SA joins global trend of refinancing IPPs

While refinancing independent power producers (IPPs) project is unchartered territory in South Africa, it is emerging as a global trend.

Noblesfontein Wind Farm. Image Azari Group

Other international markets have embarked on refinancing, with Canadian renewable energy company Boralex, refinancing almost all of its wind farm operations in France for a total of $1.7bn a couple of years ago. Additionally, in 2015 the ratings agency, Moody's, released a report stating that the rising investor interest in the European renewable energy sector is leading to refinancing, which could result in lower credit risk, in particular for certain projects in Spain and Italy. The report further stated that refinancing activity in the European renewable energy sector is on the rise thanks to growing interest from infrastructure funds.

South Africa has also started the process, which has the backing of the renewable sector and the Department of Mineral Resources and Energy (DMRE) Despite the impact of the current pandemic, it is expected that the refinancing process will take between four and six months, with real progress predicted by September 2020.

IPP refinancing project underway to stimulate economy
Nicci Botha 15 Jul 2020

Shareholders need to realise value from the refinancing process too, and not just the clear advantages for the end-user, Daniel Zinman, senior transactor at Rand Merchant Bank said at a webinar hosted by Windaba. He was joined by Jason van der Poel, partner at Webber Wentzel, in outlining that IPPs will need to ensure that the contingent liability to the National Treasury, post-refinancing, should not exceed the original liability at any point in the IPPs lifespan.

According to the webinar's panel of experts, there are a multitude of ways in which IPPs can be refinanced, each with their own set of benefits and consequences. These include maintaining existing debt levels and structure, but reducing margins; increasing existing debt levels; increasing debt tenor; converting Johannesburg Interbank Average Rate debt to Consumer Price Index debt; replacing reserve accounts with contingent facilities; replacing junior debt with senior debt, introducing preference shares; and restructuring existing risk management strategy and hedging policies.

Looking to the opinion of an IPP, Hennie Hanekom, Noblesfontein Wind Farm's financial manager, believes that one of the biggest incentives for refinancing at this point is so that IPPs can obtain a new loan that has improved terms, compared to existing loans. These terms include lower financing costs, relaxed covenants, changed variable base rates, changed finance instruments and improved duration of tenor. However, he warned of the pitfalls relating to solvency and leveraging requirements, which might restrict equity distributions, and increased credit ratings could lead to higher finance costs.