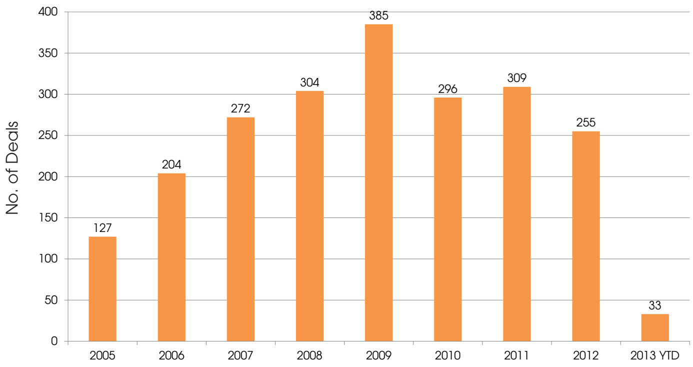
Infrastructure Deals: Prospects for 2013

Which regions do fund managers expect to hold attractive deal opportunities for infrastructure in the future? Do GPs expect the average deal size to change over the next 12 months? Using data gained from an exclusive fund manager survey conducted by Preqin and Preqin's Infrastructure Online Paul Bishop analyzes the outlook for infrastructure deals in the year ahead.

In 2012, 255 deals were completed by unlisted infrastructure fund managers, as illustrated in Fig. 1, a figure which is expected to rise by around 20% as more information becomes available. These transactions spanned the globe in a variety of economic and social infrastructure industries. During the year, 39 unlisted infrastructure funds reached a final close, raising an aggregate $25bn in institutional capital, and as of March 2013, a significant 75 of the 146 infrastructure funds on the road had held at least one interim close and have begun putting capital to work. As a result, an estimated 280 funds featured on Preqin's Infrastructure Online service are now seeking new deal opportunities.

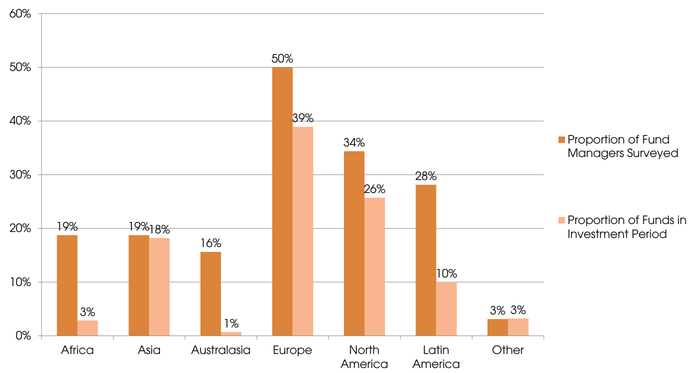
What are the prospects for infrastructure deal flow in 2013? This month, Preqin conducted a survey of 32 leading unlisted infrastructure fund managers in order to gain an insight into which areas of the market fund managers will likely invest in over the coming 12 months and the reasons for this. In this article we review the results of this study, coupled with an analysis of the preferences and strategies of those infrastructure funds looking to make new deals and our historical deal flow data, in order to gain insight into the future make-up of the deals market.

Fig. 1: Number of Deals Made by Unlisted Infrastructure Fund Managers, 2005 - 2013 YTD (As at 13 March 2013)



Source: Preqin Infrastructure Online

Fig. 2: Regions Viewed as Providing Attractive Infrastructure Deal Opportunities in 2013: Fund Managers Surveyed vs. Funds in Investment Period



Source: Preqin Fund Manager Survey - March 2013 and Preqin Infrastructure Online

Geographic Location

The developed infrastructure markets of Europe and North America remained the primary centres of deal flow activity in 2012, with a significant 74% of the 255 total deals made in assets located in these regions. European infrastructure assets accounted for 49% of total deals alone, with North American assets accounting for a further 25%. Asia-based assets made up 7% of the total number of infrastructure deals finalized in 2012, while the remaining 19% of deals were made in assets located outside of these core regions in South America, Africa and the Middle East.

These general geographic trends look set to continue in 2013, with a significant 84% of unlisted infrastructure fund managers surveyed believing that Europe and North America will offer attractive deal opportunities in the coming 12 months. As shown in Fig. 2, half of respondents believed Europe would present attractive investment opportunities in 2013, while 34% thought that North America would offer appealing prospects. When asked why this would be the case, one respondent noted that: "Continuing fiscal austerity should provide greater opportunities for private capital." Multiple respondents noted that continued economic uncertainty, particularly for European investors, had increased the overall attractiveness of lower risk infrastructure opportunities in European and North American assets.

