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BRIDGING THE GAP: FINANCING PROJECTS

The Philippine Infrastructure: Large Business Potential for German Companies

Marco Polo, Ortigas
DISCUSSION POINTS

About Us

• Industry
• BDO

Financing Roadmap

• Products
• Process
• Requirement
• Key Questions
• Challenges
Unibanks and KB account for 91% of banks.
Top 5 banks account for 2/3rds and Top 3 for half of system.
We are still very bank-centric in the Philippines.
The Country’s current loan to deposit ratio is at 76%.
Assuming no deposit growth, the banks need to lend out another USD 23 Billion to reach 87%.
The top 5 banks can theoretically lend USD 5 Billion to a single project.
## BANK CAPITALIZATION

### TOP 10 PHILIPPINE BANKS

<table>
<thead>
<tr>
<th>Rank</th>
<th>Bank</th>
<th>Capitalization</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>BDO</td>
<td>311,773</td>
</tr>
<tr>
<td>2</td>
<td>Metrobank</td>
<td>285,091</td>
</tr>
<tr>
<td>3</td>
<td>BPI</td>
<td>248,836</td>
</tr>
<tr>
<td>4</td>
<td>PNB</td>
<td>126,222</td>
</tr>
<tr>
<td>5</td>
<td>Security Bank</td>
<td>109,321</td>
</tr>
<tr>
<td>6</td>
<td>Union Bank</td>
<td>89,019</td>
</tr>
<tr>
<td>7</td>
<td>RCBC</td>
<td>83,631</td>
</tr>
<tr>
<td>8</td>
<td>Eastwest</td>
<td>41,615</td>
</tr>
<tr>
<td>9</td>
<td>PSBank</td>
<td>23,877</td>
</tr>
<tr>
<td>10</td>
<td>Phil Trust Co.</td>
<td>20,548</td>
</tr>
</tbody>
</table>

Source: PSE Edge as of September 2018
Notwithstanding global and regional concerns, loan growth has expanded in the past 10 years spurred by increased economic activity and ample liquidity.

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.
PHILIPPINES’ LARGEST
(Assets: P 2.90Tn / US$ 53.90 Bn)

PUBLICLY LISTED
(Market Cap P584Bn, Last Trade P134.10)

PART OF SM GROUP
(one of the largest conglomerates)

LONGER BANKING HOURS
(pioneer)

STRONG LOCAL NETWORK
(1,262 branches, 4,000 ATMs)

INTERNATIONAL ACCESS
(10 EU, 11 Asia, 3 N.Am, 1 ME)
Market Reach

- Wide and extensive coverage in key areas

**North America - 3**
- Remittance Offices

**Europe - 10**
- 10 Remittance Offices

**Middle East - 1**
- Representative Office

**Asia - 11**
- 2 Full-service Branches
- 6 Remittance Offices
- 3 Representative Offices

**Philippines - 1,262 Branches**

**25 International Offices**

<table>
<thead>
<tr>
<th>Region</th>
<th>BDO</th>
<th>ONB</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Luzon</td>
<td>349</td>
<td>18</td>
<td>367</td>
</tr>
<tr>
<td>Metro Manila</td>
<td>573</td>
<td>1</td>
<td>574</td>
</tr>
<tr>
<td>Visayas</td>
<td>121</td>
<td>18</td>
<td>139</td>
</tr>
<tr>
<td>Mindanao</td>
<td>81</td>
<td>101</td>
<td>182</td>
</tr>
</tbody>
</table>

**Total Branches**: 1,124 | 138 | 1,262

As of 28 December 2018
Business Franchise

- Market-leading positions in almost all business lines

1. #1 Customer Loans
2. #1 Deposits
3. #1 Assets Under Management
4. #1 Remittances
5. #1 Credit Cards

- Leading Trade Services Provider
- Major Player in Cash Management

- #1 Investment Banking
- #1 Private Banking
- #1 Rural Banking
- #2 Leasing & Finance
- #1 Insurance Brokerage

