

LOANLY PLANET

An LPC publication | Covering Green, Sustainable and Positive Incentive Lending Globally | June 2019

GREENSHOOTS LARGEST 5 DEALS to date

Issuer | Deal Size | Market

1. Prologis | US\$3.5bn | US
2. HCP Inc. | US\$2.5bn | US
3. Solvay | €2bn | Belgium
4. SSE Plc | £1.3bn | UK
5. Merlin Properties | €1.5bn | Spain

TOP 5 LENDERS to date

Lender | Deal Count

1. BNP Paribas | 24
2. ING Bank | 19
3. HSBC | 12
4. Santander | 12
5. Societe Generale | 12

FAST FACTS

🌿 Nearly US\$39bn of green and ESG-linked loans have come to market through May, up 60% y-o-y.

🌿 The Port of Rotterdam issued a €300m sustainability-linked facility, the first for a major European port.

🌿 A A\$1.4bn ESG-linked financing for Sydney Airport marked the largest syndicated financing for the airport sector globally.

🌿 Spanish telecom Masmovil Ibercom tapped lenders for a €250m clubbed ESG-linked revolver, the first European leveraged credit incorporating ESG objectives.

ESG & Green Loans

Now available in Dealscan.

1. Search Market Segments under Tranche
2. Select ESG, Green Loan, or both
3. Add them to your list of criteria

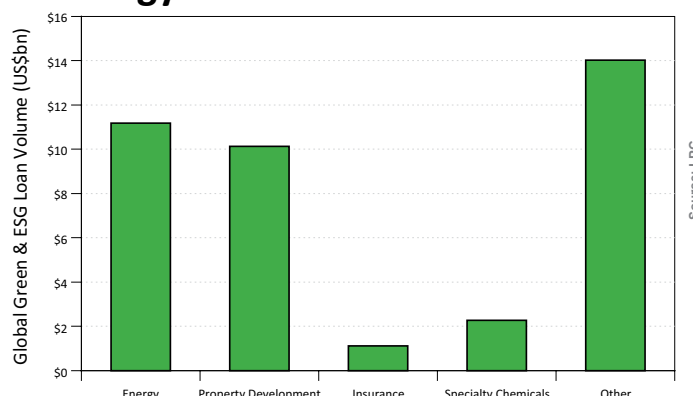
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Over 29% of YTD green and ESG loan volume was for energy names



ESG-linked loans: Bringing viability to nascent market

Maria C. Dikeos

When French resource management company Suez Environnement SA refinanced and upsized its existing corporate revolver in April, it did so while linking pricing on the loan to environmental and social performance indicators based on the company's sustainable development program for 2017-2021. A flurry of clubbed, syndicated and bilateral loans for Stadtwerke Muenchen GmbH, Terna Spa, Merlin Properties and Turkcell, among others, followed. All were structured financings with terms designed to support meeting sustainability-linked objectives announced by the issuers.

Year to date, nearly US\$39bn in global green and sustainability-linked loans has been completed, a 59% increase over the same time last year. Of this total, US\$35bn, or almost 89%, of total issuance represents ESG-indexed or sustainability-linked deals. In the case of the Europe, Middle East and Africa (EMEA) loan market specifically, over US\$25bn, or 93%, of total regional loan volume so far this year represents ESG-linked lending activity, up over 1.5 times compared to the same time last year.

But how much weight do these objectives carry? How meaningful are they? And to the more cynical point: Is this all a gimmick? Do loans with ESG-linked pricing reward corporates for behavior that should be core to their overall being—namely, having a positive impact on the climate change, diversity, and socially responsible behavior?

There are no easy answers, especially in the context of what is still a nascent market operating within a developing framework of rules or parameters. Nevertheless, these are noteworthy starting points for discussion.

GREEN VS. SUSTAINABILITY

At a simple level, a sustainability-linked loan provides lenders with the opportunity to work with their corporate clients to incentivize behavior that will not only help the planet and communities, including professional communities, but also elevate the matter of environmental and social governance as part of a broader commercial discussion.

Whereas green loans are premised on use of proceeds tagged to clearly defined green projects or initiatives, sustainability-linked loans are directed for general corporate purposes. They bypass the matter of “tests” based on use and instead rely on regular reporting against sustainability performance targets negotiated between the issuer and lenders.

