



SIGNINA CAPITAL AG



**Signina Capital AG  
Water Infrastructure**

**Quarterly Water Report  
Q4 2017**

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## I. Current Project Descriptions

**Wastewater plant, NJ:** A New Jersey-based Wastewater Treatment Plant where funds were used to mount solar panels to increase energy efficiency of the plant, lower costs over time, and provide energy to the local municipality. The state of New Jersey requires electricity suppliers to secure a portion of their electricity from solar facilities located in NJ, creating a natural market for Solar Renewable Energy Credit (SREC) trading credits. The project not only reduces the plant's energy consumption but also improves its overall efficiency. We can surely extend our reach in this area and currently look at a broader investment opportunity in the same sector.

**Sustainable Sewerage, Ontario:** The Sustainable Sewerage market in Ontario currently undergoes a significant change when it comes to consolidation and strong demand for renewal of existing plants. Amongst others we are working with a public company which has developed a technology providing sewage collection and water treatment. It offers an all in one solution which is both cheaper to install and operate than traditional systems. The existing projects are all government linked and work closely with municipalities and we are currently working towards a PPP pipeline for its sewerage system. The provincial regulations regarding sewerage mean that many municipalities are required to change/install systems in the coming years. We have been implementing the first parts of the portfolio of existing projects and we will continue to implement more under the same framework. The constant diversification increased the security for the investors but also allows us to further reach into this market. The investment model has not changed, but the reach within Ontario has become broader.

**Hydropower, Illinois:** A lock and dam hydroelectric water power project located on the Illinois River. The site has obtained a FERC License (expires 2061) and is finalising development. Once the site is connected and producing energy it will provide power to the local municipalities and income will be generated by the power purchase agreement in place.



## II. Regional Market Information

### News in Brief

- Veolia successfully issued a three-year bond with a negative yield. The Parisian BBB-rated company \$500 million issuance yield -0.026%.  
[https://www.veolia.com/sites/g/files/dvc181/f/assets/documents/2017/11/CP\\_Callisto\\_161117\\_EN.pdf](https://www.veolia.com/sites/g/files/dvc181/f/assets/documents/2017/11/CP_Callisto_161117_EN.pdf)
- Regulator pledges to reduce bills for five years from 2020 and urges companies to do more for customers.  
<http://www.ibtimes.co.uk/water-bills-fall-between-15-25-2020-1651309>
- Xylem to acquire Pure Technologies, a leader in smart infrastructure assessment and management for the water industry  
<https://www.cnbc.com/2017/12/11/business-wire-xylem-to-acquire-pure-technologies-a-leader-in-smart-infrastructure-assessment-and-management-for-the-water-industry.html>

### Exit & Refinancing Opportunities

A major topic regarding infrastructure assets relates to the potential exit scenarios of the assets. Many infrastructure projects include Public Private Partnerships (PPPs) which can either state the term of the investment or sometimes further muddy infrastructure transactions. This has led to some confusion and at times hesitation in the sector (especially in Europe where PPPs are not as prominent as in other regions). In general private ownership of infrastructure assets is becoming more prevalent.

In traditional Private Equity deals the model is relatively straightforward. An asset is purchased; value is created in the following years via growth, consolidation or other methods and is hopefully sold within ten years. Many of the sales techniques within the PE sector are applied in infrastructure investments. However there are at times other alternatives. The options fall under three main categories:

- Sale
  - Initial Public Offering (IPO)
  - Trade Sale
  - Secondary Exit
- Refinance
  - Leverage current cash generating assets especially if the asset has a Purchase Power Agreement (PPA)
  - Restructure a portfolio via a refinance of assets
- Hold asset long term

We concentrate on the Sale category of the above. The other two categories occur often especially as operating infrastructure assets provide long term stable cash flows.

IPOs often garner the most attention but are not normally the most frequent sale method. However they offer a great indication of the current market as a lot of the information is public unlike trade sales or secondary exits where information may be a lot more limited. The most recent substantial IPO has been that of Evoqua<sup>1</sup>:

*Evoqua Water Technologies Corp. priced its IPO at \$18 a share, the midpoint of its \$17 to \$19 range. The company sold 27.8 million shares, raising \$500 million.*

<sup>1</sup><https://uk.reuters.com/article/us-evoqua-ipo-pricing/evoqua-water-technologies-ipo-priced-at-18-per-share-idUKKBN1D166X>



The deal offered an attractive exit for AEA Investors (investment house), which bought the company in 2014 for \$731 million from Siemens, and has spent \$400 million on acquisitions in the intervening period to grow the EBITDA figure and prepare the company for a potential exit.

The company had revenues of over \$1.1bn in 2016 with an EBITDA figure of over \$100m (quadruple the EBITDA figure in 2014). The EV from the IPO implied a company valuation based on a high teens EBITDA multiple.

