</b></p> <p>2014 USD 893 million</p> <p>340MW Gas and Oil Fired Combined Cycle Generation Power Project / Co-Mandated Lead Arranger and Financial Advisor</p> 	 <p><b>Lake Turkana Kenya</b></p> <p>2014 EUR 643 million</p> <p>310MW Wind Farm - Biggest on Continent/ Co - Mandated Lead Arranger and Financial Advisor</p> 	 <p><b>Republic of Angola Angola</b></p> <p>2014 USD 180 million</p> <p>ECA-backed Term loan facility Joint Arranger</p> 
 <p><b>Gigawatt Mozambique</b></p> <p>2014 USD 170 million</p> <p>118MW Gas Fired Power / Mandated Lead Arranger and Financial Advisor</p> 	 <p><b>SARGE/Gestamp/Shanduka South Africa</b></p> <p>2013 ZAR 1.6 billion</p> <p>73MW Noblesfontein Wind Farm / Mandated Lead Arranger and Financial Advisor</p> 	 <p><b>Enel South Africa</b></p> <p>2013 ZAR 220 million</p> <p>13MW PV Project / Mandated Lead Arranger and Financial Advisor</p> 	 <p><b>Exxaro/Tata Power South Africa</b></p> <p>2013 ZAR 4.0 billion</p> <p>Amakhala – 140MW Wind Farm / Mandated Lead Arranger</p> 	 <p><b>Scatec Solar South Africa</b></p> <p>2013 ZAR 2.35 billion</p> <p>Dreunberg - 75MW PV Project / Mandated Lead Arranger</p> 	 <p><b>Scatec Solar South Africa</b></p> <p>2013 ZAR 1.2 billion</p> <p>Linde – 40MW PV Project / Mandated Lead Arranger</p> 
 <p><b>Gulf Power Kenya</b></p> <p>2013 EUR 83 million</p> <p>80MW HFO Power Plant / Co-Mandated Lead Arranger</p> 	 <p><b>Kingangop Kenya</b></p> <p>2013 USD 160 million</p> <p>60MW Wind Farm / Financial Advisor and Lead Arranger</p> 	 <p><b>Triumph Kenya</b></p> <p>2013 USD 150 million</p> <p>83MW HFO Power Plant / Mandated Lead Arranger</p> 	 <p><b>BioTherm South Africa</b></p> <p>2012 ZAR 800 million</p> <p>27MW Wind Farm / Mandated Lead Arranger</p> 	 <p><b>Red Cap South Africa</b></p> <p>2012 ZAR 1.9 billion</p> <p>80MW Wind Farm / Co-Mandated Lead Arranger</p> 	 <p><b>MetroWind South Africa</b></p> <p>2012 ZAR 600 million</p> <p>27MW Wind Farm / Mandated Lead Arranger</p> 

