

# TRENDS IN GLOBAL FINANCE AND INFRASTRUCTURE 2008: OPPORTUNITIES IN AFRICA

DATE: 23<sup>RD</sup> June 2008

# 2007 – Market leading advisory and lending capabilities

HSBC maintained its market leadership position in 2007, receiving awards across a variety of sectors and countries



## 2007 LEAGUE TABLES

PFI Global Financial Adviser		
1	<b>HSBC</b>	<b>19,358</b>
2	Citigroup	10,254
3	PWC	9,281
4	KPMG	8,120
5	RBS	7,930

Project Finance International Full year 2007

IJ Global Financial Adviser		
1	<b>HSBC</b>	<b>30,095</b>
2	Ernst & Young	16,855
3	Citigroup	15,208
4	BNP Paribas	13,581
5	PwC	12,891

Infrastructure Journal 2007

Dealogic Global Financial Adviser		
1	<b>HSBC</b>	<b>18,765</b>
2	Citigroup	13,649
3	Royal Bank of Scotland	11,984
4	SG Corporate and Investment Banking	9,357
5	KPMG	7,902

Dealogic 2007

Top Africa and Middle East Financial Adviser		
1	<b>HSBC</b>	<b>15,233</b>
2	Citigroup	10,373
3	Royal Bank of Scotland	10,362
4	BNP Paribas	4,850
5	Calyon	3,867

Infrastructure Journal 2007

Top Power Financial Adviser		
1	<b>HSBC</b>	<b>10,323</b>
2	China Construction Bank	5,000
3	Intesa Sanpaolo	2,800
4	National Bank of Kuwait	2,200
5	Societe Generale	2,200

Infrastructure Journal 2007

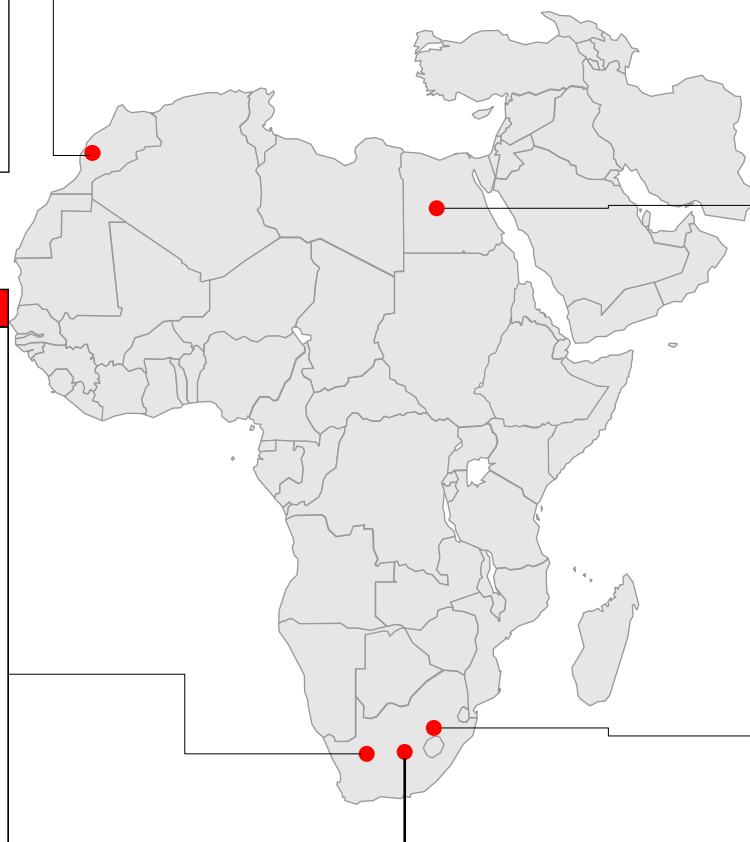


Over the past few years, **HSBC has emerged as the leading project finance advisor** globally and is consistently strong across all geographic regions and sectors













# Africa – selected credentials

Morocco		
Ongoing		<b>Tarfaya Wind Farm</b> USD TBAm Financial Adviser
Ongoing		<b>Cap Ghir IPP</b> USD TBAm Financial Adviser



Egypt		
Ongoing		<b>Glencore</b> USD TBAm Financial Adviser
2007		<b>Union Fenosa</b> USD 2,000m MLA
Ongoing		<b>The Egyptian Refinery Company</b> USD TBAm Financial Adviser
2008		<b>Suez PS/ Port Said IPPs</b> USD 600 m MLA
2006		<b>EBIC</b> USD 1500m MLA, Financial Adviser

