JBIC's cautious moves into developed market deals

14/02/2014

The Japan Bank for International Cooperation (JBIC) moved quickly to make good on its April 2012 promise to mobilise debt financing for Japanese investment in UK infrastructure. Less than three months after UK trade minister Lord Green signed a memorandum of understanding with JBIC in Tokyo, the bank provided £1 billion ($1.63 billion) of the £2.5 billion debt financing for the first batch of Inter-City Express trains.

Since then, Japanese sponsors have bought into UK water assets, with Sumitomo Corporation paying £164.5 million for Sutton and East Surrey Water in February 2013, and selling a 50% stake to Osaka Gas in October.

Japanese sponsor interest in UK offshore wind predated the JBIC-UK memorandum. In March 2012, Marubeni closed a £158 million loan with a tenor of 13.75 years to refinance the bridge loan for its £200 million acquisition of a 49.9% stake in the Gunfleet Sands 1 and 2 UK offshore wind projects. Marubeni bought the stake from DONG in November 2011.

The Gunfleet acquisition debt, supporting the acquisition of a stake in 173MW of operational capacity, benefited from a production guarantee from DONG and commercial and political risk cover from NEXI. JBIC is now understood to be close to participating in a UK offshore wind construction financing,

Policy and priorities

JBIC is not alone in participating in European renewables deals. EKF, Denmarks export credit agency (ECA), has wrapped bank and institutional financings for onshore and offshore wind, and KfW has a long-standing presence in both UK and German offshore wind. KfW participated in the Lincs and London Array financings, and operates a lending programme in onshore wind, under which it can provide funding for commercial banks to lend on to projects with a German shareholding of at least 25%.

The KfW example is significant, because JBIC has always considered the German bilateral lender the model to emulate. Until recently, the two lenders encountered each other rarely. German sponsors and suppliers had only an occasional presence in big-ticket independent power plant and liquefied natural gas projects, and Japanese sponsors had a minimal presence in renewables.

Now JBIC has an explicit policy focus on renewables, nuclear and high-speed rail. It has been prepared to support sponsors and exporters in these sectors regardless of where projects might be located. Nuclear opportunities have been frustratingly limited, though the Hitachi-led Horizon nuclear venture recently won an infrastructure debt guarantee from the UK government for its 2,600MW Wylfa plant.

High-speed rail opportunities have likewise been scant. JBIC lined up behind a Japanese bidding group on the Florida high-speed rail project, but the state ultimately abandoned it.

But JBIC will probably account for a large proportion of the debt financing for the £1.2 billion second Intercity Express batch, which is currently in front of commercial bank lenders. The sponsors of the second batch, like the first, are John Laing and Hitachi.

The first financing consisted of the £1 billion JBIC loan, £800 million in commercial bank debt, a £150 million NEXI-covered loan, a £235 million EIB loan and a £300 million equity bridge. SMBC, Mitsubishi UFJ Trust and Sumitomo Mitsui Trust Bank were senior lenders, whilst BTMU, Mizuho and the Development Bank of Japan bridged the equity.

The first IEP batch required such a large commitment from JBIC because the two sponsors won the contract to deliver 57 train-sets based on financing proposals that were not practicable in the post-2008 funding environment. The UK government then altered the contract.

The resulting structure was relatively straightforward by the standards of UK rail deals a 29-year design-build-finance-maintain contract with the Department for Transport. The subsequent £1.36 billion Thameslink financing had much more distant support from government, and KfW as a lead arranger.

But for JBIC, looking to get some experience with an unfamiliar asset type, the closeness of government would have been a source of comfort. Two earlier project financings for transport projects, a $200 million subordinated loan to CCRs Rodoanel road concession in São Paulo state, Brazil, and an ultimately fruitless involvement in the Gebze-Izmir toll road in Turkey, which eventually closed with Turkish banks, came about because of government-to-government initiatives. These loans could be seen as an extension of JBICs sovereign overseas development assistance loan activities, but with a private sector borrower instead.

Power hungry

In North America, JBICs focus is on renewables and resources assets. In renewables it provided C$477 million of the C$795 million debt financing supporting Mitsui and Fiera Axiums acquisition of 30% of a 660MW wind and 20MW solar portfolio. The two sponsors bought the stake in December 2012 from GDF Suez. The financing required JBIC to grapple with the peculiarities of Ontarios feed-in tariff programme.

Where JBIC has had an impact has been in providing debt in support of upstream oil and gas resources acquisitions and, increasingly, on liquefied natural gas export projects. In upstream, JBIC loaned $650 million to Mitsubishi subsidiary Cutbank Dawson Gas Resources to support its acquisition of 40% of the 35 trillion cubic feet Cutbank Ridge gas reserve in British Columbia. That financing complemented C$1.3 billion in debt from BTMU and Mizuho.