# Selected power tombstones (Contd...)

 <p><b>Scatec Solar</b> South Africa</p> <p>2012 ZAR 2.2 billion</p> <p>Kalkbult 75MW PV Project / Mandated Lead Arranger</p> 	 <p><b>Sun Edison</b> South Africa</p> <p>2012 ZAR 1.25 billion</p> <p>Soutpan - 28MW PV Project / Mandated Lead Arranger</p> 	 <p><b>ELECTRO-MAXX</b> Powering the Nation!</p> <p><b>Electromaxx</b> Uganda</p> <p>2012 USD 25 million</p> <p>50MW HFO Power Plant / Sole Lead Arranger</p> 	 <p><b>AE-AMD</b> South Africa</p> <p>2012 ZAR 425 million</p> <p>Greefspan – 10MW PV Project / Mandated Lead Arranger and Financial Modeler</p> 	 <p><b>Sun Edison</b> South Africa</p> <p>2012 ZAR 1.40 billion</p> <p>Witkop - 30MW PV Project / Mandated Lead Arranger</p> 	 <p><b>AE-AMD</b> South Africa</p> <p>2012 ZAR 840 million</p> <p>Herbert – 20MW PV Project / Mandated Lead Arranger and Financial Modeler</p> 
 <p><b>Volt River Authority</b> Ghana</p> <p>2012 TBC</p> <p>330MW Combined Cycle Power Plant Expansion / Financial Advisor</p> 	 <p><b>Solar Capital</b> South Africa</p> <p>2012 ZAR 2.2 billion</p> <p>75MW De Aar PV Project / Mandated Lead Arranger</p> 	 <p><b>ACED</b> South Africa</p> <p>2012 ZAR 2.2 billion</p> <p>Cookhouse - 140MW Wind Farm / Co-Mandated Lead Arranger</p> 	 <p><b>State Grid International Development Ltd. ("SGID")</b> Brazil</p> <p>2011 undisclosed</p> <p>Advised SGID in its acquisition of seven power assets of Plena Transmissoras</p> 	 <p><b>CIC Energy</b> Botswana</p> <p>2009 USD 5.0 billion</p> <p>Mmamabula Energy Project – 1200MW Coal fired plant / Co- Mandated Lead Arranger</p> 	 <p><b>Botswana Power Corporation</b> Botswana</p> <p>2009 USD 1.6 billion</p> <p>Morupule B Coal Power Project / Co-Mandated Lead Arranger</p> 
 <p><b>eskom Kusile</b> South Africa</p> <p>2009 EUR 260 million</p> <p>Finance for Kusile Boilers / Lead ECA Arranger</p> 	 <p><b>Matola Gas Company</b> Mozambique</p> <p>2009 USD 25.5 million</p> <p>Refinancing facilities for gas pipeline in Matola / Co-Mandated Lead Arranger</p> 				



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## **Section 2:**

# **Key Sector Themes**

# Key sector themes

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## 1 Persistent power supply and demand imbalance to continue to drive sector investment

- Access to electricity remains low across SSA (est. 24%, WB)
- Overall infrastructure spending to grow by 10% p.a. over the next decade
- Requirements estimated at \$180bn by 2025 (PwC, 2014)

## 2 Choice of feedstock remains critical in shaping investment needs

- Abundance of natural resources to help diversify energy mix
- Hydro, coal and gas to remain key feed stocks in many sub-Saharan African countries
  - e.g. Enormous hydro potential in countries such as Mozambique (12GW), Zambia (6.1GW)
- But choice of feedstock has an influence on: 1) time-to-market, 2) environment; and 3) costs

# Key sector themes (Contd...)

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## 3 DFIs continue to play a pivotal role in African power development

- Multilateral development banks' (MDBs) development finance estimated at approx. \$127 bn in 2015
- Expected to reach more than \$400 bn over the next three years (WB, 2015)
- Key benefits
  - Generally help mobilize financing of commercial banks
  - Offer competitive pricing for longer tenor transactions; but
  - Require time to go through their approval processes so early approach is recommended
  - Rigorous Environmental & Social (“E&S”) policies and due diligence
- Many commercial banks continue to lean on DFIs to supply due diligence, guarantees etc. in order to participate in transactions

## 4 Financeability of projects key to reducing project complexity

- Development of large power projects (>300MW) on fiscus alone to remain challenging
- An analysis of power plant developments in 13 selected African countries shows that:
- A majority of power projects under development are expected to have medium-sized capacity (30-300MW)
- Roughly 40% are expected to be large-scale power plants (expected installed capacity greater than 300MW), with small-scale power plants (<30MW) accounting for the remaining 10%
- Need for SOEs to consider developing projects as a % of their GCFs

# Key sector themes (Contd...)

## 4 Financeability of projects key to reducing project complexity – The Mozambique case study

- Significant capital cost requirements of \$13.9bn for Mozambique’s planned power projects (or 87% of Mozambique’s 2016 GDP)
- Most planned power projects are private sector-driven, mainly energy-hungry mining companies such as Jindal, Camargo etc.

