
Financing Energy: A Philippine Bank Perspective

Energy Investment Forum

4 December 2014

Edmundo S. Soriano
Executive Vice-President
BDO Unibank, Inc.

OUTLINE

- Philippine Banking
 - Then and Now
- Key Players
- Our Capacity
- Available Financing and Lending Criteria
- Challenges
- Conclusion

EDC Burgos 150 MW Wind Farm



GNPOWER MARIVELES 600 MW COAL-FIRED PLANT



GNPower Mariveles Coal Project



EDC GEOTHERMAL POWER

Palinpinon, Negros Oriental

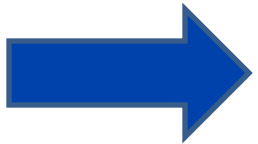


BIOMASS POWER

San Jose iPower Corporation San Jose City, Nueva Ecija



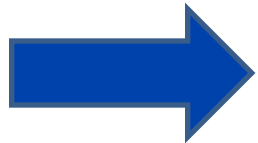
Status of local banking 15 years ago



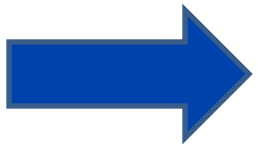
Local banks could not fully compete with foreign banks due to limited resources



High dependence on foreign financial institutions, multilaterals (e.g. IFC, ADB) and export credit agencies (ECA)



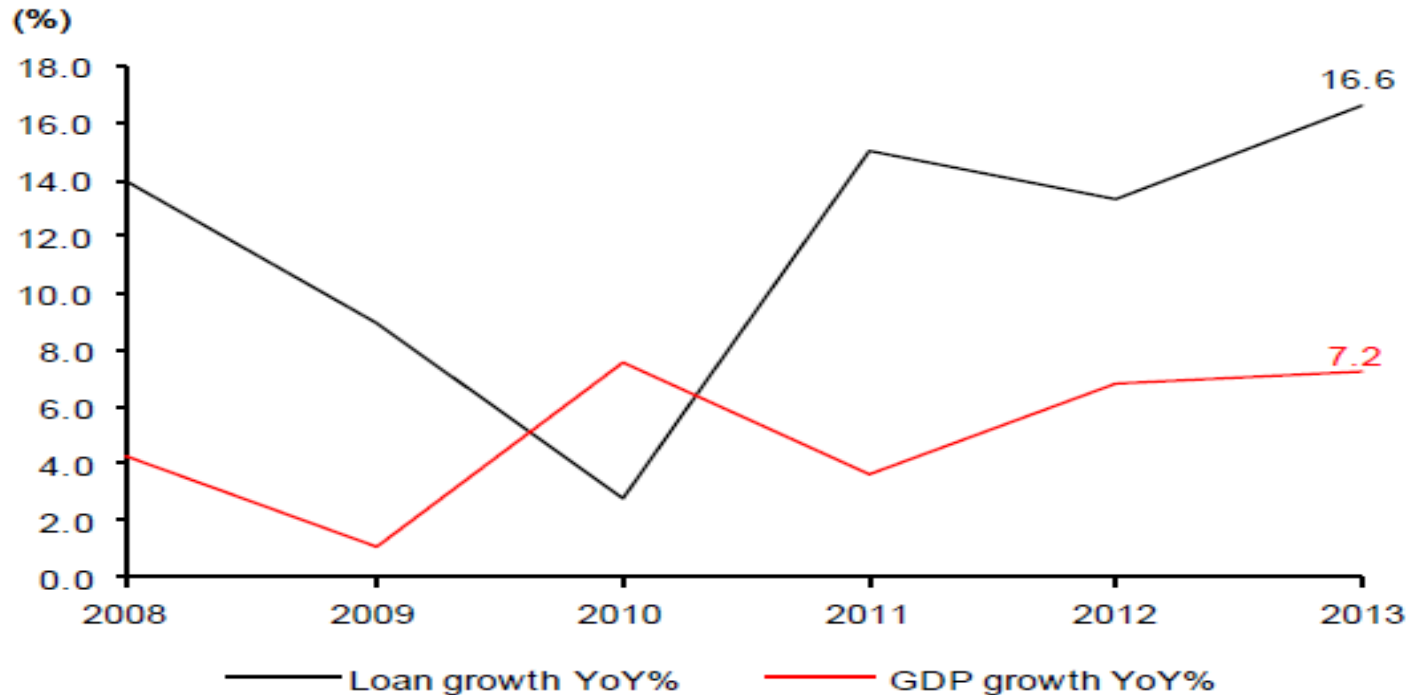
None or low risk appetite to take on project-financing/limited or non-recourse risk