Trade sales and secondary sales do not always hit the headlines. They depend heavily on the transaction. The main differential for a trade sale is the buyer usually having a strategic aspect in the purchase where synergies may be a result of the merger; whereas other buyers may not have such synergies. An example of a substantial trade deal was discussed in the Q3 Water Report – H2O Innovations purchase of Utility Partners<sup>2</sup>:

*In summer 2016 H2O Innovation Inc. completed the acquisition of all the memberships' interests of Utility Partners, LLC, a US-based company specializing in the operation and maintenance of water and wastewater treatment plants, for a total consideration of USD 17.0m (CAD 22.5m).*

*This transaction has led to H2O attempt to expand in the US. In September 2017 H2O Innovation announced the record revenues since the acquisition of Utility Partners due to cross selling and additional recurring revenues<sup>3</sup>.*

Lastly secondary sales are the most common transaction for PE and infrastructure firms looking to expand and consolidate portfolios. The IPO of Evoqua followed the acquisition of Evoqua by an investment house a few years earlier. A more recent example of a secondary sale occurred in the small hydro sector late 2017<sup>4</sup>:

*Hull Street Energy (A PE firm that concentrates on the energy sector) purchased nine Hydro plants for \$83m providing over 65MW of energy.*

*Following the deal Hull Street will own over 530MW of energy with its hydroelectric portfolio exceeding 80MW*

The above examples show the continuous activity within the water and energy sectors. These industries provide long term cash flows which lead to strong demand from various purchasers.

## Green & Social Bonds

<sup>5</sup>*Barclays updates green bonds to capture 'compelling' economic opportunity*

Barclays has signified its shift towards a low-carbon economy, by announcing a set of green finance products that will help promote sustainability in the UK and across the globe.

The banking firm has launched a range of tailored products, all aimed at evolving how Barclays acts in the green finance market. Barclays launched a range of Green Loans, targeting UK clients who require more than £3m in funding. Other loans and asset finance solutions are available for global projects and SME clients.

<sup>2</sup><http://www.marketwired.com/press-release/h2o-innovation-announces-completion-acquisition-utility-partners-closing-concurrent-tsx-venture-heo-2145511.htm>

<sup>3</sup><http://www.marketwired.com/press-release/h2o-innovation-inc-record-high-revenues-successful-integration-utility-partners-tsx-venture-heo-2235497.htm>

<sup>4</sup><https://www.prnewswire.com/news-releases/hull-street-energy-announces-agreement-to-acquire-nine-hydroelectric-plants-in-new-hampshire-from-eversource-300537148.html>

<sup>5</sup>[http://wwtonline.co.uk/news/yorkshire-water-to-finance-plans-through-social-bonds-#.Wkrc8NJI\\_IU](http://wwtonline.co.uk/news/yorkshire-water-to-finance-plans-through-social-bonds-#.Wkrc8NJI_IU)



Barclays' chair of the Green Banking Council Rhian-Mari Thomas said: "Barclays, like so many of our clients, recognises that addressing environmental challenges is not only a necessity but a compelling economic opportunity.

"We already have an established presence in the green bond market as a successful lead arranger, investor and now issuer so we are delighted to be able to build on our expertise by launching new, innovative green products to help meet the booming demand for green finance from a broader cross-section of our clients. We're excited to be at the forefront of something so game-changing."

Other finance products launched by Barclays as part of the update include Green Asset Finances for "green initiatives" and a green deposit system that allows Barclays' largest clients to outline deposited funds against the bank's green bonds.

The bank worked with ESG (Environmental, Social and Governance) research providers Sustainalytics to create the framework. Insight established during the partnership will be used to identify projects that would generate a positive environmental impact.

The Bloomberg Barclays MSCI Global Green Bond Index<sup>6</sup> is considered an independently evaluated measure of the global green bond market. The latest product launch is set to increase Barclay's role in financing the low-carbon transition. In 2016, the bank raised £21.1bn in finance for environmental and societal schemes.

### **Alternative approaches to US water utility consolidation hold promise**

<sup>7</sup> *The consolidation of small water systems in the US could address funding constraints and operational deficiencies, while creating new opportunities for the private sector. Appetite may be increasing, but tangible examples remain elusive.*

Interest in the consolidation of the highly fragmented municipal water sector in the US is beginning to pick up, as proponents recognise the need for new approaches to fund infrastructure improvements and improve operational efficiency at many of the nation's 47,000 small water utilities.

"We've got many of the same tools we've always had to address these problems, but the urgency is now increasing," explained Chris Shaffner, sector vice president of water and community facilities banking at CoBank, which published a report<sup>8</sup> in October on rural water system consolidation. The report highlights the fact that, without robust access to capital markets, and with tariffs that do not typically support full cost recovery, rural water systems often rely on federal grants and loans to support their capital needs.

In addition, new tools introduced at the federal level to increase water infrastructure funding favour larger projects, particularly the Water Infrastructure Finance and Innovation Act (WIFIA) programme, which looks to leverage non-federal dollars for water infrastructure investment. The twelve projects invited to apply in the 2017 funding round range in size from \$22 million to \$625 million, and the programme sets a minimum project size of \$5 million.