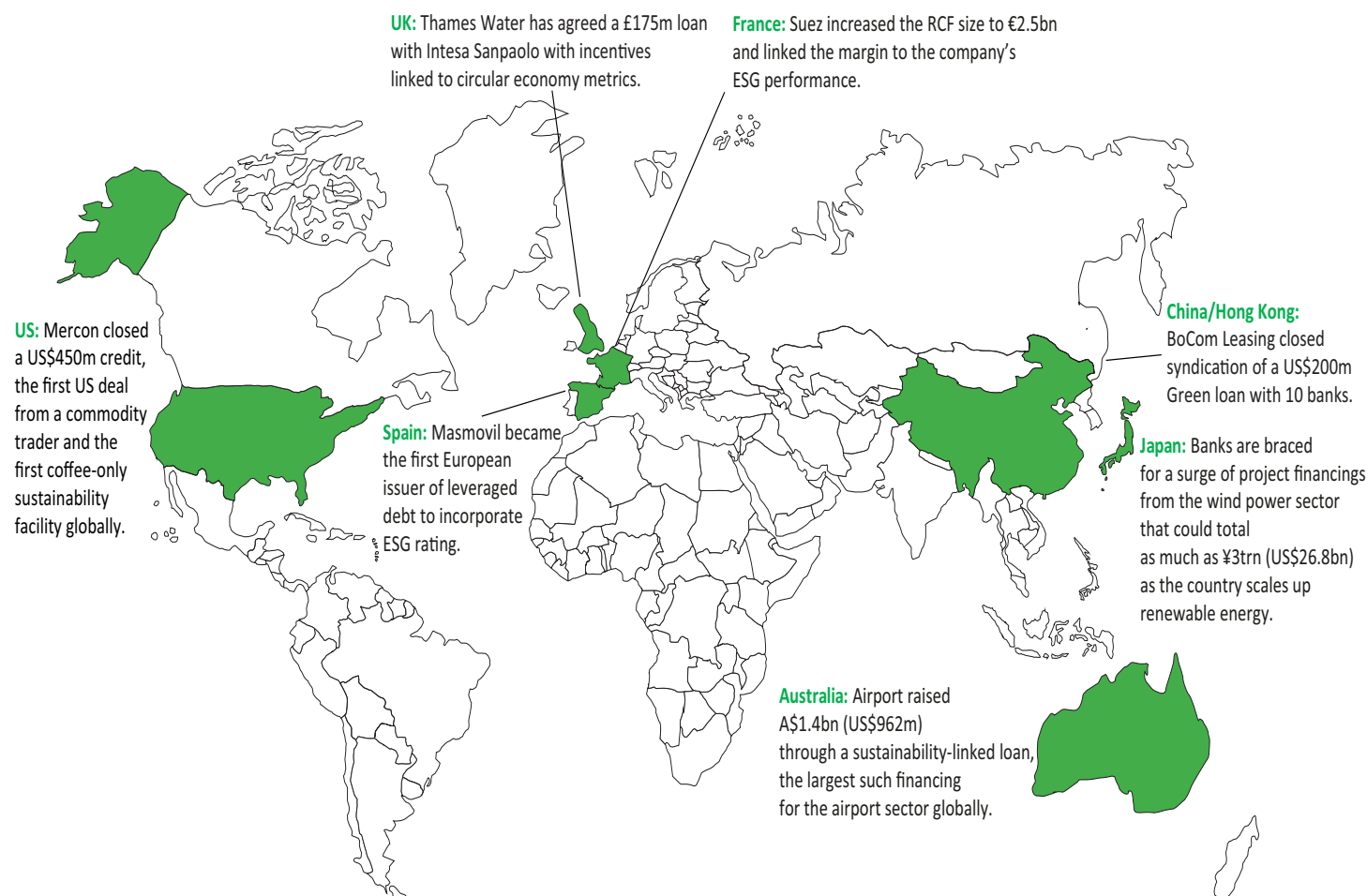
To date, the value proposition is arguably less defined in the case of sustainable loans as opposed to a green loan or even a green bond.

“Green bonds opened a new pool of investors,” said one US-based arranger. “The value [of ESG linked lending] is a corporation’s commitment to shareholders and customers to sustainable growth. The impediment is that this still feels very new and we have to see where it goes.”