Preference for short-to-medium term exposure only

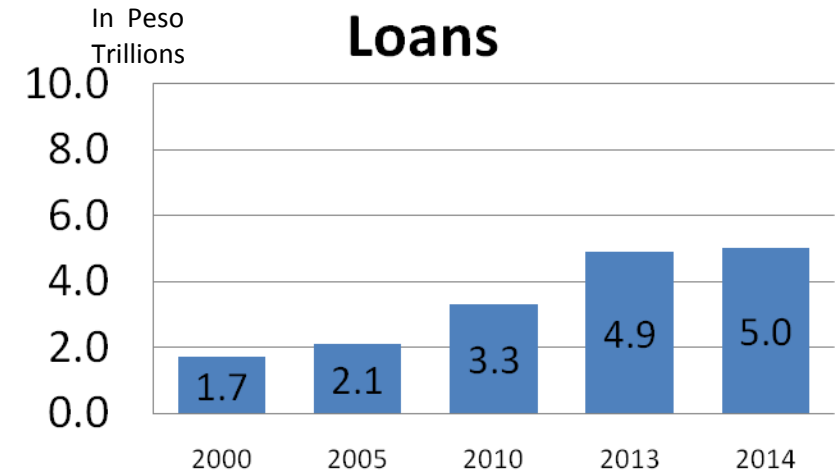
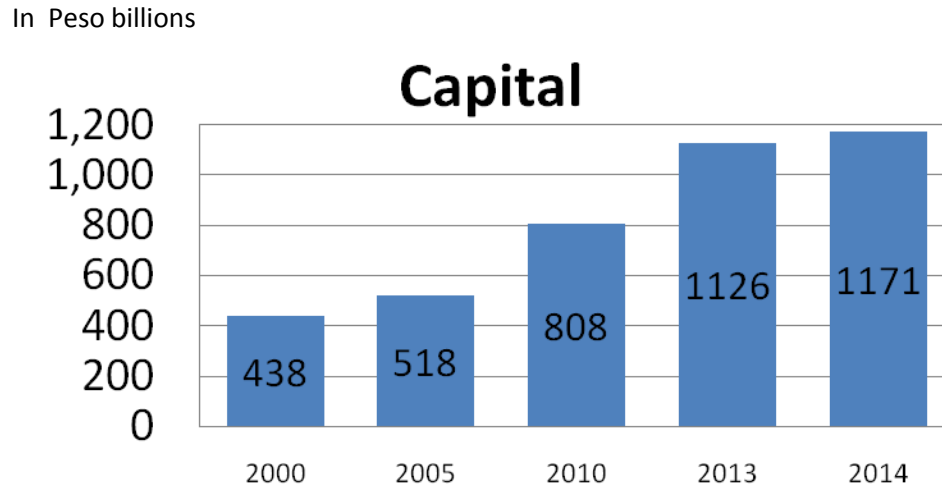
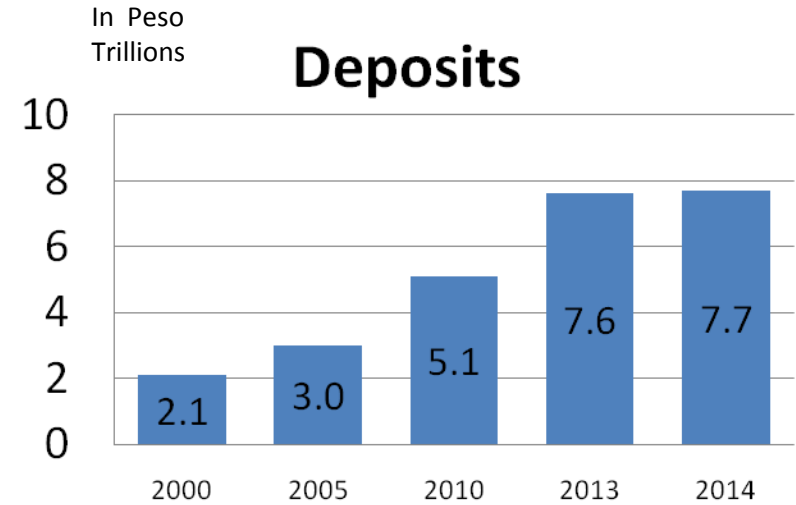
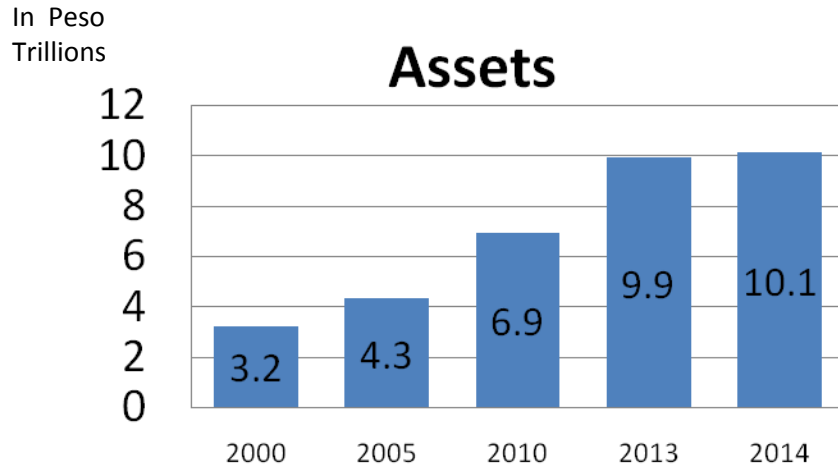
Fast Forward

Philippines- Loan Growth v GDP



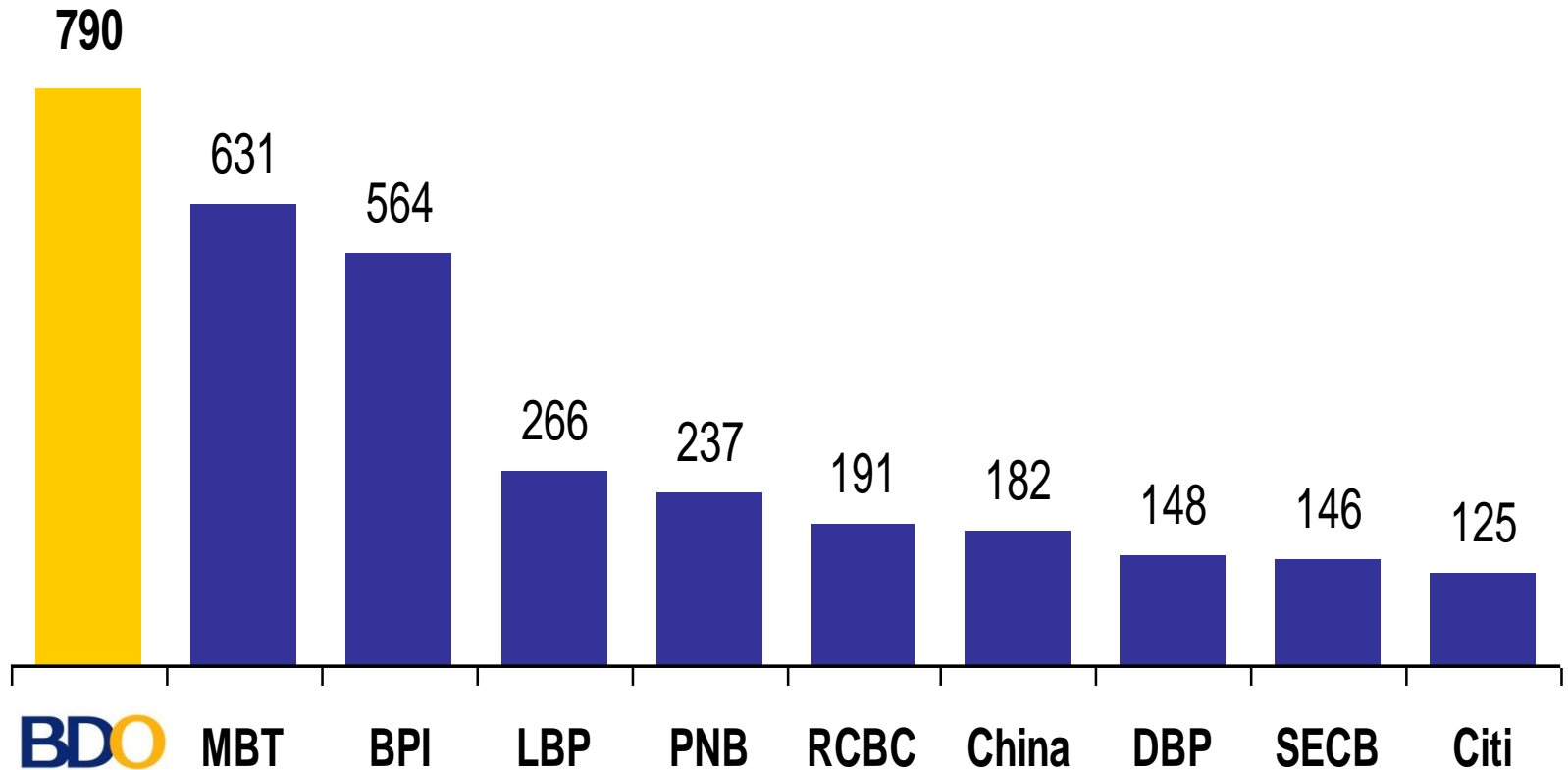
Source: Bloomberg, Macquarie Research, November 2014

