PROJECT FINANCE

ANALYSIS AND RISKS

STRATEGIES AND OPPORTUNITIES
CAPITAL STRUCTURES

Equity versus Debt:

- Firms

- Industries

- Risk/Term/Rate
RISK ISSUES

Cash Flow vs. Asset Based Lending/Investing

- Stability/Volatility

- Reliability

- Return

- Country & Currency Risk

- Industry Risk

- Systemic Risk
SUPPLY/DEMAND CHAINS

- Indonesian Petrochemical Case

- Australian Power Case
LENDERS VS INVESTORS VS UNDERWRITERS

LIABILITY PROFILES:

- Lenders
  
  Commercial Banks

  Insurance Companies

  Government Agencies

- Investors

  Market

  Money Pools

  Principals
- Underwriters

Market

Commitment

Commercial Paper/Bank Loans
ACCEPTING RISK

Short Term - Underwriters

Long Term - Lenders

Floating vs Fixed

Investors

Fixed vs Equity

Underwriter - Large Risks/Briefly

Lender/Investor - Small Diversified/Longer
ATTITUDES

Mentality relative to term and rate is determined by liability structure

Thus financial intermediaries are not and should not be seen as a Black Box
PROJECT FINANCING CONTEXTS

- De Novo

- Existing Supply/Demand Chain and/or Infrastructure

- Cash Flow versus Asset Analysis
CASH FLOW ANALYSIS

ONLY CASH COUNTS AS ULTIMATELY CASH FLOWS DETERMINE ASSET VALUES!

- Coverage, Reliability, Volatility interact

- They affect rate & term which in turn impacts coverage which influences amount can borrow, capital structure and returns

- Everything is captured by CF analysis while "what if" simulations capture effects certain scenarios

- Credit risk not equity risk is at issue

- Role of feasibility study
POSSIBLE CF SCENARIOS/IMPACTS

These emerge as part of financial projections

- Foreign exchange changes
- Inflation
- Electricity Rate
- Fuel Costs
- Acts of God (earthquakes, fires, storms, etc., etc.)
- Changes customer base
- Interest rates (floating vs fixed)
- Taxes
- Political change
- Long term cost and physical availability of supplies, energy and raw materials

- Logistical & transportation risks

- Market changes at points in chain

- Contractor/completion risks: including cost over-run and timely delivery

- Management and operator risks

- Technological and innovation risk

- Country risks and lending limits

- Sovereign risk

- Insurer risk

- Regulatory risk

- System risks

- Investor contribution and return: Project must make sense with no incentives as these can disappear
SPECIAL CASES

- Cogeneration

- Mine mouth, geothermal and similar nearby fuel sources

- Dedicated power facilities compared to grid