Export finance

H1 2019

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THIS REPORT

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Welcome to the half-year 2019 edition of TXF Data's Export Finance market overview. During the period covered by this report, TXF Data recorded 102 ECA supported deals (a drop of 44 on H1 2018) covering $41.8 billion of financing (a decrease of $7.9 billion on H1 2018). This represents a decrease of around 16% in ECA supported deal volume compared with H1 2018. ECA/DFI coverage of that total debt amounted to 86.7% – a little higher than the average for H1 2018, and likely to stay at those levels for the future unless commercial banks can fathom other Basel-friendly ways (synthetic securitisations for example) to offset risk.

The drivers and breaks on growth for the year were:

- ECA-backed conventional power volume in H1 2019 is $16.8 billion, a little more than the whole of 2018 (see page 7). The sector tops all others for ECA-supported volume in the past six months and outstrips renewables by a little over 100%. That said, in 2018 renewables ECA support was considerably higher than that for conventional power, in part reflective of financial close on some very large European offshore wind transactions but also an increase in both medium- and large-ticket transactions in emerging markets. With a number of similar deals in the pipeline this year, that performance could yet be repeated by year-end.

- The roller coaster cycle in the ECA-backed oil and gas market appears to be in coasting mode, with just six deals and $4.3 billion of volume in H1 2019 (see page 6). But with potential financial close on RAPID, and $30 billion of debt to be raised for two LNG projects in Mozambique, H2 2019 could yet see oil and gas volumes jump, if ECAs and banks get a move on.

- ECA-backed debt to the cruise ship sector in H1 2019 is double the $2.5 billion volume closed in H1 2018 (see page 7). But non-cruise shipping volume is back to a trickle – just over $1 billion – after a strong 2018 when volume jumped to $9 billion and almost matched the cruise sector. And deal flow is unlikely to improve – new shipbuilding orders in the first six months 2019 dropped 42% year-on-year largely because of the US-China trade dispute.

- Aircraft remains the least active ECA-backed export finance market (see page 6). The trickle of ECA-backed deals does not reflect a downturn in the aircraft manufacturing market, nor lack of access to ECA support – ECA doors to both Boeing and Airbus are open again in theory. But with the major manufacturers having put in place alternatives to ECA support, and the private sector developing similar products, ECA-backed aircraft financing looks set to become an increasingly marginalised product short of any global meltdown in aircraft demand.

- The volume share of ECA-backed debt for deals of $550 million-plus continues to climb in H1 2019 taking 79.5% of the market volume (see page 9). Despite ECA attempts to better address the needs of SMEs, the reality is that only 4.7% of ECA supported loans went to deals in the $1-100 million volume range in H1 2019. Perhaps it's time to recognise that ECAs simply don't have the staffing or IT for churning out vast numbers of small-ticket SME transactions.

- French lenders blitzed the 2018 ranking, providing $20.1 billion to ECA-backed deals globally (see page 10). That French domination continues in H1 2019, with French lenders providing $6.1 billion of ECA and DFI-backed volume – around twice that of second-placed Japan. However, there is a caveat – because of the opaqueness of concessional loans provided by Chinese state-owned banks for the RBI programme they are not included in the ranking.

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Aviation

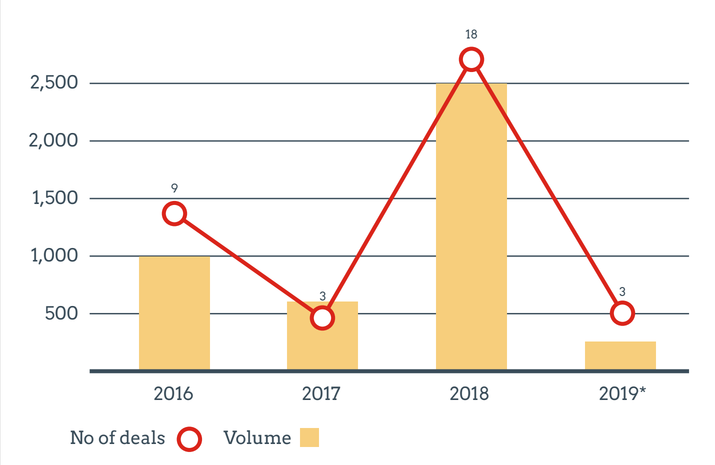
At around $250 million of ECA-backed aircraft volume reported for H1 2019 for just three deals, the 2019 end of year figure has the potential to be even less than last year – although the majority of Airbus deliveries are always skewed towards the second half of the year because of its lumpy production process.

