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PPP Potential in PNG: The Financiers' Perspective

Delivering Public-Private Partnerships in PNG

22 February 2012

Private finance for infrastructure is not new



▶ Private finance for much early infrastructure

- Railways
- Water supply
- Power generation

▶ C19th bond underwriting was a serious business

- Bonds could take up to a year to sell
- Buenos Aires Water bond nearly brought down Baring Brothers

Why do we need private finance?

- ▶ **Without private finance, risk transfer is ineffective**
- ▶ **Lenders bring rigour and discipline**
 - equity investors are often over-optimistic
 - due diligence investigations do change bids
 - lenders' control mechanisms do prevent problems
- ▶ **Equity finance has limited availability**



Private finance makes risk transfer effective

▶ University of Melbourne Study, December 2008

- compares construction performance of PPPs vs traditional contracts
- cost overrun: 4% vs 18%
- time overrun: 1% vs 26%
- construction risk exists
- PPPs transfer it effectively

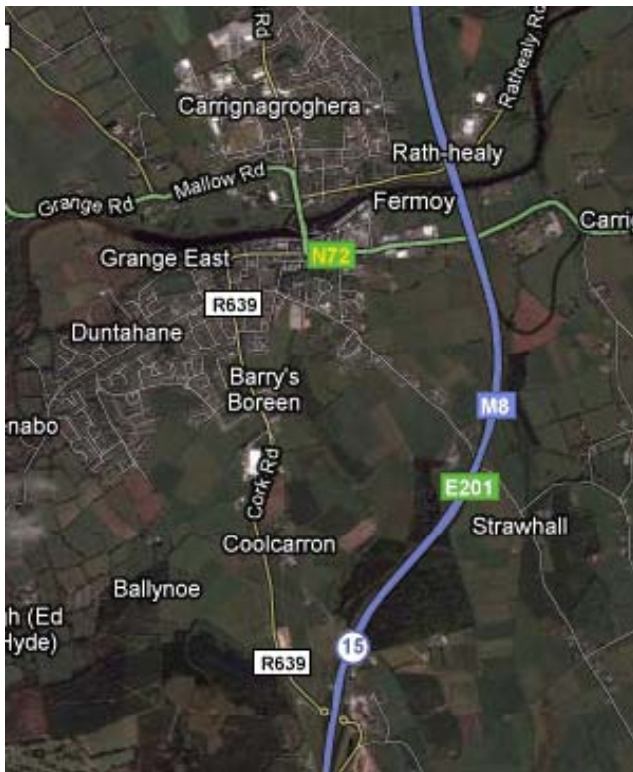
▶ Why?

- PPPs focus on services after construction
- no payments until services delivered



Eastlink, Melbourne
On budget, 6 months early

Lenders' due diligence in action



Fermoy Bypass, Ireland (2004)

- ▶ 17.5 km toll road
- ▶ By-pass of congested narrow bridge and road junction
- ▶ Time saving of 45 minutes in peak hours (but only 10-12 minutes off-peak)
- ▶ €1.80 toll – arguably easily affordable
- ▶ Sponsors argued road would capture 95% of North-South traffic
- ▶ Traffic volumes (after ramp-up)
 - Sponsors' Case 18,000 vpd
 - Banks' Base Case 15,000 vpd
 - Banks' Worst Case 12,000 vpd
 - Actual 12,000 vpd

Some recent major PNG infrastructure & project financings

- ▶ **New LNG Tankers (2011) – US\$432m**
- ▶ **Lihir Gold acquisition (2010) – US\$8.6bn**
- ▶ **ExxonMobil Hides LNG Project (2010) – US\$14.0bn**
- ▶ **Digicel refinancing (2009) – US\$373m**

Most are based on tradable natural resources

Financing issues for PNG PPPs

- ▶ **International market capacity?**
 - Country risk: PNG has single-B credit rating
 - GFC has limited the availability of equity generally
 - FX risk
- ▶ **Domestic market capacity?**
- ▶ **Tenor?**
 - Australian PPP debt now generally has 5-year tenor
- ▶ **Pricing?**
 - GFC has led to increases in:
 - banks' cost of funds
 - credit margins
 - investors' return requirements
 - Adverse effect on Value for Money
- ▶ **Acceptance of Project risks?**
 - Obligations of SOEs
 - Others?



Thank you

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