Figure 1: Conservative estimate of debt requirements (In \$ billion)

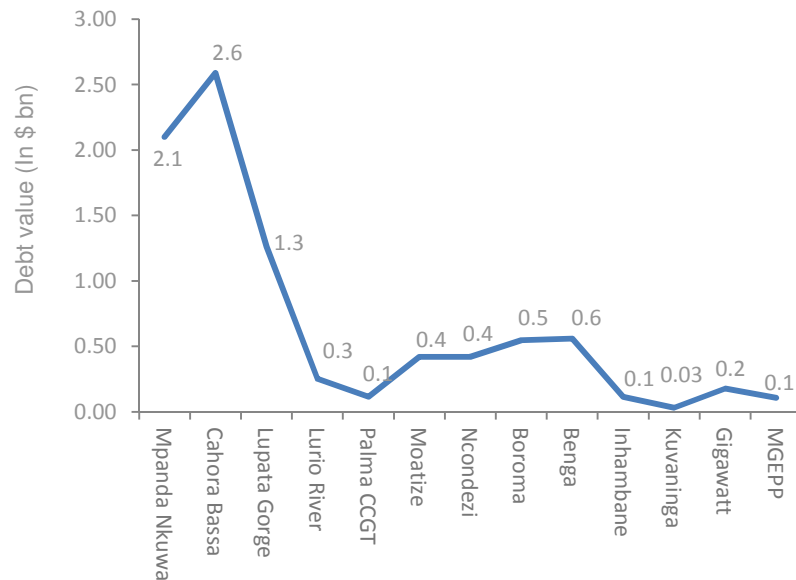
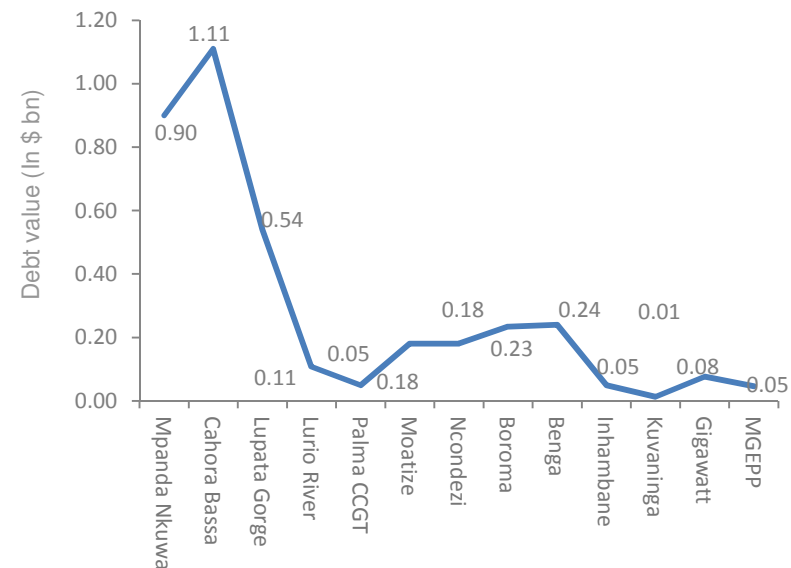


Figure 2: Conservative estimate of equity requirements (In \$ billion)



# Key sector themes (Contd...)

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## 5 Continued importance of capital enhancement products and structures

- Structured products backed by credit enhancement mechanisms such as ECAs (and that match long-term CFs) are critical to de-risking power transactions
- Also help encourage participation of international lenders
- Positive impact on both credit and insurance tenors

## 6 DFIs' increasing reluctance to finance coal-fired projects

- Increasing challenge in tapping into DFI sources of liquidity for coal power projects
- DFIs such as the World Bank and EBRD have agreed to either limit financing of or scrap most assistance for coal-fired power plants to “rare circumstances”.
- Implications for debt tenor and risk covers for future coal-fired plants