South Africa		
2007		<b>Project Lima</b> ZAR TBAm DD Financial Adviser
2007		<b>Project Bravo</b> ZAR TBAm DD Financial Adviser
2007		<b>Project Medupi</b> ZAR TBAm DD Financial Adviser
2007		<b>PBMR</b> ZAR TBAm DD Financial Adviser
2007		<b>Project Duvha</b> ZAR TBAm Financial Adviser
2007		<b>ECA Programme</b> ZAR TBAm Financial Adviser
Ongoing		<b>MTPPP</b> ZAR TBAm DD Financial Adviser
Ongoing		<b>Base Load IPP Programme</b> ZAR TBAm Financial Adviser

South Africa		
2008		<b>Reliance Communications</b> Financial Adviser and Financer on ongoing acquisition of MTN
2008		<b>Telkom SA</b> Adviser on International Strategy

South Africa		
2008		<b>BHP Billiton</b> ZAR1,218m Advisor, MLA
2007		<b>Randgold</b> ZAR2,618m Bookrunner
2007		<b>HARMONY</b> ZAR2,205m Sole Bookrunner
2006		<b>Foskor</b> ZAR m Financial Adviser

## Sovereign rating consideration

A sovereign credit rating is a “dip test” of salient political, economic and structural factors that impact upon a market’s ability to develop and execute projects (for example, in the mining sector)

There is a global trend towards investing in Africa because of the similar credit ratings with other countries (despite perception)

### Africa

Country	S&P	Fitch	MOODY'S
Botswana	A		A2
Gabon	BB-	BB-	
Ghana	B+	B+	
Mozambique/Zambia	[B+] (Global insight)		
Nigeria	BB-	BB-	
South Africa	BBB+		Baa1

### Peers

Country	S&P	MOODY'S
Azerbaijan	NR	BA1
Indonesia	BB-	Ba3
Philippines	BB-	B1
Turkey	BB-	B1
Vietnam	BB	Ba3

# Global infrastructure market challenges

Issues that impact on a global scale can have a bigger affect on African countries due to the relatively limited economic development

- **Capital costing environment:**
  - Capital costs increasing by 25 - 30% CAGR. Why? Global boom, limited contractors and high commodity prices, escalating EPC and supplier contracts
  - Increasing fuel and electricity costs
  - Pressure on supplier manufacturing slots such that build times are increasing
  - Limited fixed price validity periods pre EPC contract execution
- **Commodity prices:**
  - Commodity price cycle is perceived to be at the higher end
  - However sustained high prices should boost investment (cash rich sponsors)
  - Global economies slowdown a threat to sustained commodity prices levels
- **Increasing environmental oversight:**
  - Investors and Lenders trending to sustainable projects
  - Non-compliance with the Equator Principles is a show stopper (60 banks/ECAs signed up)
- **Credit Crunch:**
  - Current turmoil in the global credit markets has increased borrowing costs
  - Limitation on marginal banks' appetite although project finance is less affected than others
- **Skilled labour shortages:**
  - Across Project manager, engineer and artisan levels

# Key African infrastructure market challenges (1)

From an African perspective, incremental challenges are as follows.....

- **Infrastructure investment is an obligation not an option:**
  - Power Sector: Slow investing utilities, e.g. South Africa, Russia, Brazil suffer in reduced growth
- **Importance to country is no guarantee of appropriate investment:**
  - Nigerian Oil & Gas is short of investment (for various reasons). Leaving USD on the table at USD 140 per barrel sacrifices national economic growth
- **Not thinking and acting joined up:**
  - A lack of alignment between stakeholders in policy formulation and execution
  - Gaps between stakeholder “aspirations” and practical steps to increase investment
  - Poor project selection (clients’ pick the “biggest” rather than the “optimal”)
  - Functional organisational structures not centred on project delivery
  - A shortage of multi-disciplinary professionals to act as the “client team”
  - A lack of benchmarking to equivalent global peers
- **Little recognition of value chain:**
  - All aspects of value chain need connecting, e.g. wellhead – pipeline – power plant – grid – distribution; or ports – railway – plant – railway / roads - ports
  - Infrastructure projects have interdependencies so whole value chain must work

## Key African infrastructure project challenges (2)

From an African perspective, incremental challenges are as follows.....

