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InfraCo Asia divestment of Coc San hydro stake, Vietnam

Jon Whiteaker

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InfraCo Asia became a sponsor of the 29.7MW Coc San run-of-river hydro plant in Vietnam at a time when the project was at risk of being abandoned. Six years later and the PIDG company has successfully restructured the project, persuaded the Vietnam government to abandon legislation which would have made it unbankable, brought it to financial close and commercial operations, and has now successfully sold down its equity stake.

On 9 November (2018), InfraCo Asia completed the sale of its 33.4% interest in the operational hydro plant to Japanese utility Tokyo Electric Power Company (TEPCO).

The deal achieves the company's objective of injecting early stage capital into challenged projects, bringing them online, before exiting at a profit. It is the company's first complete exit from a utility-scale renewables project in Vietnam, and its second ever complete exit following its sale of stakes in the Metro and Gul Ahmed wind farms to Daelim Energy in 2017.

TEPCO owns and operates over 160 hydropower plants in Japan with a combined generation capacity of 8.5GW, but this represents its first investment in a project outside of Japan.

The sale price has not been disclosed though it is understood that InfraCo Asia has achieved a roughly 2x multiple on its original investment.

Project history

Asiatic Group subsidiary Colben Energy was the original lead sponsor of the project, with Vietnamese companies VIDIFI and HVD Construction taking minority stakes.

InfraCo Asia became involved in the project in 2012, when Vietnam was in the midst of a steep economic downturn. Project implementation had halted in 2011 at a relatively early stage due to the original sponsors exhausting all initial capital and failing to raise long-term financing.

InfraCo Asia took a roughly 61.1% effective equity interest in the project, and brought Singapore-based Nexif in as developer before successfully bringing the project to financial close in 2014. It had identified the need to completely restructure the EPC contract, and put together a robust financing plan.

Saigon Hanoi Commercial Bank was the only commercial lender on the 2014 deal, providing a loan of $23 million. The equity sponsors provided $21.9 million, supported by $5 million in viability gap funding from InfraCo's parent company PIDG's Technical Assistance Facility (TAF), and a $10 million loan from InfraCo Asia Investments.

The TAF also funded an environmental impact assessment that the sponsor carried out with ERM at an early stage of its involvement. The assessment identified that local farmers could be displaced from the surrounding area due to the project, so InfraCo Asia also had to put together a relocation plan ahead of financial close. Ultimately no resettlement was necessary, though compensation was offered to farmers who provided land.

Protecting CPI link

The project benefits from a 50-year land rights contract and 20-year power purchase agreement with Vietnam's state utility EVN.

In mid-2014, as the project was nearing financial close, EVN produced a draft proposal to sever tariff payment's CPI link for any hydro project under 30MW that had not yet begun operations.

The sponsor knew that if enacted the rule change would have made the project unbankable, as lenders and investors would not be able to get comfortable with a flat tariff for 20 years. InfraCo Asia managed to engage the government in negotiations however and get the proposal scrapped.

Nexif Energy became the majority shareholder in the project in 2016 by taking out Colben and one of the local sponsors. InfraCo Asia retained a 33.4% stake, via holding company Viet Hydro registered in Singapore, with local firm VIDIFI holding roughly 8%.

Joint stock companies in Vietnam must have at least three shareholders, with a requirement for local ownership. This makes VIDIFI's minority position important, though it does not have a board vote.

Exit plan

The project reached commercial operations in 2016, and InfraCo Asia quickly completed a refinancing while retaining the same local lender. Pricing on the original financing was above 10% in Vietnamese Dong, which the sponsor was able to reduce by around 150bp.

With the refinancing complete, the sponsor then went to market to dispose of its remaining equity.

The sponsor ran a two-stage process, with more than 10 investors entering indicative bids at the prequalification stage. Five parties entered final bids in August (2018), with four of these undertaking site visits.

Alongside eventual winner TEPCO, a family office, a private equity investor, and another utility were all in the running for the asset.

Advisers to InfraCo Asia on the project have included:

- Reed Smith – legal
- Capital Partners Group – financial
- SMEC – technical
- ERM – environmental

InfraCo Asia is a subsidiary company of multilateral organisation PIDG, which is funded by the World Bank and seven countries:

- Australia
- Germany
- Netherlands
- Norway
- Sweden
- Switzerland
- UK

InfraCo Asia is specifically funded by Australia, Switzerland, and the UK. It is headquartered in Singapore and aims to stimulate private sector investment into infrastructure projects in South East Asia.

It has several other investments in Vietnam, including a 168MW solar project in Ninh Thuan province that it is developing in a joint venture with Sunseap. The sponsors are funding the first stage of development through equity but are in discussion with several lenders for a long-term financing.