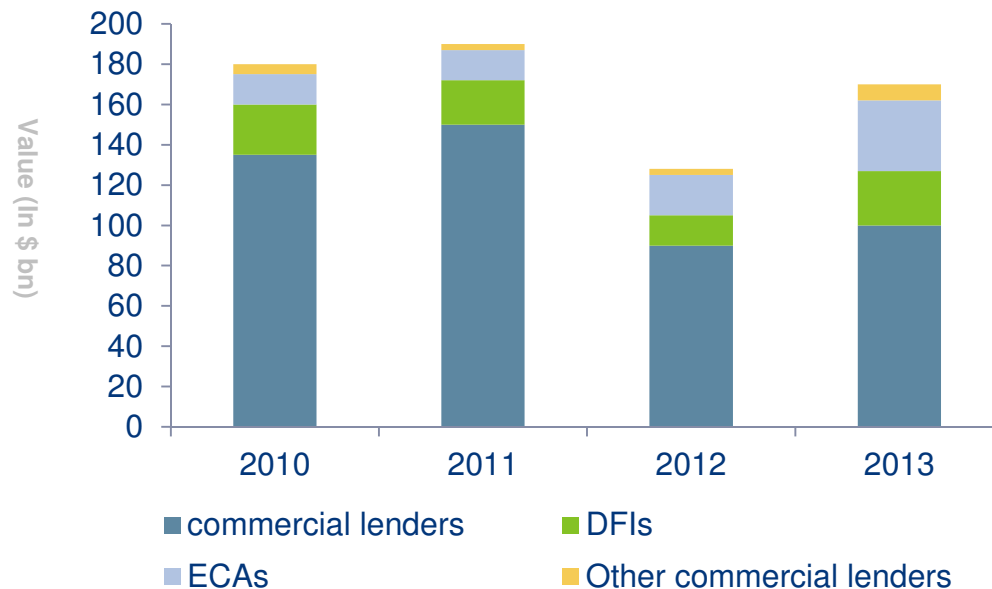
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## **Section 3:**

# **Global Funding Trends**

# Global funding trends

## 7 Globally, commercial Banks remain the mainstays of the global project finance market...

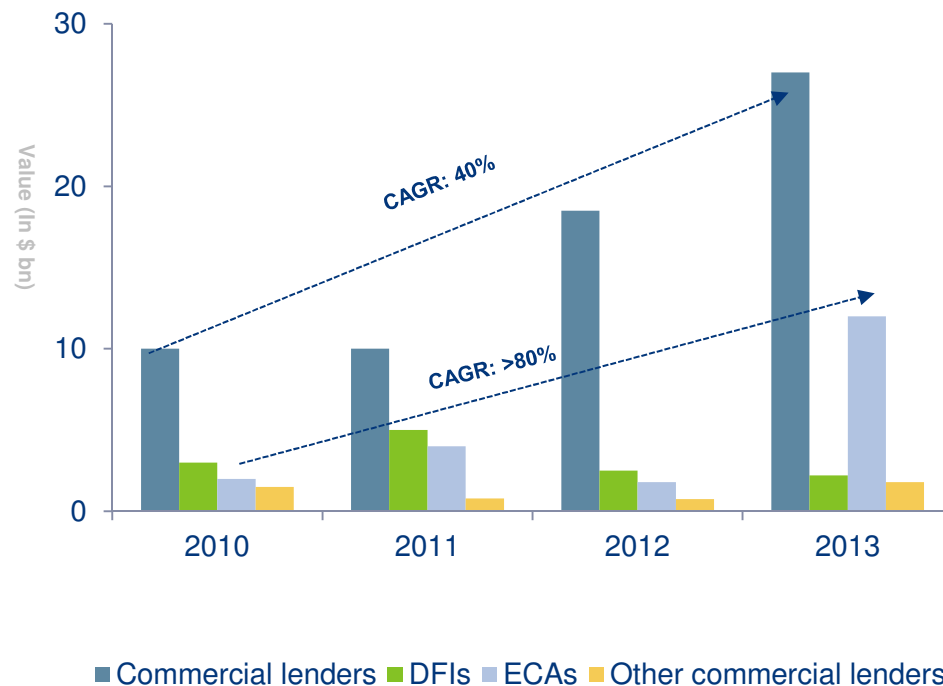


- Commercial Banks remain the mainstays of the global project finance market
- Funding volumes estimated at over \$130bn in 2013 (but slightly less in 2015)
- The 10 largest DFIs and ECAs estimated to have provided more than \$500bn in loans between 2010 and 2013