The lack of ECA-backed deals does not reflect a downturn in the aircraft market. In H1 2019 Airbus delivered 389 aircraft, compared to 303 in H1 2018, and the manufacturer expects to deliver a record total of 880-890 jets by year-end. Airbus also posted 88 net orders for the first half, outpacing Boeing which had a negative net total of 119 aircraft because it had more cancellations than orders due to fallout from the grounding of its MAX aircraft. But even Boeing's MAX problems did not stop it delivering 239 aircraft in H1 2019.

US Exim's ability to again do deals of $10 million-plus for Boeing after the past few years of lending limbo, and the reopening of European ECA support to Airbus, have had little impact on the market. Both manufacturers have now established alternatives to ECA support and more private sector alternatives are entering the market – for example, US lessor Aviation Capital Group has established its aircraft financing solutions (AFS) programme, which helps fulfil a market gap left behind by export credit agencies (ECAs) which traditionally offered airlines non-payment guarantees to help boost aircraft exports and support domestic manufacturers.

Put very simply, and short of any global financial meltdown, unless the cost-of-debt benefits of ECA support significantly outweigh the alternatives, ECA-backed aircraft financing is going to become an increasingly marginalised product – good for governments, not so good for ECA departments at banks.

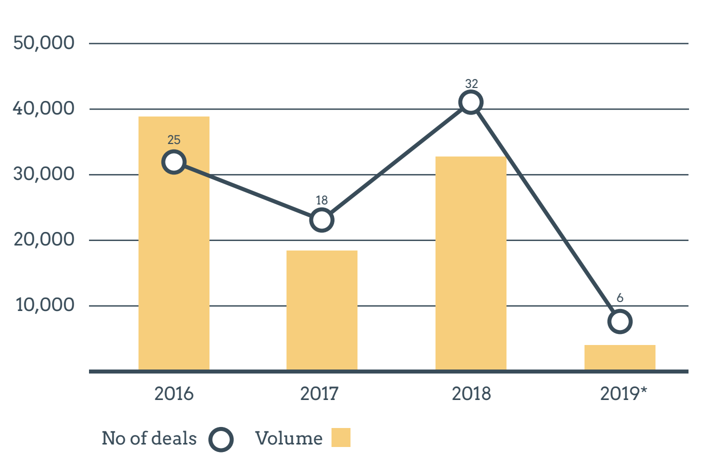
ECA-backed deals for aircraft



*Information for H1 2019 only

Oil & Gas

Oil & Gas ECA-backed deals



*Information for H1 2019 only

The roller coaster cycle in the ECA-backed oil and gas market appears to be in coasting mode. With just six deals and $4.3 billion of volume in H1 2019, signs are that the 2018 full-year volume jump to $32.6 billion – which made oil and gas the largest ECA-backed sector that year – is unlikely to be repeated by year-end 2019.

Unlike 2018, when disappointing volume in H1 was not dissimilar to this year, the pipeline of major 2018 deals like Duqm, Bapco, Corpus Christi 3 and Midor – most of which closed in H2 2018 – is not looking so certain this year for the second half. The ECA-backed $9.7 billion financing for the RAPID project in Malaysia is expected to close before year-end, but we've heard that before a number of times. And while one of the two major LNG schemes offshore Mozambique may sign this year, financial close of both in the same year looks unlikely, if only because there is a limited bank universe with appetite for Mozambican risk.

So, while unlikely, there is enough potential deal flow in the pipeline for a significant ECA-backed volume boost in H2 if agencies and commercial lenders get a wiggle on.

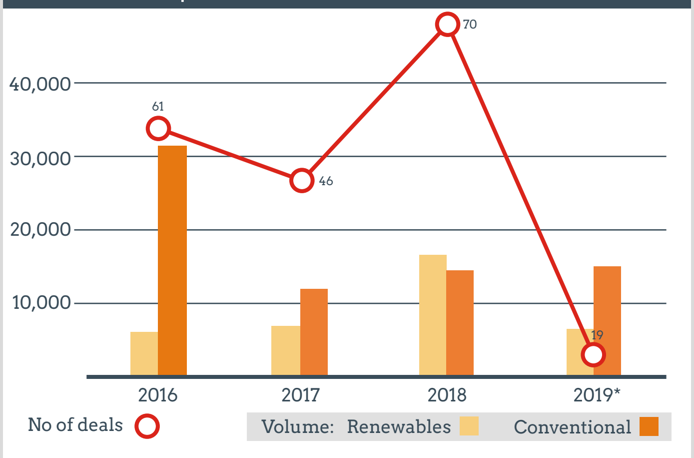
That said the long-term prospects for the sector are looking increasingly difficult in terms of final investment decisions. Brent recently dropped below $60 a barrel again and a new report from BNP Paribas claims the oil industry faces existential decline from the combination of renewable energy and electric vehicles. The study finds that the energy return on capital invested is 6x-7x times better for solar and wind plus EVs than it is for gasoline. As a result, if gasoline is going to compete with EVs, crude oil would need to fall to $9-$10 in the long run.