### **Consolidation and compliance**

Whether it's economies of scale, improved debt capacity or a more diversified customer base, the advantages of consolidation are widely touted, but to date, the benefits have only translated into a few examples.

In Louisville the Jefferson County Metropolitan Sewer District (MSD) now treats its wastewater at five regional facilities, after gradually phasing out 300 decentralised wastewater treatment plants, and it has also

<sup>6</sup><https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/Green-Bond-Indices-Summary-Document-190617.pdf>

<sup>7</sup>GWI. Vol 18, Issue 11 (November 2017)

<sup>8</sup>[cobank - When Rural Water Systems Combine](http://cobank.com/cobank/when-rural-water-systems-combine)



been sharing resources with the Louisville Water Company, including IT systems and customer services staff, as both utilities consider an outright merger.

Investor-owned utilities have already benefited from this increased appetite among municipalities to offload water and wastewater systems, particularly in Northeastern states, where supportive regulatory environments are allowing municipalities to sell their systems at fair market value. Investor-owned utilities are increasingly dovetailing water and wastewater services which are typically the responsibility of separate municipal entities.

#### Hybrid alternatives

In many cases, the legal and regulatory mechanisms for utility collaboration already exist. In California, for example, municipalities have collaborated through joint powers authorities to develop regional wastewater reuse and desalination facilities, and such collaboration could be furthered to involve the bundling of multiple assets into a single procurement package.

A report published by Standard and Poor's earlier this year suggested that bundling water assets under P3 arrangements could attract new flows of capital into the water sector, in particular by creating sufficient scale for small systems to raise new capital on a collective basis.

Trevor D'Ollier Lees, senior director of Standard and Poor's infrastructure practice, explained that many institutional investors are looking to put capital to work in infrastructure, but are facing increasing competition for a limited crop of large-scale projects. "There are, however, a lot of small- to medium-sized projects out there, so people are beginning to ask how these can be bundled together to attract the private market," he explained.



### III. Ongoing Projects

#### Wastewater plant, NJ:

The energy creation results for the last quarter are in line with expectations. The project is running smoothly with no issues to address.

- Monitor PPA component
- Monitor SREC eligibility and prices on the market (1 SREC for every 1000 kW-hours of electricity produced)
- Monitor regulatory shifts in clean energy incentive programs (RPS) and timelines
- Maintain monthly communication with onsite project manager
- Document any changes to the investment expectations
- Online monitoring of the solar power as well



#### Sustainable Sewerage, Ontario

There have been two main developments of note in the past quarter:

1. Following up from Clearford's announcement in September of a Memorandum of Understanding with Tata Projects Limited Clearford announced two new projects in India in December. Both projects are with large multi-national corporations: McCain and Hiltl. The revenues for the projects total CAD 185,000. These are relatively small projects but show the inroads Clearford has made in India.

Furthermore Clearford is also finalizing negotiations with the Nalanda Foundation; a corporate social responsibility initiative led by India's Infrastructure Leasing & Financial Services Ltd and is still in talks with Essel regarding potential installation sites.

<http://www.obj.ca/index.php/article/ottawas-clearford-deepens-reach-india-new-clean-tech-contracts>

2. We have completed the purchase of a variety of operating assets owned by Koester Canada. With full security over the assets Koester remains the operator and will continue to look for further assets to increase the consolidation of the wastewater market in Ontario. Clearford and Koester will work together to obtain new contracts for the design and build elements of both companies in 2018.

- Maintain monthly communication with Kevin Loiselle and Mark McGuire regarding projects
- Document any changes to the investment expectations



- Accounts in balance
- Project updates
- Incoming receivables within range of model
- Costs within range of model
- Meets target return of 7-9%
- Interest payments made on time

### Hydropower, Illinois

Similar to last quarter there has been little to update. The site is still progressing but with a slight delay and should be ready for construction work in Q1 2018. The current weather make predictions for the next quarter very difficult, as there is record snow and cold in our area south of Chicago.

- Maintain monthly communication with onsite project manager
- Document any changes to the investment expectations
- Monitor the financial reporting, cash flows and accounts

- Accounts in balance
- Regulatory requirements kept up to date
- Costs within range of model
- Timeline on track

### IV. Latest Developments

#### Latest Actions

Similar to most of 2017 there are potential extensions to the New Jersey program with the installation of more solar panels on surrounding sites. There has not yet been a match that has past the due diligence phase but this is an ongoing process. On an alternative note there have been some wastewater build and operate plants that require financing in the New York area. These sites are being investigated and could potentially be a strong complement to the New Jersey site.

The various operating assets in the sustainable sewage sector that have been purchased took up most of Q4. The positive news is that further assets and other potential projects have come to light. These new assets have similar issues to the last set; they are small contracts from small operators which take a long time to process. The aim would be to package a variety of contracts similar to the last transaction. As many of the contracts and operators are small they remain under the radar of larger operators such as H2O and Suez.

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