Five Common questions asked about infrastructure debt.

Infrastructure investment is one of the most promising opportunities in initiating growth and job creation in many parts of the world.

The Organization for Economic Co-operation and Development (OECD) estimated that around US$50 trillion of infrastructure investments will be needed by 2030 due to the escalating growth of population and rising GDP growth. Renewal of existing infrastructure is essential; however governments simply cannot afford to self-fund. The continuing flow of returns, cash yield, and credit are useful factors in infrastructure debt investments for long-dated assets.

These are 5 of the common questions asked about infrastructure debt:

1. Where are opportunities found?

Infrastructure debt opportunities are found in many parts of the world: in Northern & Western Europe and in North America. These places offer investors with superior risk adjusted returns for long-dated, investment grade assets that are supported by stable political and regulatory regimes.

Western Europe's pipeline is healthy and suitable for infrastructure investments in the field of transportation, in social infrastructure as well as regulated utilities for the sub-sectors that are on-going creation of the continuous infrastructure requirements of continents.

North America exhibits significant transactional flow, specifically in the power and energy sectors. There are plenty of midstream gas opportunities as shale gas revolution continues to play out in the US. Americans can make significant investment in gas gathering systems in liquefied gas export facilities, pipelines, and storage.

2. How strong is the demand?

There is strong demand for project a debt financing that is expected to be healthy granting easy access to the market but it requires the ability to opportunity sourcing of advisors, deal sponsors and debt holders. In the US, the deal in pipeline is extremely strong with 56 infrastructure debt investment opportunities yielding a total of over US$46 billion. The climate is different from Europe as over 60% of these potential deals are in midstream gas and transport sectors.

3. How well does infrastructure debt performed?

Current market conditions show that an average credit spread over swaps of 150-300 basis points (bps) are general expectations for infrastructure debt. Pricing for private infrastructure debt today offers the opportunity of obtaining 75-100 ps illiquidity premium above corporate bonds of the same weighted average life. European infrastructure debt or loans were downgraded between 50bps and 150bps margins prior to the global financial crisis.

4. What Are the Key Challenges?

Despite of many opportunities, infrastructure debt requires dedicated resources to research and structured deals using expertise to build and monitor portfolios due to complications involved.

Following are three unique challenges in investing with infrastructure debt.

- Infrastructure being a broad asset class varies in regulatory regimes and transaction type. It involves a simple interpretation of core public infrastructure.
- Emanating from private, controlled by banks and evolving quickly, a small proportion of infrastructure financings are found in the bond market in publicly listed or private format.
- Diligent requirements and monitoring can be cumbersome as every potential transaction requires resources to undertake and understand the drivers and risk.

5. How are infrastructure debts segmented?

Infrastructure is segmented into: (i) standalone & single-asset projects and (ii) financing assistance for infrastructure companies. Asset level infrastructure investments are from project financing, where debt is issued against the underlying asset. Repayment is via predictable cash flows derived from long-term off take/concession contracts. Companies engaged in the infrastructure space derive their predictable cash flow thru status as monopolies, regulated by concessions/economics with high barriers to entry.