The outlook for SunEdison's projects

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SunEdison, the beleaguered US renewables developer, ended months of speculation on 21 April when it filed for Chapter 11 bankruptcy protection. The key question for the company's partners now is not how it got into its current predicament, but how it will get out of it – and what that means for its operational and pipeline projects.

SunEdison's restructuring plan

When SunEdison filed for bankruptcy, it had commitments for $300 million of debtor-in-possession financing to be provided by lenders on its existing first- and second-lien loans. Rothschild and McKinsey are financial and restructuring advisers. SunEdison has not said explicitly what the business plan underpinning those loans entails, and a spokesman did not respond to a request for comment; but a set of presentations given to the lenders as part of the DIP financing negotiations gives some clues.

SunEdison's preferred business plan scenario in those talks required $310 million of DIP loans, suggesting that something like that business plan has been agreed. The plan in question would involve selling most in-development projects at the final notice to proceed stage. In addition, 3.7GW of projects under construction but in need of cash would be funded, at a cost of $272 million, completed and sold, generating $897 million of proceeds. US-based developments account for 57% of those projects.

This would suggest SunEdison is seeking a relatively slow, gradual restructuring in order to sell projects that are complete or shovel-ready and maximise proceeds. Unlike other options, the business plan offered an open-ended timeline.

Can SunEdison do it?

The fact that the firm has agreed DIP financing suggests that its DIP lenders – likely including Deutsche Bank, Key Bank and Goldman Sachs, who also have debt positions on SunEdison's projects and warehouse facilities – are willing to allow it to develop its projects in peace instead of exercising their step-in rights or forcing project sales. Any sales must in any case be approved by the bankruptcy court, and SunEdison could object.

"I don't think [lenders] have much to worry about," a renewable energy financier speaking on condition of anonymity says about operational projects, but who adds: "There's no shortage of asset managers to take the assets off their hands if SunEdison takes its eyes off the ball". Clearly, SunEdison will be looking to convince lenders that it won't do that.

But whether SunEdison can both build out projects efficiently and quickly, and manage its projects properly, is very much an open question at present.

In February, Hawaiian Electric terminated power purchase agreements at three SunEdison projects on the grounds that the developer had not closed financing by the agreed deadline. This dispute, which is still unresolved, has prevented SunEdison from selling the projects to DE Shaw Renewable Investments and from cancelling $215 million of bonds bought by the latter.

In April, the independent directors of Terraform Global led that firm to launch legal action against SunEdison over projects in India and Uruguay the latter had agreed to sell. SunEdison, the complaint alleges, falsely pressurised the yieldco into pre-paying for the Indian projects on the grounds that the funds were needed to complete construction; in fact, it says, SunEdison used the money to pay off a margin loan and later admitted that it had still not funded construction. It was also accused of diverting funds allocated for construction of the Uruguay projects.

SunEdison disputes the claims, but it is separately under investigation over the Uruguay projects by the Securities and Exchange Commission and the Department of Justice. An internal audit by SunEdison this year also concluded that it "lacked sufficient controls and processes regarding the company's managing of cash flows, including extensions of accounts payable and the use of cash committed for projects".

As to SunEdison's operating projects, Moody's sounded a cautious note in April over a portfolio of projects held by Terraform Power, which relies on SunEdison for asset management and operations and maintenance. “[SunEdison]'s inability to properly provide asset level operational and maintenance services could negatively affect plant operations and ultimately cash flow,” it said. While Moody’s regards an event of default at the projects as “a very low probability”, project cash flows could still be constrained if payments are docked for under-delivery of output.

However, SunEdison’s use of cash and operational skills are now open to scrutiny and challenge. The developer is obliged by its DIP loan agreement to file rolling budgets with its lenders, and all asset sales must be approved by the court.

While this may prevent any more alleged misuse of funds, it remains to be seen if SunEdison has enough talented staff to build and operate projects. SunEdison has lost several senior executives in the last year, including ex-First Wind CEO Paul Gaynor, who was seen as key to driving project execution. Moreover, 50% of SunEdison’s October 2015 headcount is to be cut under the restructuring. Some of those losses will be in asset management; indeed the global asset management business unit is earmarked for possible sale. Which is where the abundance of other people’s asset managers may come in.

Even if SunEdison does manage to complete projects, its ability to carry out the restructuring, and to meet its project obligations, rest on hitting target returns from asset sales. The renewables financier suggests “SunEdison became wildly undisciplined about the cost of acquisitions… based around assumptions around the cost of equity capital that aren’t available.” Only successful project execution and sale, they add, will show whether it can fulfil its plans.