The banking industry has grown significantly following several mergers and capital-raising activities



Loans and Receivables – net*

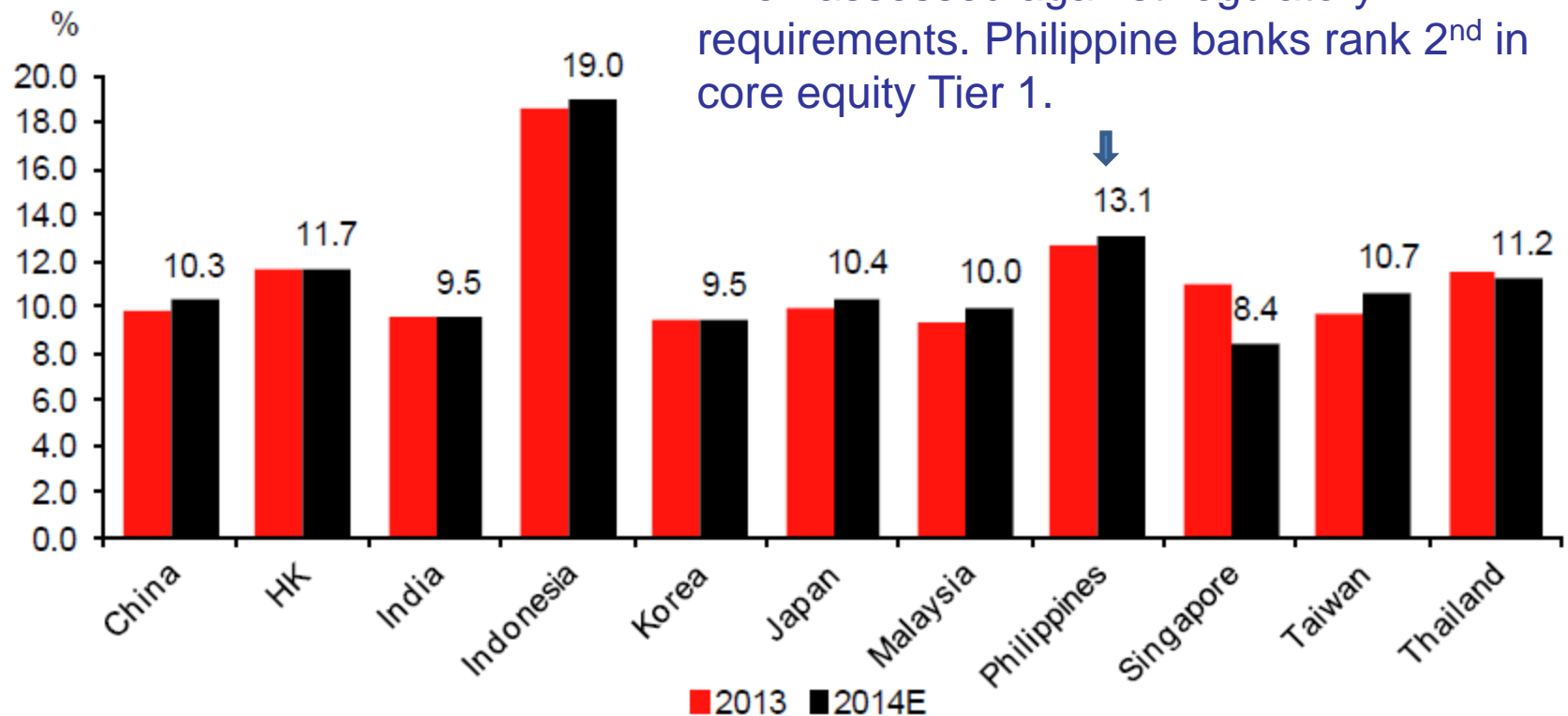
- Consolidated; in Php billions -



* Consists of Loans to BSP, Interbank Loans Receivable, Loans and Receivables-Others, and Loans and Receivables arising from RA/CA/PR/SLB

