IJGlobal Friday the 13th Special

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It's Friday the 13th and – as the day behoves – we turn our focus to the darker side of the industry… the horrific, the ghastly and the downright wrong. Sourcing opinion from the market through a straw poll sent to a select crew of worthies, here follows a sense of where most people's heads are at on a day when everything is supposed to go wrong.

Blasting a couple of hundred individually-crafted emails – somebody please tell me how to send a GDPR-compliant mail merge – elicited a flood of responses.

Having asked a global group of infrastructure professionals to identify the one thing that worries them most about the market right now – stressing that a light-hearted response would be gladly received – it was worrying note how many cited war as their greatest fear for the industry.

In fact, the very first response was from a New York-based infra banker who is in Europe on business at the moment. This source came back with a deliciously brief email that read "continued escalation of global conflicts".

Conflict was a repeat theme – military and trade – which is not terribly surprising as both are trending significantly in news. But it does bring home how such a steady (some would be rude enough to say mundane) sector as infrastructure can be impacted by such big-picture politics.

Having expected – and indeed, frequently received – a key concern to be the lack of greenfield pipelines, it was worrying to be hit immediately with military and trade conflict… sobering to say the least.

Bearing in mind that light-hearted was the goal, one senior lawyer took up the challenge with the suggestion that one day someone will come up with an asset that cannot be reclassified as infrastructure. Fat chance of that happening.

The British contingent – pretty much to a man and woman – is kept awake at night by the thought of Labour leader Jeremy Corbyn taking power in the UK. This fear is based on his long-held insistence that he will nationalise pretty much everything that has been taken away from the public sector.

Others are in a cold sweat over a No Deal Brexit which will see our prime minister – Boris Johnson (if he's still in place by 31 October) – lead the UK out of the EU with no agreement about the "divorce" process. Worrying stuff indeed.

But let's get back to the big picture and one concern that crops up repeatedly is over-competition on all sides – equity and debt – driving up prices for assets, while pushing down the price of debt (combined with the inevitable erosion of structures).

As for Libor substitution, only one person raised this as something that gives him the willies. Why only one? It's bizarre that so little is being made of such a massive sea change.

As to the proliferation of "stupid money", this remains a popular mantra. As one source says: "New entrants are taking risks that would have made RBS blush in 2007. They aren't doing it deliberately… they either don't see it, or ignore it!"

Another concurs: "I'm worried that there is an asset value bubble that continues to expand far beyond its logical limits due to pressure on funds to deploy capital and generate returns to their investors within the timeframes they agreed, as the demand for infrastructure assets – core, core+ and even core++ – far outweighs availability in the market.

"It will only take one high-profile 'valuation correction' and the whole industry may be irreparably adversely impacted."

Drilling down into renewables, one European lender points to the ballooning of merchant risk in offshore wind projects "all won by big utilities, and none have been constructed". Merchant risk seems to be something that the industry has become comfortable with, brushing it off as an inconsequence. That seems a tad foolhardy and will doubtless come back to bit you in the rotor.

And then you have stranded assets. This is a very real risk – another that is being kicked down the road as someone else's problem.

"What will be tomorrow's stranded asset classes?" asks one source. "Energy transition is propelling forwards, start-ups are generating new techniques on a daily basis from hydrogen storage to ammonia, to biogas, to smart grids, to circular concepts. However, a new bankable standard and robust new asset class – similar to where offshore wind was 10 years ago – has not yet emerged.

"I'm pretty sure that some of the new energy-transition related projects will generate some hefty stranded assets soon. I get hugely excited by every new proposal, but at the same time I know many of them will never see life."

Finally, a source brings it back to where this piece was expected to go. While this is UK-focused, where it is now, the rest will follow. The source says: "In the UK a main concern is the growing competition from institutional investors. They are increasingly going direct to sponsors and – as a result – there is a declining need from sponsors to have access to banks' balance sheets for large underwrites, so funding certainty is less guaranteed by banks disintermediating."

The source continues: "So, combined with a slower market showing impact of Brexit, and rising competition, the lack of deal flow is becoming the key concern for 2020."

Sticking to the expected line: "The top worry really is the economic impact of policy paralysis in infrastructure. There is lack of credible pipeline, there is increasing gap between demand and supply of infra assets, most assets – both economic infra and public infra – have been through multiple secondary transactions, there is not much primary pipeline and UK contracting capacity is completely shot.

"So, the sector – over time – could see a loss of capacity and capability. And lack of investment in infra has a long-term economic impact."

However, some people could see the funny side. One asked: "How much longer do I have to do this to enable me to go and do something different… that I'd really enjoy?"

And a Singapore-based banker bemoaned early this morning (UK time): "I'm worried about my credit officer's mood as its getting late on Friday and I don't have my approval yet!"

Grab bags and a stocked larder folk, we're all doomed.

