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Bayfront CLO scores greenium

Structured Finance Latest project finance securitisation comes with sustainable tranche

BY DANIEL STANTON

BAYFRONT INFRASTRUCTURE MANAGEMENT proved that structured finance investors are willing to pay a premium for green and sustainable assets, pricing a sustainable tranche in its latest securitisation of project loans 5bp tighter than a regular note.

The US$401.2m collateralised loan obligation comprised senior secured notes backed by cashflows from 27 project finance and infrastructure loans to 25 projects in Asia Pacific, the Middle East and South America.

A US$120m sustainable tranche rated Aaa by Moody's and with a weighted average life of 3.9 years priced at six-month Libor plus 120bp, compared with 125bp for a US$176.9m conventional tranche with the same rating and WAL.

Initial guidance for the regular tranche was 120bp–125bp, and for the sustainability tranche it was 120bp area.

A US$33.3m Class B tranche rated Aa2 priced at 185bp, a US$22.1m Class C tranche rated A3 at 235bp and a US$8.8m Class D tranche rated Baa3 at 340bp. Respective initial guidance was 170bp–185bp, 215bp–235bp, and 340bp area. Bayfront will retain a US$40.1m preference share tranche.

Proceeds from the sustainable tranche will finance or refinance project and infrastructure loans for eligible green and social assets such as renewable energy and affordable basic infrastructure, like water desalination and electricity transmission. The renewable energy component includes solar, wind and run-of-river hydropower projects, rather than dam-based hydroelectric generation, which can disrupt the environment.

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Bayfront Infrastructure Capital, which was sponsored by Singapore-based Clifford Capital, printed a US$458m debut project CLO offering in 2018, the first deal of its type from Asia. The following year, Clifford Capital partnered with the Asian Infrastructure Investment Bank to create Bayfront Infrastructure Management, the sponsor for the new deal, which was issued through Bayfront Infrastructure Capital II.

BIM acquires project and infrastructure loans from a network of 22 banks, then warehouses and manages them, before securitising them and issuing structured notes in the public markets.

The 2018 transaction included some loans for coal-fired power projects, but Bayfront has since stopped acquiring this kind of asset.

"There is clearly a role for transition fuels like gas for power plants and we will participate in that in ways where it makes sense," said Premod Thomas, CEO of Bayfront Infrastructure Management.

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Thomas said Bayfront is trying to build up its stock of green assets, and might one day be able to issue a transaction where all tranches are sustainable. Some banks have been keen to hold on to their green loans to meet their own ESG targets, but Thomas said that as total volumes grow and banks reach country or single-issuer limits he expects they will want to offload some.

"We would be a ready taker for these assets," he said.

AIIB, which has a 30% stake in Bayfront, was an anchor investor in the new issue. Much of the demand for the sustainability tranche came from European accounts and multilateral institutions, but Singaporean names also placed orders. Across the whole transaction, Asia Pacific accounted for about 52%, Europe 20%, supranationals 17% and the Middle East 11%.

Banks accounted for 48% of demand, insurers and pension funds 21%, multilateral financial institutions 17% and asset managers 14%.

Most of the projects in the pool are brownfield, but four projects, accounting for around 16% of the portfolio, are still under construction. These are either nearing completion or benefit from completion guarantees or sponsor support.

Approximately 46% of the portfolio comprises sustainable assets under Bayfront's sustainable finance framework, which has a second opinion from DNV.

Bayfront expects to issue structured notes every 12–15 months, and could target new investors as deal sizes increase.

"As the programme grows, it is our intention to approach US investors through 144A or private placement format," said Thomas.

Citigroup, *ING* and *Standard Chartered* were joint global coordinators, joint bookrunners and joint lead managers. Citigroup was the structuring adviser and ING the sustainability structuring adviser. ■