The number of transactions taking place in emerging markets also looks likely to grow in future, with 28% of fund managers planning to target assets in South America in 2013. Nineteen percent of surveyed fund managers also highlighted Africa and Asia as offering attractive opportunities in the coming 12 months. Respondents felt that the continued high demand for new infrastructure to promote economic growth was a reason for this, with one respondent noting that Africa offered a "high level of demand for new infrastructure with far less supply competition than other regions, combined with attractive long-term economic growth trajectories across multiple countries." However another respondent noted that in Africa, "the secondary asset market is very shallow and greenfield investments are more suited to trade and industrial players, with whom financial investors cannot compete."

Fig. 2 also provides a breakdown of the 280 funds currently in their investment periods by primary geographic focus. Thirty-nine percent of these funds primarily look to make investments in

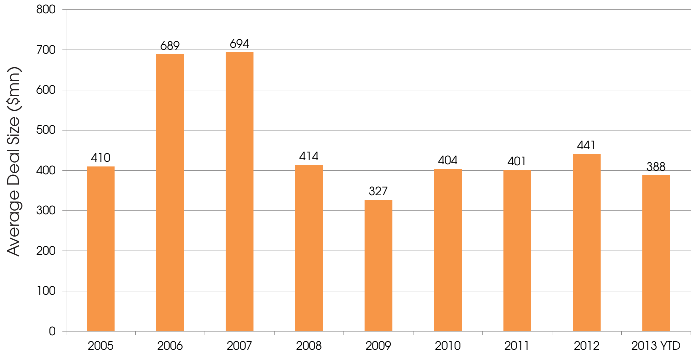
Europe and 26% in North America, suggesting again that these regions will remain the main centres for deal activity going forward. Eighteen percent of funds target Asian infrastructure assets. Interestingly, just 10% of funds in their investment period focus on Latin American infrastructure, despite a sizeable proportion of respondents suggesting that the region will provide attractive deal opportunities in 2013. This is also the case in Africa and Australasia; only 3% and 1% of funds in their investment period target these regions respectively, despite a higher proportion of fund managers that we surveyed suggesting the two regions will offer attractive deal prospects in future.

Deal Sizes

Infrastructure deals have traditionally warranted high levels of debt financing; however, as a result of the financial crisis, the availability of sufficient and affordable long-term debt from traditional lending sources has been limited in recent years. As such, the number of deals made annually by unlisted infrastructure fund managers has remained at a similar level each year since 2008, with many deals taking on a higher equity-to-debt ratio. However, aside from a small number of sizeable transactions driving up the average infrastructure deal size to beyond $600mn in 2006 and 2007, the average deal size has remained relatively constant over time.

As shown in Fig. 3, the average infrastructure deal size in 2012 amounted to $441mn, a 10% increase on the $404mn average seen in 2010 and 2011. This figure was also 35% higher than the $327mn average deal size reported in 2009 following the onset of the global financial crisis. The average infrastructure deal size for

Fig. 3: Average Infrastructure Deal Size, 2005 - 2013 YTD (As at 13 March 2013)

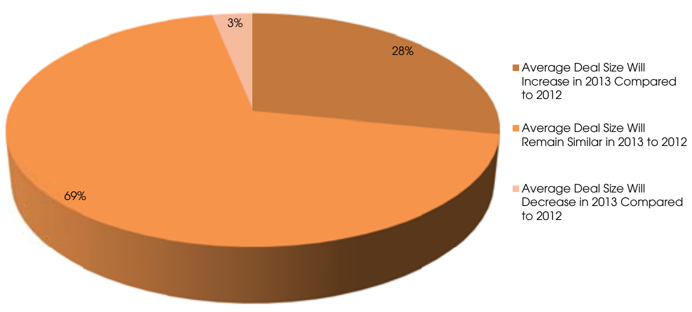


Source: Preqin Infrastructure Online

the 33 transactions reported in 2013 to date stands at $388mn, similar to the figure for deals made in 2012, although slightly smaller.

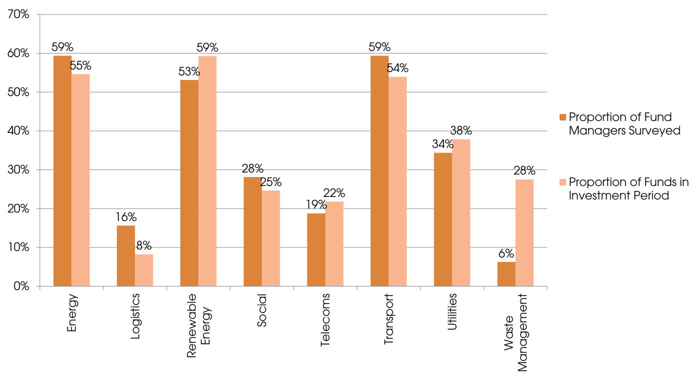
The majority of infrastructure fund managers we surveyed do not expect the average deal size to change significantly during 2013 compared to 2012. A significant 69% of respondents believe the average deal size in 2013 will remain similar to 2012, while 28% expect the average deal size to increase and 3% think the figure will decrease. One fund manager we surveyed felt that "market dynamics in 2013 will be similar to those in 2012: corporates will need to deleverage and divest and will require new capital for growth, whereas governments will need capital to develop infrastructures, or money to balance public deficits." Given the historical trend, it is likely that the average infrastructure deal size