Capital Accounts of Asian Banks

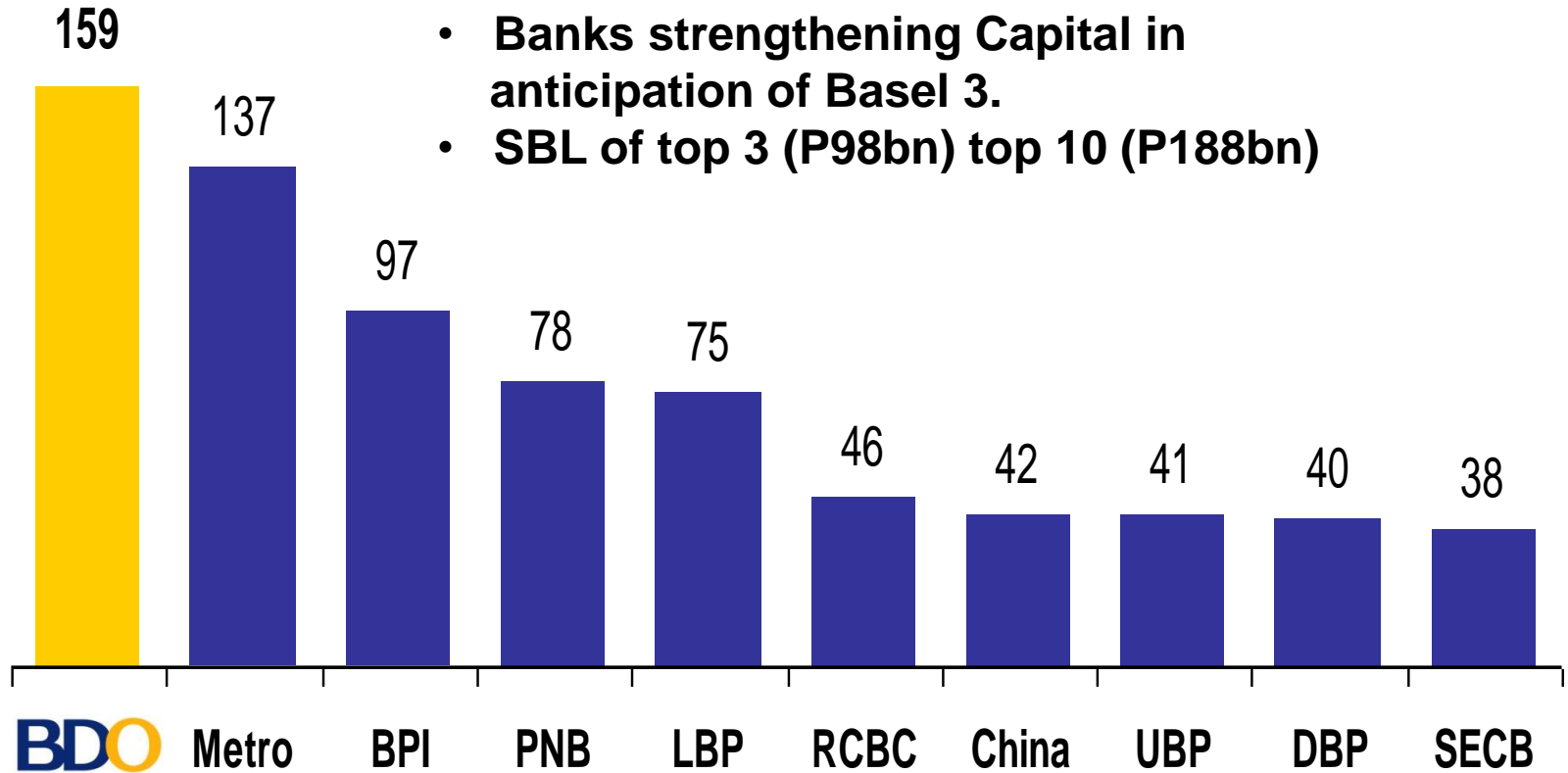
Most Asian banks have high capital ratios when assessed against regulatory requirements. Philippine banks rank 2nd in core equity Tier 1.



Source: Company data, Macquarie Research, November 2014

Total Capital Accounts

- Consolidated; in Php billions -

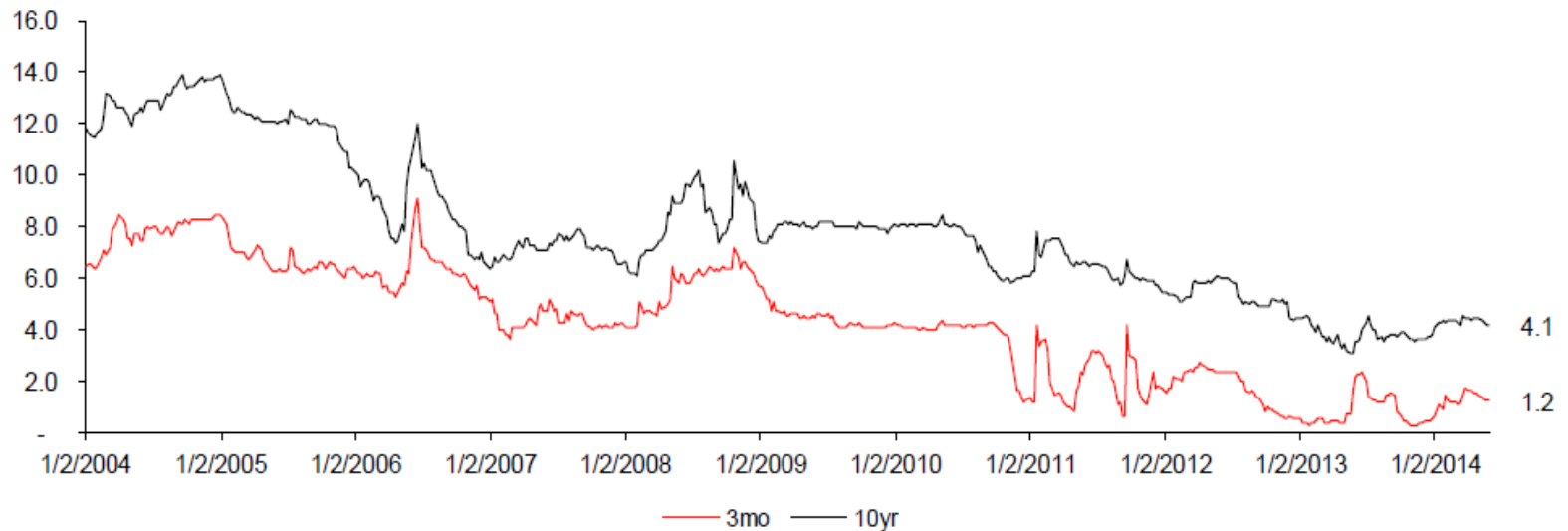


- Banks strengthening Capital in anticipation of Basel 3.
- SBL of top 3 (P98bn) top 10 (P188bn)

YoY Growth (%)	BDO	Metro	BPI	PNB	LBP	RCBC	China	UBP	DBP	SECB
YoY Growth (%)	56%	22%	11%	28%	4%	13%	15%	4%	2%	9%