# Global funding trends (Contd...)

## 8 However, ECA funding continues to grow in Africa...

Figure 4: Project finance loan volumes by type of lender (Africa), 2010 – 2013



- ECA lending volumes estimated at approx. \$11.3bn in Africa and the Middle East
- ECA benefits



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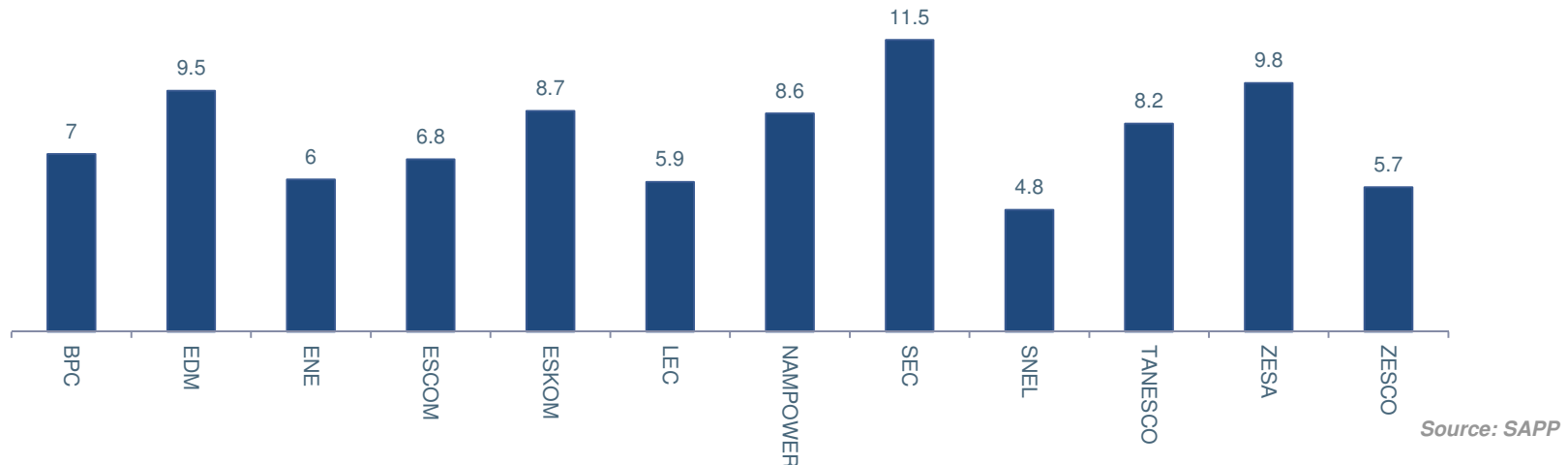
**Section 4:**

**Sector Challenges**

# Sector challenges

## 9 Low level of electricity tariffs inhibits investment in the sector...

Figure 5: Average electricity tariffs (In \$ cents/KWh), SAPP (2015)