TARGETED MOBILIZATION

If sustainability-linked terms can affect pricing on US\$35bn of issuance in the global

(STORY cont'd on p. 2)



(STORY cont'd from p. 1)

market, the question that follows is whether environmental and social governance represents a practical or “scientific” calculation for determining spreads, or whether the parameters are arbitrary.

Lenders say targeted conversations with issuers in select industries, including energy, property development, and automotive, allow for deeper understanding of relevant metrics, how to set targets and more importantly, how to test them.

This, in turn, allows for small, incremental steps to building out the offering.

In March, Xylem Inc, a global water technology company, refinanced its existing US\$600m five-year revolver, replacing it with an upsized US\$800m revolving credit that included terms linked to the issuer's sustainability performance. Pricing on the loan is based on the company's credit rating at close, but may be subsequently adjusted up or down by up to 5bp based on its sustainability rating as determined by Sustainalytics.

This was followed by sustainability-linked credits for the Port of Rotterdam and Stadtwerke Muenchen GmbH, which included margin calculations linked to the ESG performance of each company. This was based on

their stated aims to become emission-free by 2050 (Port of Rotterdam) and to generate as much green electricity as the city of Munich needs by 2025 while achieving neutral CO2 emissions by 2040 (Stadtwerke Muenchen GmbH).

In a market first, Masmovil Group, a Spanish telecom operator, launched a leveraged €250m revolver that included sustainability-linked pricing metrics as part of a larger €1.7bn debt package in 2Q19. Given the relatively small size of the ESG-linked tranche, it is too soon to determine whether sustainability-linked pricing will gain traction in the leveraged arena. Nevertheless, the envelope is being pushed.

Awareness of ESG issues is slowly becoming linked to the overall risk and credit profile of a company. At the end of May, two Indonesian fossil fuel companies, PT Bukit Makmur Mandiri Utama (Buma) and PT Titan Infra Energy, struggled to round out their loan financings – despite rich pricing – amid tepid lender appetite for issuers in carbon producing industries. The lukewarm response during retail syndication is meaningfully changed from that of comparable industry credits that tapped the market just last year.

IN THE NEWS

CGNPC launches US\$500m Green loan

State-owned China General Nuclear Power Corp has launched a US\$500m five-year Green loan for renewable energy projects, sources said.

The company is providing a guarantee, while its subsidiary CGNPC International Ltd is the borrower.

ANZ, Bank of China, Credit Agricole CIB and Industrial & Commercial Bank of China (Asia) are the mandated lead arrangers and bookrunners of the bullet term loan, which pays an interest margin of 93bp over Libor.

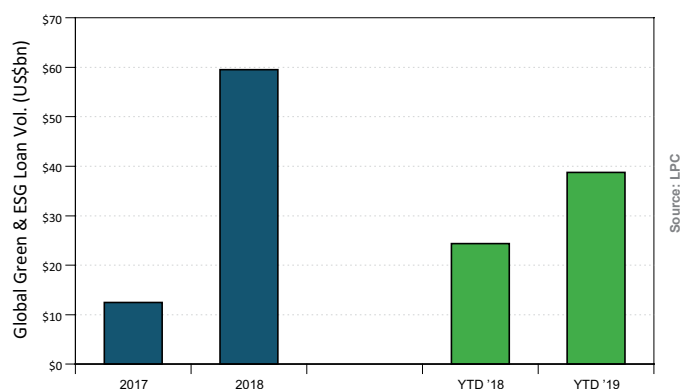
Banks have been invited to join as MLAs with tickets of US\$50m or more for a top-level all-in pricing of 108bp based on an upfront fee of 75bp. Lead arrangers committing US\$35m–\$49m earn an all-in pricing of 106bp through a fee of 65bp and arrangers with tickets of US\$20m–\$34m receive an all-in of 104bp based on a 55bp fee.

A bank presentation was held on June 12 in Hong Kong. Commitments are due by July 3.

Although the guarantor also operates nuclear power plants in China and supplies nuclear fuel, the loan will only be used for renewable energy projects.

