

October news on the Canadian infrastructure market

December 7, 2016

Creation of a Canadian infrastructure bank

On October 20, 2016, the Advisory Council on Economic Growth published its report entitled “Unleashing Productivity Through Infrastructure”.

One of the report’s recommendations is to create a Canadian Infrastructure Development Bank whose objective would be to deliver projects with an aggregate value of more than \$200 billion over 10 years, while at the same time minimizing the use of government budgets. The new bank could grant financing in the form of subordinated debt or equity to supplement the financing provided by institutional investors in various projects.

The new entity would, in fact, promote the PPP delivery model or alternative financing models, although its role would not be to replace the existing provincial bodies, such as Infrastructure Ontario or the Société québécoise des infrastructures. Moreover, the federal government will also wish to ensure that the establishment of an infrastructure bank does not discourage investments by the private sector.

Finally, on November 1, 2016, the Finance Minister, Bill Morneau, confirmed the creation of the Canada Infrastructure Bank (“CIB”) in 2017. The new institution will receive an initial capitalization of \$35 billion.

It remains to be seen whether the CIB will be governed by the *Bank Act* or whether a new legislative scheme will be set up for this new institution.

Project to privatize eight Canadian airports

In the aforementioned report, “Unleashing Productivity through Infrastructure”, the Advisory Council on Economic Growth proposes the privatization of the airports of Toronto, Vancouver, Montreal, Calgary, Edmonton, Ottawa, Winnipeg and Halifax.

The Council also recommends the use of private investment in other public infrastructures such as toll highways and bridges, highspeed railways, smart cities, broadband internet networks, power transmission lines and natural resources infrastructure.

This is not the first time the federal government has considered a project to privatize airports, but no decision seems yet to have been made at this stage, nor any agenda unveiled. However, the

Canada Development Investment Corporation (“CDEV”), a federal Crown corporation reporting to the Finance Minister, Bill Morneau, has been mandated to hire consultants to advise the government.

On the other hand, during his speech to the Montreal Chamber of Commerce on November 2, 2016, the Minister of Transport, Marc Garneau, mentioned that privatization was only one of the options on the table.

Boralex closes a €100 million wind farm project financing in France

Boralex Inc. has announced the closing of financing for the Mont de Bagny (24 MW), Artois (23.1 MW) and Voie des Monts (10 MW) wind farms in France, for a total of approximately €100 million (Cdn\$145 million). This financing is provided by Crédit Industriel et Commercial (Groupe Crédit Mutuel) and BPI France Financement. The construction of each of the projects is already underway and they should all be commissioned by the end of 2017.

This announcement was made shortly after Boralex acquired a wind farm portfolio of nearly 200 MW in France and Scotland, in September 2016. In June 2016, Boralex also closed another financing of €20.4 million for two wind farms in France.

These large transactions confirm Boralex's position as France's largest independent producer of onshore wind power, through its Boralex Europe subsidiary.

Possible refinancing of Montreal Gateway Terminals' debt

The Montreal Gateway Terminals project is currently studying the possibility of refinancing its bank debt.

This consortium, including Axiom, Desjardins, Manulife, the FTQ and Industrial Alliance, acquired the company's assets from Morgan Stanley's first infrastructure fund in March 2015. The transaction was financed with mini-perm bank financing of \$252 million over a five-year term. The banking syndicate currently consists of BMO, CIBC, MUFG & BTMU, RBC and Scotiabank.

DBRS downgrades Montreal hospital bonds

On October 20, 2016, the DBRS credit rating agency downgraded the rating of the senior secured bonds of the Centre hospitalier de l'Université de Montréal (“CHUM”) from BBB (high) to BBB. This downgrade was due to the postponement of the substantial completion date of phase 1 from the second quarter of 2016 to the first quarter of 2017. This represents an additional delay of 20 weeks since the date of DBRS's last review and 48 weeks since the initial substantial completion date of April 22, 2016. The project will be in default if delays continue beyond July 2017.

HSBC implements a worldwide infrastructure financing platform

HSBC recently announced that it was setting up an infrastructure financing platform with a worldwide mandate, whose purpose will be to mobilize capital from institutional investors.

The team will be based in London and plans to sign its first mandate with the HSBC insurance company, which seeks to invest primarily in senior, investment grade infrastructure debt.

In doing so, HSBC is imitating other international institutions that are seeking to capitalize on the appetite for private capital for infrastructure debt. For example, the French bank, Natixis, has also established its own infrastructure debt platform, based on investments from insurance companies.

CIBC Asset Management establishes an energy and infrastructure team

CIBC Asset Management has just set up an infrastructure and power projects financing team. The team's mandate will be to take out interests in the form of private placements or public bond issues in the Canadian infrastructure, PPP, and renewable or non-renewable power production markets.

This is therefore a new player from the banking industry positioning itself in the market for long-term public and private financing of infrastructure projects. Until now, TD Asset Management and Desjardins Asset Management were the two most well-known Canadian banking institutions active in fixed income infrastructure financing, in competition with the insurance companies that traditionally dominate this market.

Bond refinancing for Kingston solar park

On October 19, 2016, Connor, Clark & Lunn ("CC&L"), Samsung and a group of co-investors closed a \$633 million bond issue for the refinancing of the Kingston Solar project in Ontario.

Kingston Solar is a 100 MW project, one of the largest in Canada, located near the city of Kingston, Ontario, which commenced operations in September 2015. The project benefits from a 20-year power purchase contract with IESO. The bond issue, which DBRS rated BBB, will mature on July 31, 2035 and bears interest at a fixed rate of 3.571%.

This is CC&L's second refinancing of a solar park through the issuance of bonds after the refinancing of Grand Renewable Solar — a project of the same size as Kingston Solar — completed in June 2016.

Public bond issues are an appealing option for the refinancing of Canadian renewable energy projects. However, the number of transactions completed to date has been relatively modest, in part because of the constraints imposed by the credit rating agencies, which, until now, had encouraged promoters to turn to more traditional types of financing, such as medium-term bank loans or private placements.