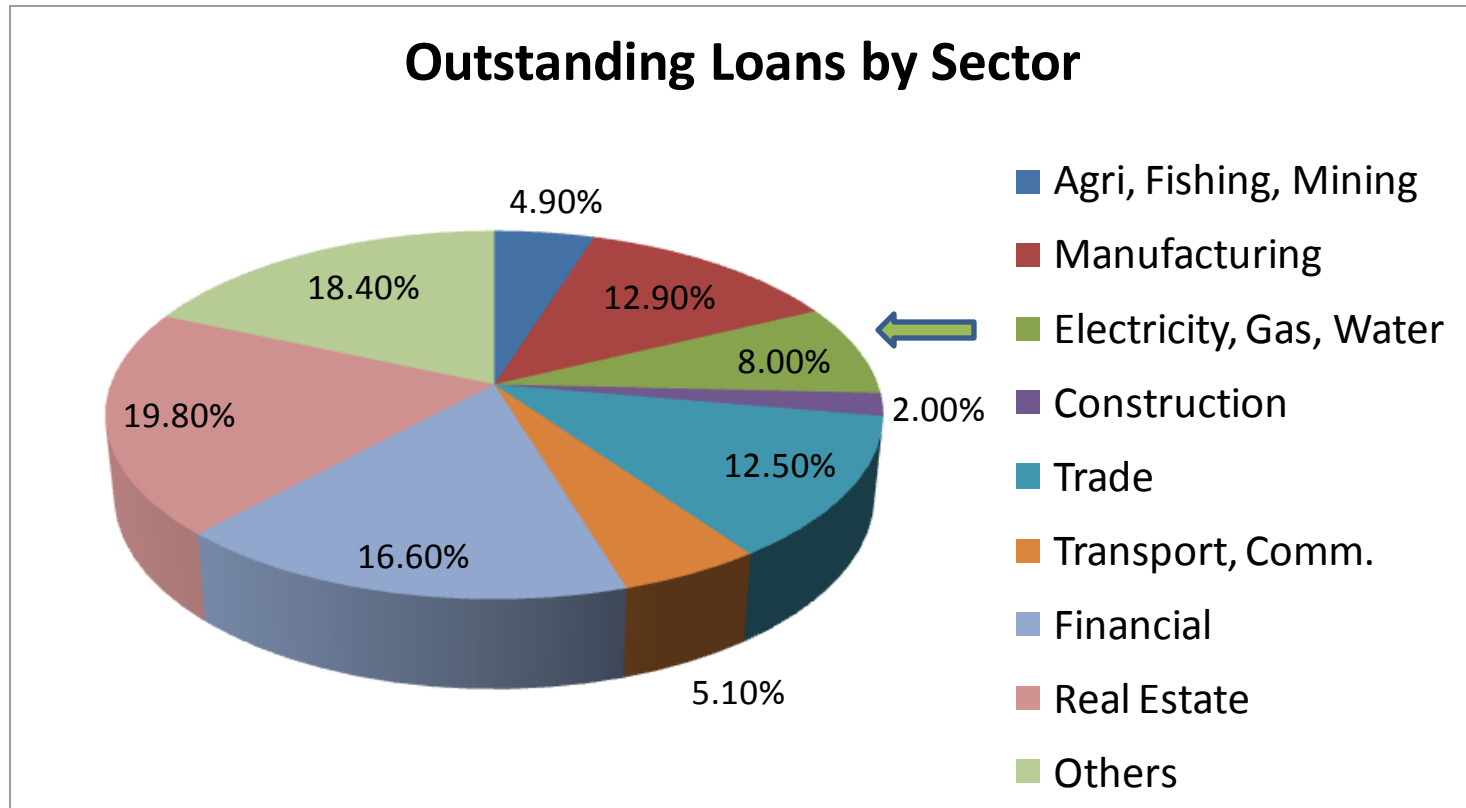
Philippine Interest Rates 2000-2014

Favorable interest rate regime



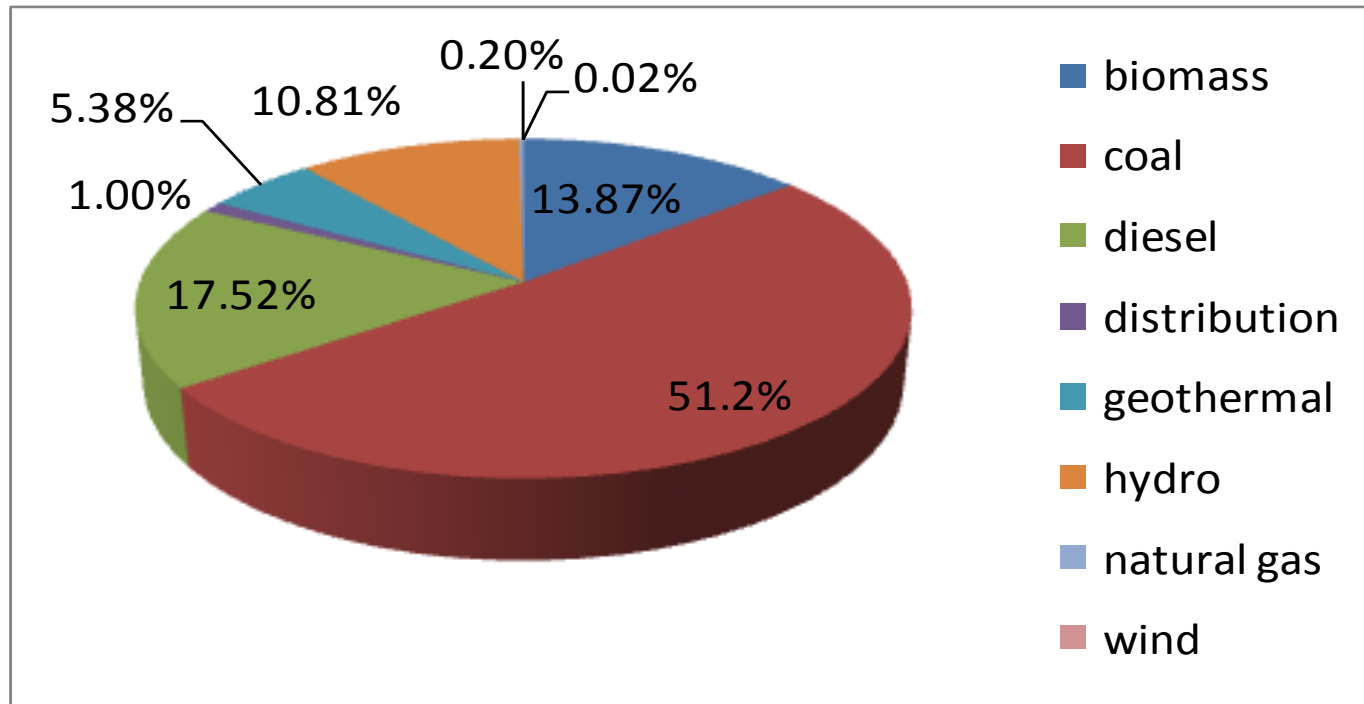
Source: Bloomberg, Macquarie Research, June 2014

Philippine banks' exposure to the energy sector indicates much room for growth

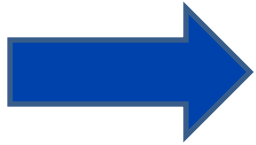


100%=Php 5.0 Trillion

BDO EXPOSURE – POWER GENERATION



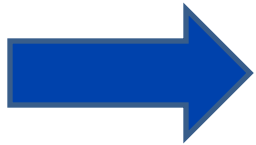
Current state of local banking



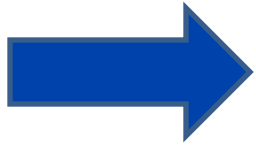
Notwithstanding global concerns, loan growth has expanded in the past 5 years spurred by increased economic activity and a better interest rate environment