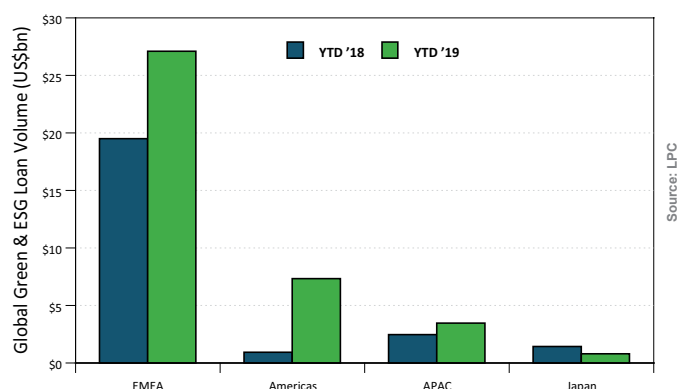
CGNPC owns wind farms and hydro and solar power plants in China. It also has wind farm and solar projects in Australia, France, Malaysia,

2019 global green and ESG loan volume nearly US\$39bn, up 59% y-o-y



Nearly US\$39bn of green and ESG-linked loans have been announced through May 2019, a 59% increase over the US\$24bn that came to market at the same time last year. And barely a week into June, the pipeline shows little inclination of slowing. Sustainability-linked credits have dominated this year at roughly US\$35bn, or 89% of issuance, while green project deals represent about 11% of green and ESG-linked loan volume totaling just under US\$4.1bn. In what is still a relatively nascent market, green and especially, ESG loan structures, are broadening their reach and innovation as they align with the global sustainability strategies of individual corporates and localities as well as the guidelines of agencies including the United Nations. In April and May, 22 green and ESG loans were announced. Of these, several, set new market benchmarks including: Endesa's Euro €300m loan; a A\$1.4bn sustainability-linked loan for Sydney Airport in Australia; and Masmoil Ibercom's €250m ESG-linked revolver.

Green, ESG loan volume gains traction globally as corporates consider socially conscious growth



So far this year, green and ESG-linked loan issuance out of Europe, Middle East and Africa represent 70% of total Green/ESG volume at over US\$27bn, a 39% increase over the same time last year. In the Asia-Pacific region (ex. Japan), nearly US\$3.5bn of green and ESG-linked loan volume has been announced, an increase of 9% over the same time last year. Regional issuance was boosted by a A\$1.4bn sustainability-linked credit for Sydney Airport that came to market in May. But the biggest boost in regional lending this year has taken place in the Americas. Year to date green and ESG-linked lending in the Americas at just over US\$7.3bn represents a sevenfold increase over the same time last year. Smaller size financings in Latin America continue to gain traction while in the US market, arrangers have completed a limited number of clubbed transactions in support of clients with defined ESG goals.

IN THE NEWS

Namibia, Singapore, South Korea, the United Kingdom and the United States.

In September 2018, CGNPC International priced a US\$500m 3.875% five-year bond at 99.551 to yield 3.975%, or Treasuries plus 120bp. It also added a US\$100m 30-year tranche at par to yield 4.8%, or Treasuries plus 173.4bp. Alongside the dollar tranches, a €500m (US\$562m) 2.00% seven-year euro Green tranche was priced at 99.696 to yield 2.04%, or mid-swaps plus 150bp.

Hong Kong-listed CGN Power Co Ltd has filed to the China Securities Regulatory Commission for a Rmb15bn (US\$2.2bn) Shenzhen IPO, IFR Asia reported.

CGNPC is rated A2/A-/A (Moody's/S&P/Fitch). – AL



Masmoil issues Europe's first ESG-rated leveraged debt

Spanish telecom operator Masmoil Group has become the first European issuer of leveraged debt to incorporate environmental, social and governance rating, taking advantage of the increasing popularity of responsible investing.

Spain's fourth-largest telecoms company recently closed a €1.7bn debt package that included a €250m revolving credit facility and capex line with a margin ratchet based on environmental, social and governance rating from MSCI, sources said.

If Masmoil's ESG rating improves, the interest margin on the facilities will fall by 15bp. If the rating falls, the margin will increase, the sources said.

"From a company perspective, it's an opportunity to lower the cost of capital," said Neil Caddy, partner at Fried, Frank, Harris, Shriver & Jacobson, which advised Masmoil on the financing.

However, loan bankers say it is still too early to say whether the deal will prompt more ESG-linked facilities in the leveraged market, as the Masmoil deal was relatively small without a test of wider general syndication.

There are a number of other factors that could potentially hold back the growth of ESG-linked leveraged loans.