Fig. 4: Fund Managers' Expectations for the Average Infrastructure Deal Size in 2013 Compared to 2012



Source: Preqin Fund Manager Survey - March 2013

Fig. 5: Industries Viewed as Providing Attractive Infrastructure Deal Opportunities in 2013: Fund Managers Surveyed vs. Funds in Investment Period



Source: Preqin Fund Manager Survey - March 2013 and Preqin Infrastructure Online

for 2013 will remain steady, although as demand for high-quality assets outstrips supply, some fund managers expect prices to rise.

Which Industries Will Present Deal Opportunities?

The core infrastructure sectors of energy, transportation, telecommunications and utilities dominated deal activity in 2012, with 74% of total deals made in these four industries. Eleven percent of total deals completed by infrastructure fund managers in 2012 were made in energy assets and 32% in renewable energy projects (more than any other single sector). Transportation assets represented 17% of total deals, while 10% were in utilities and a further 5% in the telecoms space. Social infrastructure was also prominent, with 18% of all 2012 transactions taking place in social assets, while 2% of deals were in logistics and waste management projects respectively.

Again, these general trends look likely to continue in 2013 with these core industries proving attractive to the fund managers we surveyed. As shown in Fig. 5, 59% and 53% of respondents believe that the energy and renewable energy sectors will provide attractive opportunities in the coming 12 months respectively. Fifty-nine percent of respondents expect transportation assets to present good investment opportunities in 2013, while 34% and 19% think the utilities and telecommunications sectors will offer attractive prospects respectively. Fund managers surveyed felt that transportation, energy, and renewable energy assets were likely to remain a focus for developed governments; one fund manager told us: "The growth and development in particular of natural gas as a source of energy requires transportation, storage and industry infrastructure." In addition, another respondent felt that core infrastructure assets were likely to "remain a focus for first world government infrastructure investment (privately funded), despite austerity."

The industrial preferences of those 280 funds featured on Preqin's Infrastructure Online service which are in their investment period mirror these predictions. Fig. 5 provides a breakdown of these preferences and shows that 55% of funds are targeting energy assets and 59% are looking to invest in renewable energy projects, a similar proportion to those respondents highlighting these sectors as areas of interest in 2013. A significant proportion of funds in their investment period will also invest in transportation assets (54%), while 38% will invest in utilities opportunities and 22% will consider telecommunications. This again suggests that the core infrastructure sectors will remain at the forefront of deal activity in the coming 12 months.

Outlook

The number of deals completed by unlisted infrastructure fund managers in 2013 is unlikely to increase significantly on previous years due to ongoing market constraints. However, based on Preqin data and the feedback from GPs surveyed, it appears that the infrastructure deals market will continue to build on existing trends over the coming 12 months. The majority of fund managers surveyed believe that Europe and North America will continue to dominate the market in 2013, as will the core infrastructure industries. In total, 66% of the infrastructure funds looking to make new deals in the current market are focused on either Europe or North America, and 79% will look to invest in core sectors.

More niche areas of the market are also expected to offer attractive investment opportunities in the coming 12 months. A significant proportion of surveyed respondents believe that emerging markets such as South America will offer good investment opportunities in 2013, while sectors like renewable energy and social infrastructure are also expected to experience growth. Most survey respondents do not expect the average infrastructure deal size to alter significantly in the coming year, but few expect it to fall. What is clear is that there is an ever growing need for infrastructure development around the world, and private infrastructure managers will be at the centre of this activity in 2013.

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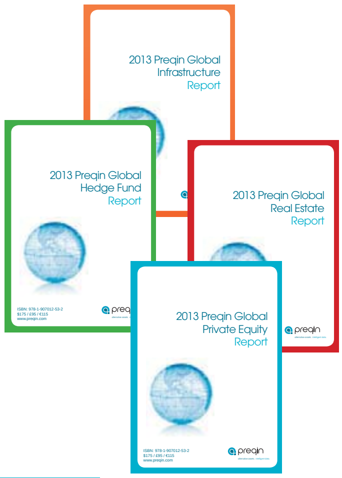

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