Local banks have grown more sophisticated over the years in response to changing corporate and consumer demands



Most local banks are adequately-capitalized and have a higher capacity for lending



More pronounced technical know-how, particularly in project finance/structured finance



Active investment banking- advisory, syndications, underwriting, distribution

Types of Available Financing to the Energy Sector

- ✓ **Short-Term Facilities**
 - Working Capital Lines
 - Bridge-financing
 - Standby Letter of Credit
 - Import Letter of Credit

- ✓ **Project Financing (limited recourse)**

- ✓ **Commercial Term Loans (with recourse)**

Types of Available Financing to the Energy Sector

- ✓ **Acquisition Financing**
- ✓ **Structured Trade Finance/ECA**
- ✓ **Leasing**
- ✓ **Capital Markets- Debt and/or Equity**

Financing terms may be customized according to the Project's requirements

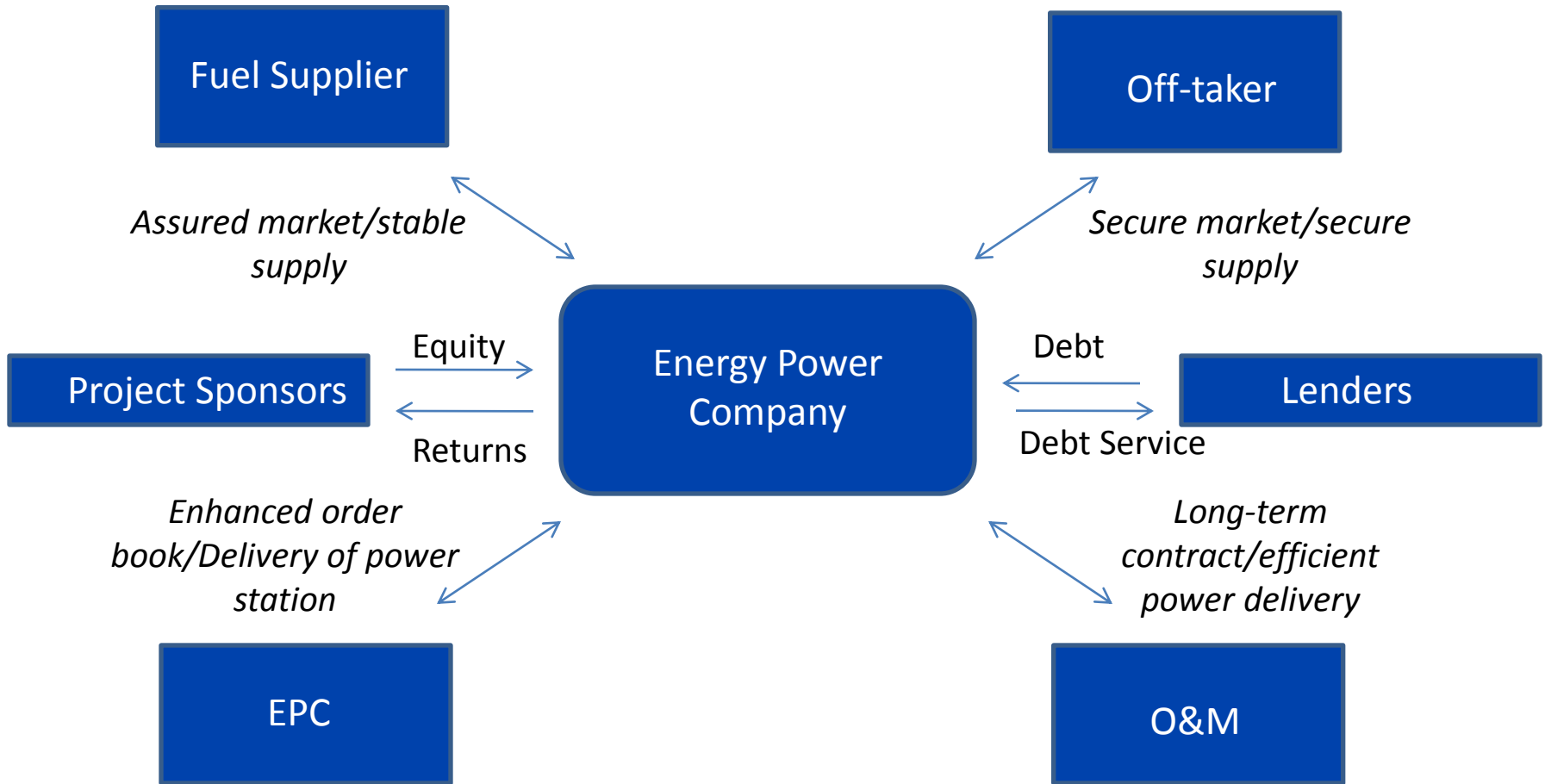
- Size of financing not an issue
- Multi-currency facilities
- Combination of fixed rate or floater
- Can break up fixed-rate into various tranches
- Local bank-financing combined with ECA and Supplier-Financing
- No off-take agreement with Philippine Government