Few leveraged borrowers are prepared to make ESG a major business strategy and lack the confidence to use it as a way to reduce capital cost.

Many loan investors remain unconvinced that a borrower's ESG rating should impact on loan pricing.

"The margin should reflect credit risk, not ESG compliance," said a CLO manager.

For arranging banks, they argue that a lack of support from investors for ESG-linked loans, and with few precedents in the market, it makes it very difficult for them to structure and sell such loans for now.

"The leverage institutional market is not ready and in a sufficient size to take this approach," said one banker.

GROWING AWARENESS

Nevertheless, with issues like climate change and the gender pay gap becoming hot-button topics in recent years, ESG awareness is growing.

Investors' response to a recent US\$500m-equivalent leveraged loan of Israeli cyber surveillance firm NSO Group highlights ESG principles are guiding investors' decision.

NSO's spyware tool Pegasus had allegedly been used to target human rights activists, and its loan sold at a steep discount – 90 cents on the dollar, which implies losses for the underwriting banks.

Credit agencies have also turned attention to ESG risks, incorporating into their credit-rating decisions.

"Our credit assessment includes all aspects of risk. If ESG is a relevant risk and the company takes measures to lower that risk, then it's a better credit. And in theory, loan pricing should reflect that," said Kristin Yeatman, vice president at Moody's.

Bankers said the driver for a further push in ESG-linked loans could be with the underlying investors.

"With underlying investors clamouring for ESG-friendly structures, there will come a time in the not so distant future when this could work," the banker said.

ESG-FOCUSED CLO

More and more collateralized loan obligation (CLO) funds, the biggest buyers of leveraged loans, have emerged with ESG features.

Permira Debt Managers (PDM) priced the first European CLO with ESG eligibility criteria written into its documentation in March last year.

Last week, Fair Oaks Capital announced €320.2m European leveraged loan CLO for which the portfolio is selected using ESG focused investment criteria.

The criteria normally restricts managers investing in questionable sectors or issues such as gambling and child labour.

However, there is a cost for the extra efforts. For example, PDM has a dedicated ESG team to screen and monitor individual credit.

"It's a business cost we absorb because we believe in its value and we see strong demand from investors for it," said Andrew Lawson, head of capital markets at PDM. — PH



Coal loans battle Green tide

Indonesian coal miners are finding it more difficult to attract lenders as prices fall and banks cut their exposure to carbon-producing industries.

Infrastructure and logistics company PT Titan Infra Energy and coal-mining contractor PT Bukit Makmur Mandiri Utama (Buma) have struggled to syndicate recent loans despite juicy pricing and rarity value.

Titan Infra Energy's US\$450m five-year loan crawled to a close this month, seven months after it was launched into general syndication. It is not clear how many banks joined the deal – a poor debut for the borrower despite a rich top-level all-in pricing of 602.47bp based on an interest margin of 575bp over Libor and an average life of 3.64 years.

Buma's US\$150m three-year facility launched in mid-February, its first in eight years, has also received a tepid response despite its rarity value.

Buma's loan pays a top-level all-in pricing of 225.1bp based on a margin of 200bp over Libor and an average life of 1.9 years. The deadline for closing has been extended indefinitely.

The cool response to the two deals highlights the challenges facing fossil fuel producers at a time when lenders are increasingly keen to promote their own environmental credentials.

"Coal mining is a challenging industry and not an easy sell," said a Singapore-based loan banker. "Deadlines have been extended as some banks need more time to convince their credit committees."

However, the resistance faced by Titan Infra Energy and Buma marks a change from only last year, when other mining sector borrowers successfully concluded loans with a dozen or more banks.

In October, Indonesian mining contractor PT Pamapersada Nusantara (Pama) wrapped up a US\$1bn five-year 12-bank club loan that pays a margin of 105bp over Libor and has an average life of 3.25 years.

Two months earlier, coal-mining contractor PT Saptaindra Sejati, a unit of Indonesian coal

giant PT Adaro Energy Tbk, signed a US\$350m self-arranged two-year financing with 14 banks.

Since then the outlook for the sector has cooled.

Falling coal prices for Asian producers, as well as the structural shift away from coal toward abundant and affordable natural gas have impacted the sector, S&P said in a May 16 report. The rating agency expects coal prices to be around 10% lower in 2019, and a further 10% lower next year as supply outpaces demand.