In US LNG, JBIC appears likely to play a central role. It has been linked to the financings for two export facilities: the 13.2 million tonnes-per-year Freeport facility in Texas, and 12 million tonnes-per year Cameron LNG in Louisiana. JBICs comfort with long-dated debt commitments makes it a natural lender on a contracted export facility.

Sempra Energy is developing Cameron LNG, located near Hackberry, and retains a 50.2% stake in the $9-10 billion project. The remaining sponsors are Mitsui, with 16.6%, a joint venture between Nippon Yusen Kabushiki Kaisha and Mitsubishi Corporation, with another 16.6%, and GDF Suez, with a final 16.6%.

The sponsors financial adviser, RBS, is currently assembling a $7 billion financing that is expected to feature a JBIC direct tranche, a NEXI-backed commercial bank loan with a 16-year tenor, as well as possible uncovered bank and bond tranches. Japanese banks are thought to be prepared to write tickets of at least $500 million on the deal.

Freeports financial adviser is Macquarie, and its shareholders include ConocoPhillips, Michael Smith (each with 50% of the projects general partner), Dow, Zachry and Osaka Gas, the last of them with a 10% stake. Osaka Gas and Chubu Electric are taking 4.4 million tonnes per year of capacity equivalent to the projects first train under a 20-year tolling agreement.

The technology, and the rationale, for financing LNG projects is much more familiar to JBIC, which has long supported Japanese corporates in their efforts to acquire natural resources. The Fukushima nuclear disaster, in 2011, and accompanying reductions in Japans operational nuclear generating capacity have given added urgency to these efforts.

The challenges

JBIC, which primarily funds itself in US dollars, also does not have to worry about currency risk in US LNG. But an oft-overlooked challenge in JBICs expansion in renewables and PPP in Canada and the UK is its need to manage currency exposures. The use of these currencies complicates the process of drawing down debt, and has led to debates within JBIC about how to manage currency risk. To date, JBIC has used cross-currency swaps on a case-by-case basis, but if it continues to support projects with Sterling and Canadian dollar revenue streams it might wish to manage that risk centrally.

Another challenge for JBIC has been persuading Japanese sponsors, even if they are closing overseas untied loan facilities, to use Japanese equipment. In particular, it wants solar developers to look at using Japanese solar modules, even when Chinese equipment is cheaper. But its recent experience with Japanese sponsors using Chinese-made boilers in Indonesian coal-fired IPPs suggests it will struggle to impose that discipline on its clients.

JBIC and commercial banks will also need to spend more time working through the issues involved with newer debt market products, chief among them bonds. JBIC has also started to get more comfortable with mini-perm financings, where commercial bank lenders may benefit from shorter maturities.

It is now looking at how it might participate alongside a capital markets financing, in particular how it might interpret its intercreditor position. JBIC has shown some interest in the European Investment Banks project bond credit enhancement, according to sources familiar with its processes, as are other Asian-based lenders, though it is likely to be cautious in rolling out a product immediately.

JBIC might arrive at an elegant way of supporting capital markets financings and managing currency risk by offering more straightforward guarantees on project bonds. If it did so, it would join other ECAs in offering the product, chief among them US Ex-Im, though few ECAs have closed financings. Italys SACE, with the SunPower-sponsored Andromeda solar photovoltaic bond in its home market, is an exception.

JBICs ability to get to grips with newer financing instruments benefits from its relationships with the Japanese mega-banks. Japanese commercial banks typically win agent roles on JBIC financings, and it is common for those lenders to second staff to JBIC. Banks typically service JBIC-led deals with a two-hub approach, using personnel in both Tokyo and the nearest office to a project to execute financings.

Culture of caution

Despite its reputation for being highly liquid and having an ability to shape deal structures according to its internal preferences. JBIC remains somewhat risk-averse, and constrained by human resources. Building out a bond capability, for instance, might tax its current staffing levels.

But the banks caution has sometimes helped it to avoid entanglements with newer technologies in less reliable markets. Japanese trading companies, for instance, had been likely to buy equity stakes in concentrating solar power projects, with the aim of building up expertise with the technology. They would then market their capabilities to governments in larger and more promising markets such as the Middle East.

Spain was among the most popular destinations for inbound Japanese investment in concentrating solar. FCC and Mitsui closed a Eu226 million ($322.4 million) debt financing for the Eu272 50MW million Guzman solar project in Cordoba, Spain. The debt featured Mizuho and BBVA as lenders and NEXI as insurance provider.

But as governments revise tariffs downwards, and solar photovoltaic costs fall much more rapidly than concentrating solar costs, concentrating solar developers have struggled to build market share. JBICs wait-and-see approach left it with minimal exposure to the technology.