Criteria for Lending

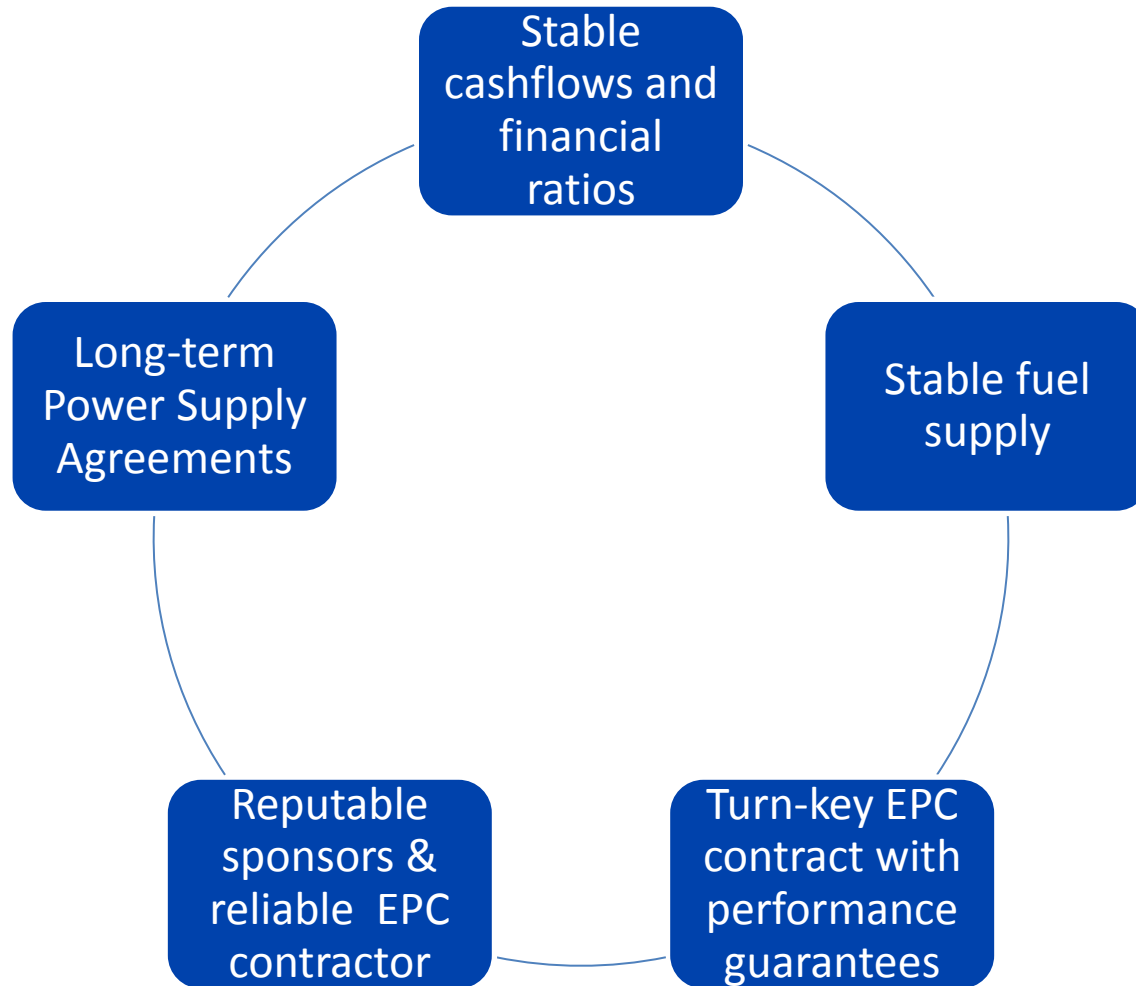
Optimal project design should properly balance the risks and rewards among all stakeholders



Typical Project Structure



Criteria for Lending



Criteria for Lending (Renewables)



Peak-months should be sufficient to cover revenues during lean months



Permits and licenses should be in place (i.e. ECC, NCIP, NIA, etc.)



Hydrology, wind mapping, and irradiation studies to be provided by reliable technical advisors



If vying for FIT allocation, project should be viable under a non-FIT scenario (i.e. WESM)

Sample project-financing terms

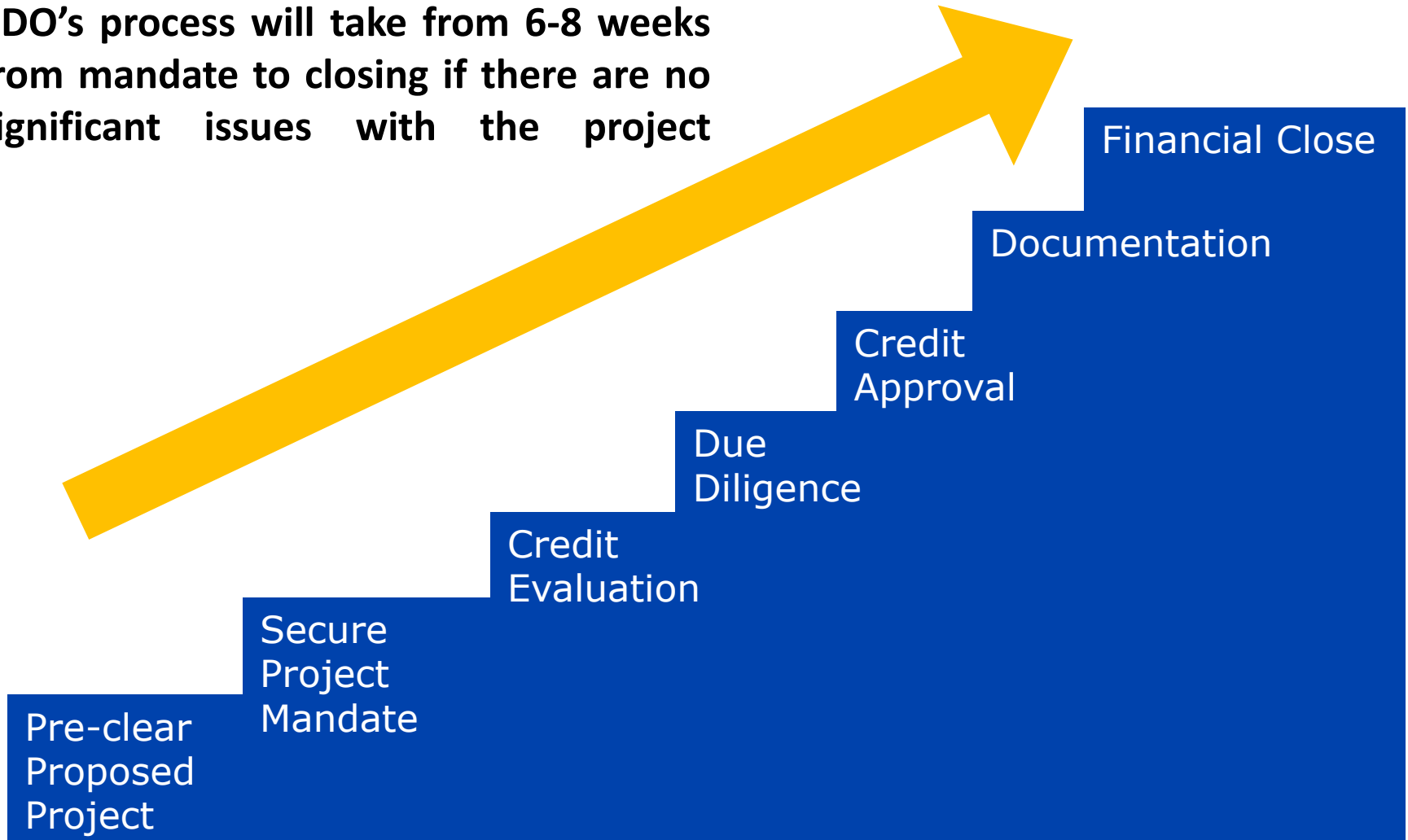
TENOR	Up to 10-12 years
STRUCTURE	Bilateral or Syndicated
INTEREST RATES	Fixed or Floating
Fixed:	<p>5 + 5 + remaining balance</p> <p>7 + 5 + remaining balance</p> <p>10 years + remaining balance</p> <p>} Subject to a floor rate</p>
Floater:	PDST-R + margin subject to a floor rate
CURRENCY	US\$ or PHP
REPAYMENT	Sculpted or Equal Amortization
GRACE PERIOD	Up to Commissioning Date (maximum of 3.5 years)
SECURITY	<p>a) 1ST-ranking Lien on project assets</p> <p>b) Pledge of sponsors' shares</p> <p>c) Assignment of cash waterfall accounts and DSRA</p> <p>d) Assignment of all contracts & insurances</p>
COVENANTS	DSCR (1.3x-1.5x); D/E (70:30); Dividend stoppers, etc.