Power

ECA-backed conventional power volume in H1 2019 is $16.8 billion, a little more than the whole of 2018. The sector tops all others for ECA-supported volume in the past six months and outstrips renewables by a little over 100% – not good news for the ESG credentials of all parties involved. And at least one of the major ECA-backed deals in conventional power – the $2 billion JBIC-backed financing for the Van Phong 1 coal-fired project – used supercritical technology, for which, legacy deal or not, there is no excuse given readily available ultra-super critical technology.

But while the pro-ESG claims of some ECAs appear hollow, in 2018 renewables ECA support was considerably higher than that for conventional power, in part reflective of financial close on some very large European offshore wind transactions but also an increase in both medium- and large-ticket transactions in emerging markets. With a number of similar deals in the pipeline this year, that performance could yet be repeated by year-end.

ECA-backed power deals

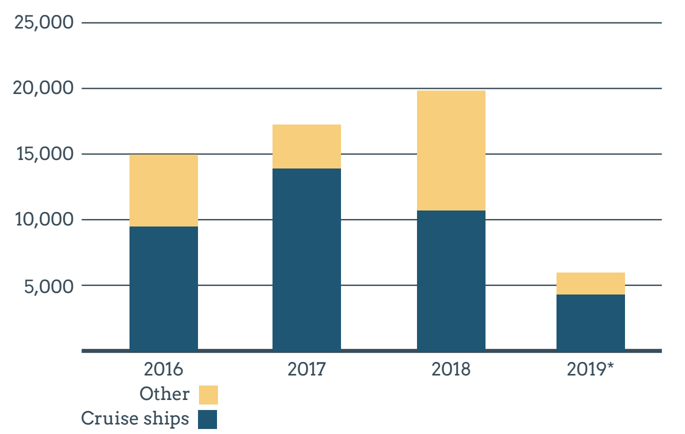


*Information for H1 2019 only

TXF Data view

Shipping

ECA-backed shipping deals



*Information for H1 2019 only

Cruise ship volume in H2 2019 is double the $2.5 billion of volume closed in H1 2018, with five SACE-covered Norwegian Cruise Line financings in January 2019 making up more than half the numbers. Carnival Corporation also closed an $894 million Euler Hermes-covered deal in April. The volume simply reflects the order and manufacturing cycle and with order books at ECA-backed shipyards like Fincantieri and Meyer looking very healthy up to 2023 and beyond, strong deal flow in the cruise sector looks set to continue.

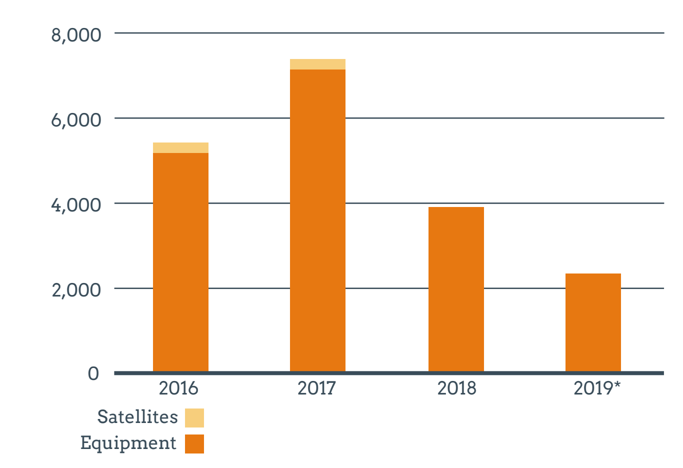
Non-cruise ship ECA-supported business is back to a trickle – around $1 billion-plus – after a strong 2018 when volume jumped to $9 billion and almost matched cruise ship business. With the global shipping industry hit by the US-China trade dispute, new shipbuilding orders in the first six months 2019 dropped 42% year-on-year.

Telecoms

At $2.36 billion of volume in H1 2019, the ECA-backed telecoms market continues to be dominated by EKN, largely on the back of one $1.5 billion deal for Ericsson equipment for American Telecom Company in May, for which Santander and HSBC were lenders. Given the support the Nordic ECAs give to their respective manufacturers Ericsson and Nokia it will remain a solid stream of ECA-backed business.