- **Credit / Currency risk:**
  - Unless otherwise supported/structured, can cap investor/financier interest
  - Reluctance to draw on intrinsic credit strengths, and present the “best face to market”
- **Underdeveloped capital markets:**
  - Where is the exit route? How easy is it to transfer ownership?
  - An issue for the increasing number of African funds
- **Deal flow and Bureaucracy:**
  - A major impediment. Lost time = higher cost in an inflationary market
  - Timeframes of 5 years + are challenging to commercial investors / lenders
  - Poor ratio of “closed” transactions to “talked about” transactions (e.g. 10%)
- **Skilled labour shortages:**
  - Project manager, engineer and artisan levels
- **Prevalence of subsidy regimes in non OECD markets:**
  - No easy options. Increase end user tariffs or make higher fiscal transfers?
  - Power sector best example of the African challenge, which leads to high use of higher cost diesel temporary generation

# Target African infrastructure sectors / markets (1)

Interesting sectors  
/ markets include  
the following.....

- **Points of differentiation:**
  - Target risk profile (e.g. exposure to commodity risk, sub IG locations); target time frame (e.g. development / ownership returns); and target markets (e.g. high population / scale, low population / niche)
- **Power Sector:**
  - Huge requirements in South Africa, Nigeria (offering scale) with requirements in many other markets (e.g. Ghana, Kenya, Benin). Investment need across the sub-sectors
- **Oil & Gas Sector:**
  - As well as junior upstream, many midstream opportunities. IOCs exiting from downstream / retail market as well
- **Metals and Mining:**
  - Where does infra end? High opportunities in DRC / Zambia, outside of core SA opportunities
- **Social and Transportation Infrastructure:**
  - Widespread requirements across road, rail, airports, ports, as well as across buildings, prisons, education but are there structures in place to mix “need” with “attractiveness”?
- **Telecoms:**
  - In many markets, about building out the network (e.g. GSM to GPRS). High need for niche activities such as base stations

## Target African infrastructure sectors / markets (2)

Specific opportunities include the following.....

- **South Africa:**

- Base Load IPP Programme seeks to raise up to 4,500 MW from multiple IPPs (total cost = USD 10 billion plus). RFP will be issued in 3Q08 for bids in 1Q09
- Pending development of greenfield USD 10bn refinery, USD 3bn airport refurbishment and USD 9bn Transnet upgrades, together with PPP (prisons / toll roads)
- Outside of Projects, infra boom can be accessed through SA Contractors (e.g. Group 5, Murray & Roberts) and key suppliers (e.g. PPC, MittalSteel SA)

- **Nigeria:**

- High borrowings by NNPC/JVs with IOCs to fund USD 15 bn in capex
- State infrastructure project sector developing, led by Lagos State (Roads, BRT, Rail)
- Power expenditure looming, first, build out of half completed plant then new build
- Consolidation of mobile industry, divided between GSM and CDMA technologies

- **Mozambique:**

- Build out to serve RSA with resources and power

- **Ghana:**

- Discovery of oil boosting spend on power, tourism, transport sectors

- **Zambia:**

- Continued strong copper investment but local infra shortage needs remedying

## Case Study: Eskom Base Load IPPs, South Africa

A key case study of our ongoing involvement in Africa is as follows.....

- **Context:**

- South Africa has low reserve margins (c 8%) and has not closed an IPP to date, notwithstanding a Government policy desire for 30% of new build to come through IPPs
- Power Developers' argue RSA has difficult regulatory environment with tariffs set too low to encourage new entrants
- Cabinet decision of September 2007 established Eskom as single buyer and gave responsibility for base load IPP procurement

