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Power Sector Finance:

Challenges and Opportunities

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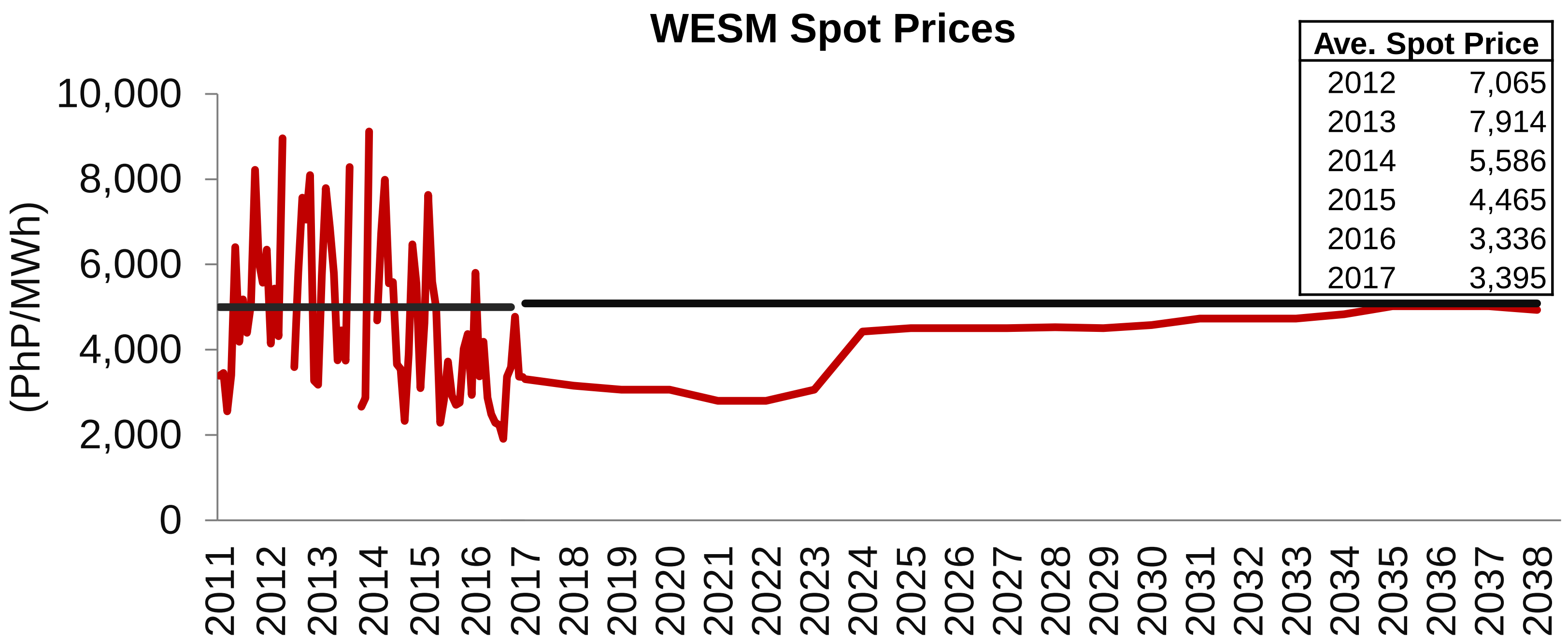
CONFIDENTIAL

Supply shortfall given robust economic growth & muted expansion (2010-2015)



Ave. Spot Price	
2012	7,065
2013	7,914
2014	5,586
2015	4,465
2016	3,336
2017	3,395

Source: WESM, Lantau

- Power demand outstripped supply growth
- High energy demand growth amidst a shrinking and increasingly unreliable buffer capacity, particularly in Luzon, led to high utilization and dispatch rates. Spot rates surged.
- Strong financial performance of key power players as reflected in high ROEs.

Recent Trends – Surge in Power Sector Lending and Investments (2012-2020)

- Lumpy nature of power sector investments leads to overbuilding of capacity. Estimated USD10B in new power sector investments.
- Sharply lower spot prices as margin reserves rise
- Growing competition as to who sells capacity first
- Sharp decline in cost of solar power generation
- Diminishing project returns
- Advent of more efficient supercritical plants

Implications for Power Sector Lenders

- More challenging bankability given rising merchant risk
- Declining revenue predictability given shorter PSAs, potential carve downs, higher exposure to spot, etc.
- Higher overall credit risk as competition intensifies
- Lower expected risk-adjusted project returns

Opportunities in the Power Industry Finance

- Liquid financial sector
- Refinancing @ lower funding cost
- Greenfield – more efficient plants using less fuel; lower capital cost/MW
- Brownfield expansion – shared facilities lower investment cost
- Renewable energy finance