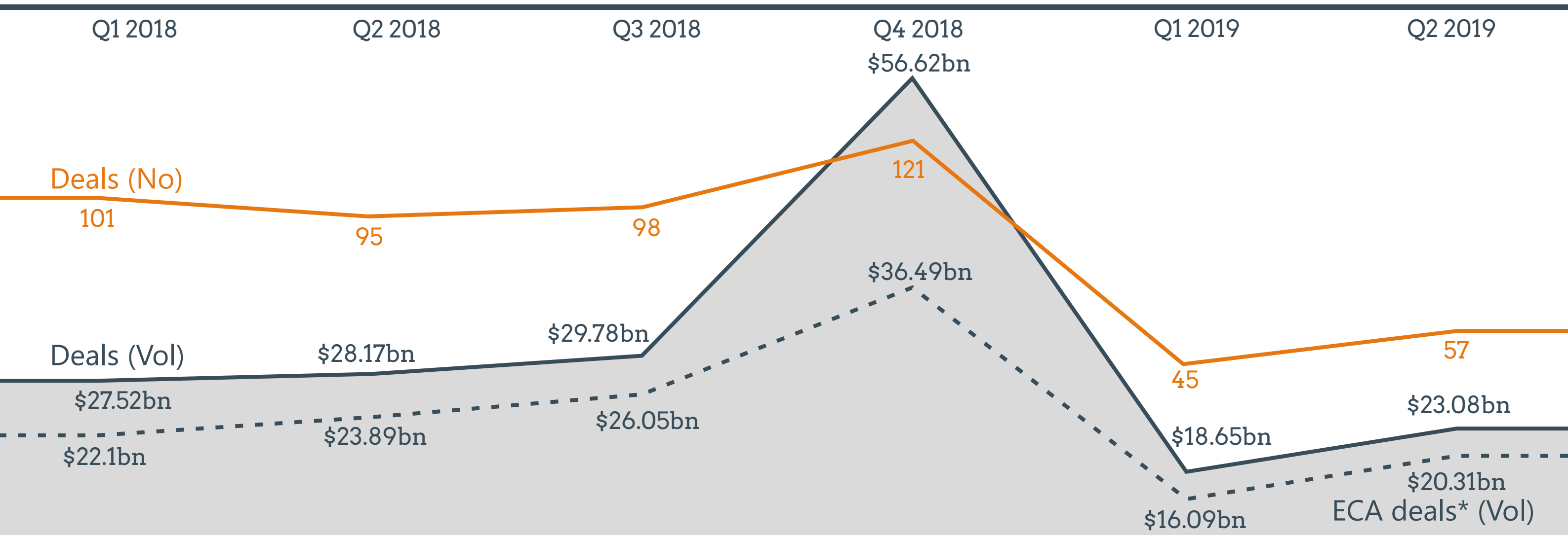
With telecoms penetration in emerging markets continuing to grow and the global equipment market expected to almost double to $562 billion by 2023, the ECA-backed figure is likely to rise over the next few years. However, the ECA-backed telecoms market is largely driven by competition for exports between the major manufacturers rather than being key to the economic viability of many projects, and demand for the product is unlikely to ever correlate to the potential size of the market.

ECA-backed telecom deals



*Information for H1 2019 only

Export finance H1 2019
Market at a glance



*Tranches backed or lent by ECAs, DFIs and MFIs

Total amount
$41.8bn

No of deals
102

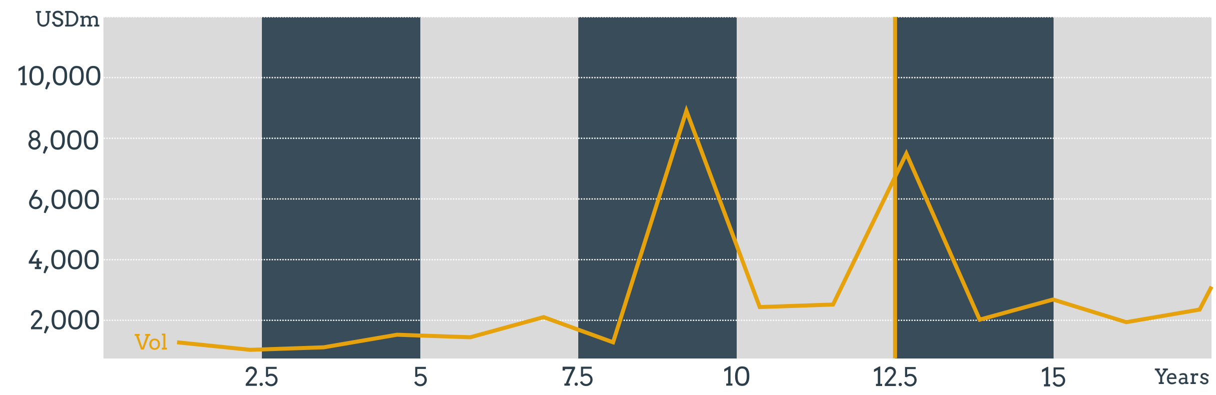
ECA/DFI coverage
86.7%

Top sector
Power

Top region
Asia Pacific

Deals with ECA support	$41.8bn
ECA tranches only	$36.7bn

TENOR vs. AMOUNT TRENDLINE



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