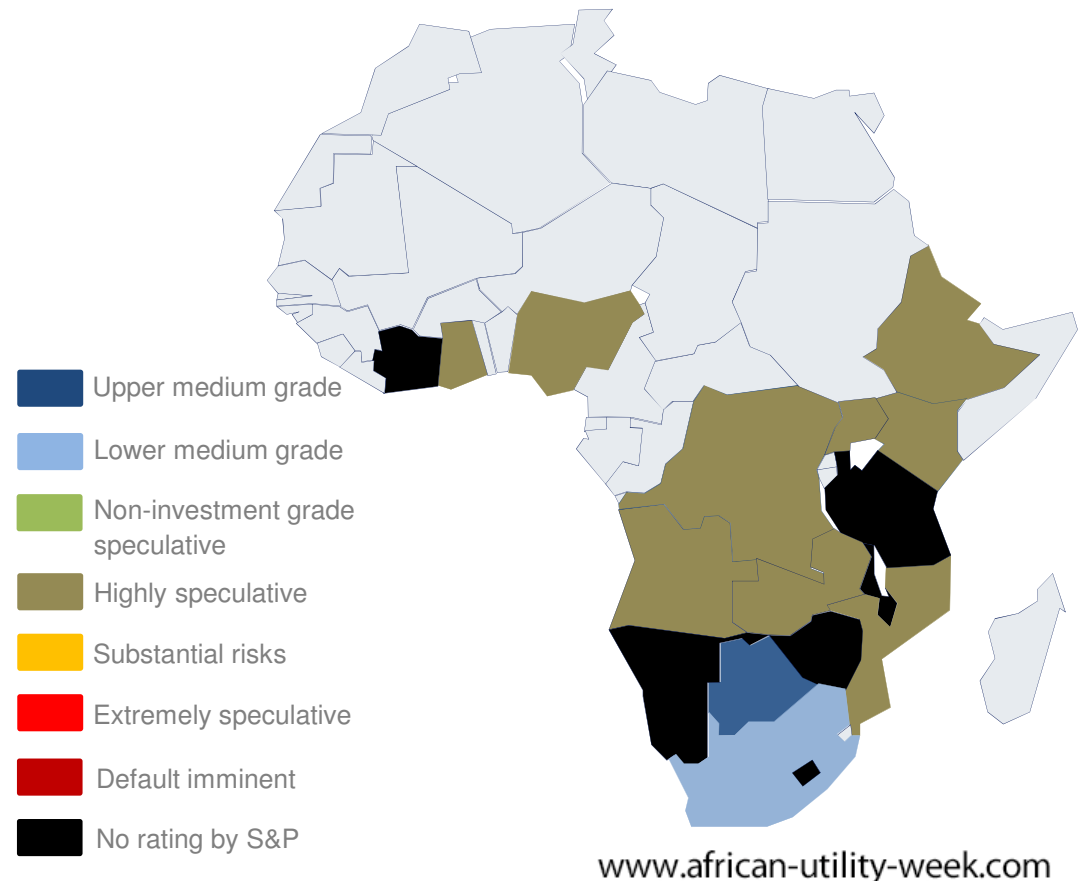
- For example, average electricity tariffs vary from \$4.3 cents/KWh to \$11.5 cents/KWh
- With the majority of the countries relying primarily on either coal, gas or hydro as primary feedstocks for electricity production, the above figures indicate that a significant portion of Southern African electricity tariffs is being subsidized
- Discussion point: how sustainable is this?

# Sector challenges

## 10 Offtaker credit strengths and obligations

- Persistence of single-buyer model in many sub-Saharan African markets, with sole offtakers being the public utilities
- Because the majority of public utilities are usually fully owned by Governments, their credit ratings tend to be similar to that of their main shareholders
- Offtaker (or market) risk is viewed as the single largest risk for lenders
- Increasing reluctance of many African Governments to provide sovereign guarantees
- Lenders' insistence on receiving acceptable support from Government

Figure 5: Foreign currency LT rating of SBSA's presence countries (S&P), 2016



# Sector challenges

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## 11 Expected tenors and market appetite

- **Long-term (12-15 year) financing without PRI**
- This is typically not available from the international commercial banking market in many African power markets
- However, long-term ECA solution + DFI tranche would provide tenors of up to [15] years in some markets
- PRI cover will be required to support long-term commercial debt (non-DFI or ECA) providers
- Shorter term (5-7 years) local commercial bank funding available without PRI
- **View of banks on a country risk (S&P, Moody, Fitch)**
- Investment grade status has a substantial impact on both the debt tenors and financing terms power projects expect to secure
- US\$ revenues mitigate FX and convertibility risks
- **Appetite from local banks for shorter dated tenor structures**
- Typically high
- Market knowledge and no PRI requirements
- Typical debt tenors of 5-7 years per bank

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# Conclusion

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Q&A