

IJInvestor Awards 2020 – The Moody's Interview

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For the first time this year, *IJInvestor* opened up an awards category to recognise the efforts of ratings agencies across infrastructure and energy M&A and fund activity – with Moody's Investors Service winning.

Moody's is known globally for providing data, analytical solutions and insights that empower organisations to make better business decisions. It has rated more than \$1.7 trillion of project and infrastructure finance (PIF) debt covering more than 1,000 publicly-rated companies and transactions (as of 31 March 2020).

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During the judging period for *IJInvestor Awards 2020*, Moody's rated 463 PIF deals, representing more than \$193 billion public debt issued by PIF issuers globally. This accounted for 86% of total rated debt issued.

Stand-out public ratings that Moody's provided which ensured its selection as the winner of the Best Ratings Agency trophy by an independent judging panel were:

- Acorn Project Two (Kenya)
- Botswana Power Corporation (BPC)
- \$1.4 billion deal by Calpine Corp (USA)
- \$500 million deal by Chugoku Electric Power Co (Japan)
- \$500 million deal by PSA Treasury Pte (Singapore)
- \$400 million deal by Orsted Wind Power TW Holding A/S (Denmark)
- \$676 million deal by Adif Alta Velocidad (Spain)

But it was a combination of three components that really interested the judging panel, the ratings provided for Acorn Project Two and Botswana Power Corporation and Moody's work with ESG.

Acorn and BPC

Moody's has a strong focus on emerging and developing markets where there is a demand for investment in infrastructure. Despite more challenging markets, multilateral agencies and development banks play a critical role in providing credit enhancement for the capital structure of a project in order to entice private sector investors to deploy capital.

Foreign exchange exposure is particularly challenging so there is now an evolution of domestic capital markets as a source of funding that mitigates some of that exposure. Companies are borrowing in local currency and being paid in the same.

Moody's is seeing a lot of initiatives and efforts to deploy capital in emerging markets to meet demand which inherently involves governmental enterprises.

Doug Segars, managing director at Moody's, says: "Over the last few years we have made a concerted effort to expand into emerging markets, some of this is around developing local capital markets and some of it is around attracting international capital into those areas. The two relatively recent ratings – Acorn and BPC – are great examples of the two ends of that spectrum."

In August 2019, Moody's assigned a B1 rating to a 5 billion Kenyan Shilling (circa £750 million) senior secured MTN programme set up by Acorn to part-fund a student accommodation project in Nairobi.

This was one of a very small number of PPP-style project financings in Africa and represented an important milestone in the development of the local capital markets for the private financing of infrastructure in Kenya. The issuer was rated solely by Moody's and it was one of the first project bonds with a deferred drawdown structure.

The notes issued by Acorn have a bullet maturity of five years, are governed by Kenyan Law and benefit from an English Law partial guarantee of principal and interest, provided by GuarantCo. The partial guarantee is unconditional and irrevocable and provides for recovery on up to 50% of principal and interest payment shortfalls in the event of default.

Segars says the Acorn project is clearly aimed at helping develop local capital markets: "What was interesting about the Acorn project from the capital markets perspective is that the notes were listed on the London Stock Exchange as well as the Nairobi Stock Exchange. That was as a result of direct efforts by both the UK government through DIFID and LSE as well as the Kenyan Finance Ministry."

It was also the first ever Kenyan green bond to be listed in the UK.

Another prime example of investors who are seeking to find a place to allocate capital is BPC which has no significant institutional money within Botswana.

On 10 January 2020 Moody's assigned a Baa2 long-term issuer rating to BPC, the national energy company in Botswana, responsible for electricity production, transmission, distribution and supply. It is 100% owned by the Government of Botswana.

Segars says: "BPC is looking at generating its own power generation capacity and wants to bring in investors in to develop power projects. BPC will then purchase that power for which they need a rating to convince investors that they are a creditworthy counterparty."

This is the first time that BPC has had a credit rating, again rated solely by Moody's.

According to the Moody's submission, BPC has said that one of the major risks facing Botswana Power Corporation is the inability to access alternative source of funding. "To mitigate this risk, the Masa Strategy recognised acquiring a credit rating as a possible way of making the corporation attractive to corporate lenders."

ESG

In September this year, Moody's announced the formation of an Environmental, Social and Governance (ESG) Solutions Group to serve the growing global demand for ESG insights, leveraging Moody's data and expertise across ESG, climate risk, and sustainable finance.

Over the course of the judging period, Moody's expanded its involvement in this space, recognising that ESG considerations were increasingly relevant to issuers, investors, counterparties and others; and that stakeholders require clear, objective, transparent and globally-consistent standards for understanding and measuring these factors.

Moody's enhanced its ESG capabilities through three acquisitions.

In April 2019 Moody's acquired a majority stake in Vigeo Eiris, a global leader in ESG research, data and assessments. Vigeo Eiris offers products and capabilities based on ESG assessments and an extensive ESG database, as well as specialised research and decision-making tools for sustainable and ethical investments including second party opinions.

Then in July 2019 Moody's acquired a majority stake in Four Twenty Seven, a leading provider of data, intelligence, and analysis related to



physical climate risks. Four Twenty Seven is unique in incorporating physical climate scenarios into credit ratings analysis.

Finally, in November 2019 Moody's acquired a minority stake in SynTao Green Finance (STGF), a leading provider of ESG data and analytics based in and serving China. The investment in STGF aligns with Moody's ongoing global commitment to promoting transparent standards for evaluating ESG risks. Locally, the investment strengthens Moody's presence and engagement in China and its financial markets, with a focus on supporting long-term, sustainable growth and contributing to the healthy development of ESG markets.

Walter Winrow, group managing director for global project and infrastructure finance at Moody's, says that ESG and sustainable finance continues to be of growing interest to investors and to companies that are trying to be responsive to investors.

Winrow says: "Reflective of that interest level, last quarter we saw north of \$125 billion of green and social sustainable bonds and that amount is around 30% higher than what we saw in the preceding quarter. So we continue to see interest on the investor side to deploy capital aligned with ESG principles. We are also seeing ESG-aligned funds that are looking to invest."

That nexus between infrastructure and ESG investing objectives continues to expand.

Winrow adds: "For Moody's, as we look at our ability to further inform and create transparency around ESG impacts to credit worthiness of entities, we've made investments that have been very important to our ability to do that."

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