Challenges

- Limited equity
- Track record of project sponsors
- Credible local partners
- Incomplete legal and regulatory approvals
- Sustainability of fuel supply
- New technology

Approval Process

BDO's process will take from 6-8 weeks from mandate to closing if there are no significant issues with the project



Documentary Requirements

- Articles of Incorporation/By-Laws
- Information on Project Sponsors
- Project Feasibility Study
- Business plan and financial projections
- Site development plans
- EPC contract
- Off-take agreements
- Supply agreements
- Technical Reports
- Market Study
- Insurance & Risk cover
- Legal & Regulatory Clearances

Key Takeaways

- Local banks are more sophisticated and can address complex project-financing requirements.
- Banks are more aware about the climate change/clean energy discussion.
- There is strong appetite for lending particularly to the power sector due to foreseen supply shortage across the 3 grids.
- Competition will keep costs at reasonable levels.
- Cashflow is KING for project-financing on a limited recourse basis.

A few words about my Sponsor...

BDO is at the forefront of a fast-growing banking industry

The Philippines' largest bank in terms of assets, loans, deposits and capital

A full-service universal bank with one of the widest networks

One of the country's strongest Board of Directors in terms of

- Banking experience
- Corporate governance

Part of the SM Group with associated synergies and benefits

A market leader across major business segments

- Has leading market positions in its core business lines including corporate and middle-market banking, consumer banking, credit cards, asset management, remittances, and leasing and finance
- Wide distribution network of over 800 branches and more than 1,800 on-site and off-site ATMs
- Listed at the PSE with market cap of Php 386 B (@USD8.6B)
- Corporate Banking team that focuses on local energy sector
- Investment Banking expertise

A universal bank with full-service operations

Account Management

- Corporate & middle market lending
- Trade finance
- Specialized lending

Consumer Lending

- Auto
- Mortgage
- Credit Cards
- Personal loans

Branch Banking

- Deposit products
- 794 branches
- 1,800 ATMs

Treasury

- Fixed income dealership
- FX transactions
- Portfolio management
- Remittances
- Derivatives
- Correspondent Banking

Trust Banking

- Investment management
- Unit Investment Trust Funds
- Living trusts
- Retirement funds

Transaction Banking

- Cash management services
- Internet and phone banking
- Call center
- Retails cards (Cash Card & Smart Money)
- Merchant acquiring

Investment Banking

- Underwriting & distribution of fixed income & equity securities
- Financial advisory

Insurance

- Brokerage
- Bancassurance
- Life and non-life products offered thru Generali Pilipinas

Private Bank

- Investment & financial advisory for high net worth individuals
- Structured investments

BDO's Recent RE and EE Deals

P 270 million loan for energy efficiency of onion cold storage facility of a logistics in Luzon

P 500 million loan for HVAC, Motors, Lighting of Commercial Building in Makati

P 40 million loan for a 0.318 MW rice husk-fired co-gen project for a rubber production company in Bulacan

P 800 million loan for 9.9 MW bio-mass (rice husk) project in Nueva Ecija

P 330 million loan for HVAC, lighting of a shopping mall in Muntinlupa City

P 1 billion loan for 8 MW mini-hydro project in Antique province

P 7 billion 7 and 10 year bonds to partially fund 87 MW wind farm in Ilocos

P 1 billion participation in syndicated loan for 150 MW wind farm in Ilocos

BDO's Recent Energy Deals

Arranger for P 30 billion 300-MW Coal Power Plant of Therma South in Mindanao

Arranger for P 17 billion 2 x 300 MW Coal Power Plant of Sem-Calaca in Batangas

Arranger for US\$ 180 million 54-MW Wind Farm of Alternergy in Pililla, Rizal

Arranger for P 11.5 billion 2 x 150-MW Calaca expansion of Southwest Luzon Power

Arranger for US\$ 280 million 100-MW Coal Power Plant of Sarangani Energy in Mindanao

Arranger for US\$ 425 million refinancing of 460-MW Coal Power Plant of Quezon Power in Quezon

Arranger for P 13.8 billion 216-MW Co-gen plant of SMC Power in Limay, Bataan

Arranger for P 8.7 billion 135-MW Coal plant of South Luzon Thermal in Calaca, Batangas

BDO has won several accolades* for its strength & leadership in the industry



Best Bank in the Philippines

Best Private Banking Services Overall



Best Investment Bank in the Philippines

Best Trade Finance Bank in the Philippines



Leading Counterparty in the Philippines

Best Retail Bank in the Philippines



Best FX Bank for Corporates
Best Investment Bank in the Philippines

Best Equity House in the Philippines

Best Private Wealth Management



Trusted Brand Gold Award



Best Domestic Investment Bank in the Philippines



Credit Card Initiative of the Year



Best Bank in Asia

Best Bank in the Philippines

Best Private Bank in the Philippines

Best Equity House in the Philippines

Best Investment Bank in the Philippines



Asia's Best CEO

Asia's Best CFO

Best Investor Relations Company

Conclusion

- BDO can provide short, medium and long-term financing to creditworthy sponsors of viable energy projects
- BDO has dedicated Corporate and Investment Banking teams that focus on traditional and alternative energy projects.
- BDO has a dynamic credit approval process that ensures fast-turn around and competitive terms.

Institutional Banking Group

Walter C. Wassmer

Senior Executive Vice President – Group Head 8407000 loc 4354-56

Edmundo S. Soriano

Executive Vice President & Head-Corporate Banking

Telephone: +63(2) 878-4848 Email: ess@bdo.com.ph

Cecilia L. Tan

Executive Vice President-Corporate Banking

Telephone: +63(2) 840-7000 loc 37808; DL+63(2) 840-78089

Email: tan.cecilia@bdo.com.ph

Joseph R.B. Lledo

First Vice President

Telephone: +63(2) 840-7000 loc 6156 Fax: +63(2) 878-4399;878-4400

Email: lledo.joseph@bdo.com.ph

WE FIND WAYS!

THANK YOU.