Benchmark Newcastle coal prices have slid from over US\$99 to less than US\$84 a tonne since the start of the year.

"While we observe a structural shift away from coal in Asia – which is similar to the US – demand from thermal power and the production of steel are still growing," said S&P analyst Vishal Kulkarni in the report. "However, this growing demand will be more than met by rising coal production in Indonesia, China, and India – to some extent. This contributes to our expectation of a softer pricing environment over the next couple of years."

GOING GREEN

Increasingly, governments, companies and financiers are shifting away from coal. Some European banks have cut funding for the coal sector entirely, and last August, Anglo-Australian miner Rio Tinto Ltd exited the coal business.

On May 15, MUFG Bank Ltd, which is leading Buma's facility, also joined the sustainable finance bandwagon, setting new goals and revising its environmental and social policy framework. The bank will no longer provide funding for new coal-fired power projects, and coal-mining deals will be added to restricted transactions once the framework takes effect on July 1.

"One of MUFG's missions is to support the sustainable growth of our customers and society," said Kana Nagamitsu, a spokeswoman for MUFG in Tokyo. "We aim to provide a cumulative total of ¥20trn (US\$181bn) in Sustainable Finance (of which ¥8trn is allocated for the environment) between FY2019 and FY2030".

The environmental allocation includes loans and project financings for renewable energy producers, as well as underwriting and distribution of Green bonds.

The shift to green financing is gaining traction, with over US\$1.5bn of Green and ESG-linked loan financings completed in Asia-Pacific in this year's first quarter. That represents a 22% increase over the same period in 2018, which was a record year, according to LPC data.

In March, the Loan Market Association, the Loan Syndications and Trading Association and the Asia Pacific Loan Market Association launched a framework for loans pegged to the sustainability performance of borrowers that commit to operating in a more environmentally sustainable manner.

The Sustainability-Linked Loan Principles build on the Green Loan Principles adopted by the three industry bodies in March 2018.

"Green loans are a hot topic at the moment and we are keen to explore opportunities with our clients with such financing," said a second Singapore-based syndicated loans banker. "We

are in the process of educating ourselves as well as our clients." — CW



Atlantica gets US\$39m ESG line

Total return sustainable infrastructure company Atlantica Yield has agreed an up to US\$39m financial guarantee line with costs linked to the company's environmental, social and corporate governance (ESG) performance.

The financing, which is being provided by ING Bank, will be used for Green guarantees for exclusively renewable assets.

Atlantica's ESG performance will be assessed by sustainable ratings agency Sustainalytics.

Atlantica owns a diversified portfolio of contracted renewable energy, efficient natural gas, electric transmission and water assets in North and South America, and certain markets in EMEA. — AR



BoCom 's Green loan attracts 10

BoCom Leasing Management Hong Kong Co Ltd, a unit of Bank of Communications Financial Leasing Co Ltd, has closed syndication of its US\$200m Green loan with 10 banks joining in general syndication, sources said.

Mizuho Bank was the sole mandated lead arranger and bookrunner of the financing.

BoCom Financial Leasing is providing a keepwell agreement.

The top-level all-in pricing was 118bp based on an interest margin of 100bp over Libor - tighter than a US\$410m three-year onshore loan for the parent, which offered a top-level all-in pricing of 120bp based on a margin of 108bp over Libor and a remaining average life of 2.675 years.

HSBC, Standard Chartered and Sumitomo Mitsui Banking Corp were the MLABs of the loan for BoCom Financial Leasing, which was increased from an initial size of US\$275m.

Funds from BoCom Leasing Management's loan will be used in accordance with its Green Finance Framework.

BoCom Leasing Management is rated A-/A (S&P/Fitch), while BoCom Financial Leasing is rated A2/A-/A (Moody's/S&P/Fitch).

Allocations for BoCom Leasing Management's are available on LoanConnector. — AL



Thames agrees £175m loan

UK utility Thames Water has agreed a £175m loan with Intesa Sanpaolo with incentives linked to circular economy metrics.

The financing is the first international drawing on Intesa's €5bn circular economy financing facility and comes after Thames Water signed a £1.4bn five-year ESG-linked revolving credit facility (RCF) in late 2018.

Under the new loan, Thames Water's performance will be regularly checked against circular economy metrics with a possible improvement in loan conditions. — AR



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