Notes:
1. In terms of cardholder base, merchant acquiring gross billings, and credit card receivables
2. According to Asian Banking and Finance, Global Finance
3. According to The Asset, The Asian Banker, Alpha South East Asia
4. In terms of corporate issuances
5. Among insurance brokers in terms of premiums produced and commissions earned
Industry Ranking

- Top 10 Philippine banks

**Total Assets** (in PHP billions)
- BDO Market Share – 18%

**Gross Customer Loans** (in PHP billions)
- BDO Market Share – 22%

**Customer Deposits** (in PHP billions)
- BDO Market Share – 19%

**Assets Under Management** (in PHP billions)
- BDO Market Share – 34%

Source: Company data, consolidated statements of condition (SOC). Ranking as at 30 September 2018

Note: Financials prepared by banks under BSP’s SOC requirements differ slightly from reported financials under SEC guidelines due to certain differences in accounting rules requested by the two authorities.
over P 200 Billion
in Energy Portfolio

over P 30 Billion
in Renewables
BDO can provide **short, medium, and long-term** financing to creditworthy sponsors of viable infrastructure and energy projects.

BDO has **institutional banking teams** that focus on traditional and alternative energy projects.

BDO can work with the project sponsors to tailor an **optimal financing package**.

BDO has **dedicated International Desks and Wholesale Banking/Sustainable teams** that can access ECA programs for local projects that need to purchase goods and services from the U.S.A, Europe, China, Japan, or Korea.

BDO has a **dynamic credit approval process** that ensures fast-turn around.
Optimal project design should properly balance the risks and rewards among all stakeholders.

**Criteria for Lending**

- **Risk**
  - Cashflows
  - Sponsors
  - Project Completion
  - Technical Risk
  - Regulatory

- **Reward**
  - Project IRR
  - Equity IRR
  - Dividends
Pre-clear Proposed Project

Secure Project Mandate

Credit Evaluation

Due Diligence

Credit Approval

Documentation

Financial Close

10-12 Weeks

(assumes complete information & no significant issues with the project)
TYPICAL PROJECT FINANCE

Loan Facility: Bilateral or Syndicated Term Loan

Tenor: up to 15 Years

Grace Period: 3 Years or shorter depending on construction period

Payment: Quarterly/Semi Annual

Currency: PHP or USD

Interest: Fixed or Floater

Security:
- First ranking lien on project assets
- Pledge of sponsors' shares
- Assignment of cash waterfall accounts and Debt Service Reserve Account (DSRA)
- Assignment of all key project contracts and insurances

Covenants:
- DSCR minimum of 1.3x
- Debt to Equity
- Dividend Stoppers
- Other covenants customary to financing of similar projects
TYPICAL STRUCTURE

- SHAREHOLDER
- RESOURCE SUPPLY
- EPC
- O & M
- PROJECT COMPANY
- OFFTAKER
- LENDER
- EQUITY
- DEBT
KEY QUESTIONS

- Wind Map? Geo Study?
- FiT / Bilateral? Grid Connect?
- IRR?
- Cashflow Fence? (DE, DSCR, DSRA)
- Supplier? Logistics? Time Table? LDs & Warranties?

STABLE AND PREDICTABLE CASHFLOW?
<table>
<thead>
<tr>
<th>Sufficient equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Good track record of project sponsors</td>
</tr>
<tr>
<td>Robust project cashflow</td>
</tr>
<tr>
<td>Strong contract structure</td>
</tr>
<tr>
<td>Complete permits &amp; regulatory approvals</td>
</tr>
<tr>
<td>Comprehensive technical study</td>
</tr>
<tr>
<td>Reputable project contractor</td>
</tr>
<tr>
<td>Adequate insurance cover</td>
</tr>
</tbody>
</table>
CHALLENGES

- Limited equity
- Track record of project sponsors
- Credible local partners
- Incomplete legal and regulatory approvals
- New technology
- Rising interest rate environment
Thank you

JOSEPH B. LLEDO
Senior Vice President
BDO Unibank Inc
Institutional Banking Group
Tel No : 878 4910 54
Email : lledo.joseph@bdo.com.ph