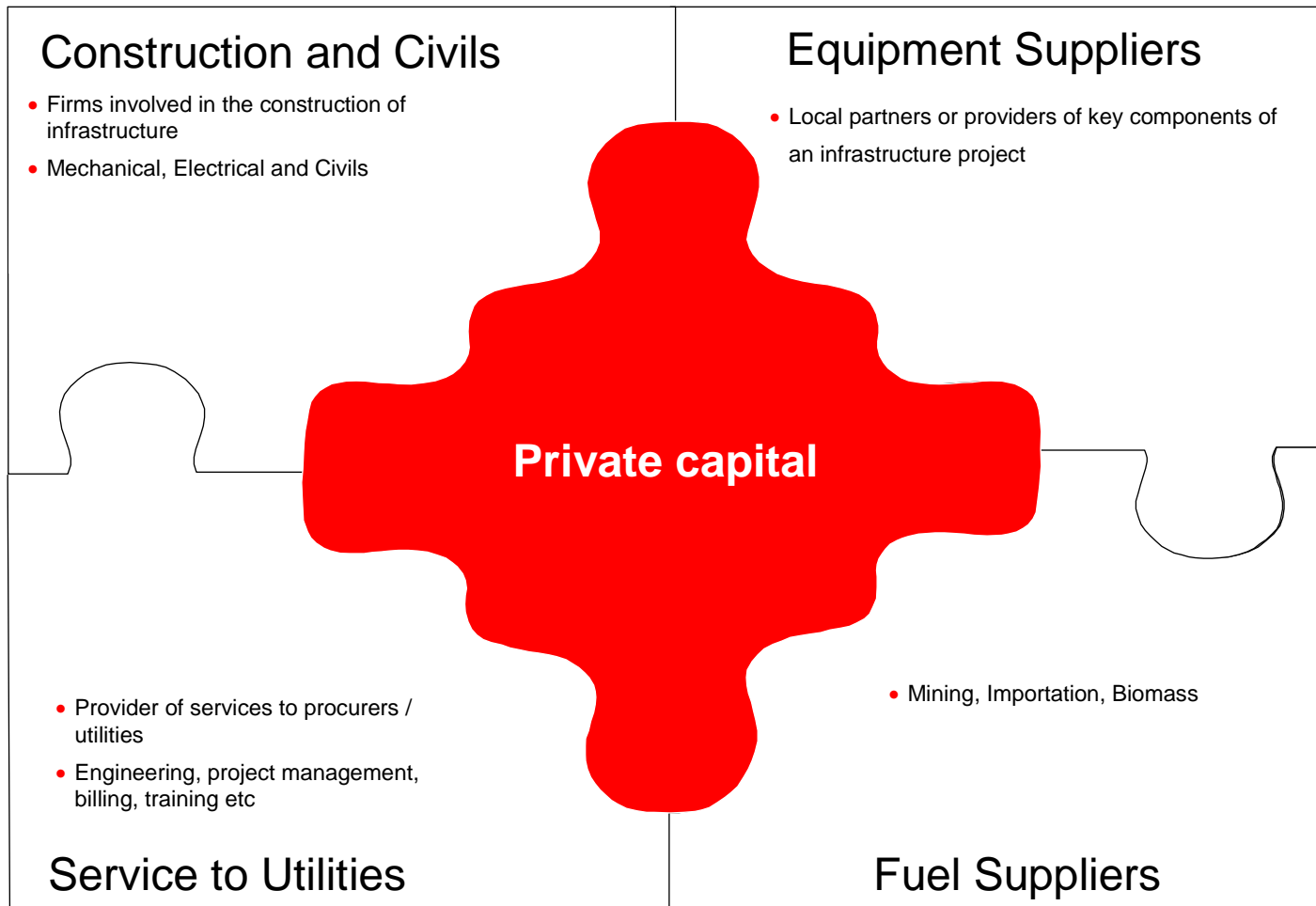
- **Opportunity:**

- HSBC selected as Lead and Financial Adviser by Eskom. Follows on from similar roles for multiple power procurers (e.g. Abu Dhabi, Saudi Arabia, Qatar, Morocco). White & Case is Legal Adviser, Stone & Webster is Technical Adviser
- Multi-site base load IPP programme requiring 2,100 – 4,500 MW between 2012 - 2017
- Largest global base load IPP programme with transaction value USD 10 billion +

- **Status:**

- Intent to develop and close a world-class IPP Programme within Africa
- Advisers completing Feasibility Report for Eskom / Stakeholders
- High response to Request for Expressions of Interest
- RFQ due July 2008, Bid Submission Date early 2009, Financial Close 3Q 2009

## Example acquisition targets



## Conclusions

- **There is investor and lender appetite for African transactions:**
  - Generic problems of deal flow and speed of transaction execution limits investment
  - Need to ensure projects have access to “harder” currency reserves or best credit quality available in the market to maximise chance of success
- **Greater use of benchmarking:**
  - Many Asian markets of similar credit quality have closed higher numbers of transactions, benchmarking quickly reveals structures that are not bankable or will not appeal to investors on a standalone basis
- **Mix global and local elements:**
  - Drawing on global models, each transaction is structured to the national and client requirements
  - Africa has a great opportunity to determine how it wants projects to be developed
- **Critical to determine project objectives and realistic timeframe:**
  - Needs to be an alignment between commercial objectives and stakeholder requirements
  - Work out what is needed from stakeholders to do the deal and plan to get it
- **Sell, sell, sell:**
  - Market the opportunity to stakeholders, lenders and contractors / equipment suppliers
  - Easiest to sell the transaction if all enabling conditions (e.g. legislation, regulations) are in place

## Points of contact



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